



Australian Government

# Submission to the Senate Inquiry on the adequacy of the allowance payment system for job seekers and others

A joint interagency submission from  
the Department of Education, Employment and  
Workplace Relations, the Department of Families, Housing, Community  
Services and Indigenous Affairs, the Department of Human Services and the  
Department of Industry, Innovation, Science, Research and Tertiary Education

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## **Abbreviations**

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ABS – Australian Bureau of Statistics

ALCI - Analytical Living Cost Index

ALCI (other) - Analytical Living Cost Index for households whose principal source of income is a Government pension or benefit other than Age Pension or a Veterans' Affairs Pension

AWOTE – Average Weekly Ordinary Time Earnings

CDEP – Community Development Employment Projects

COAG – Council of Australian Governments

CPS – CDEP Participant Supplement

CPI – Consumer Price Index

CRA (or RA) – Commonwealth Rent Assistance

CSA – Child Support Agency

DEEWR – Department of Education, Employment and Workplace Relations

DES – Disability Employment Services

DHS – Department of Human Services

DIISRTE – Department of Industry, Innovation, Science, Research and Tertiary Education

DSP – Disability Support Pension

EPF – Employment Pathway Fund

EPP – Employment Pathway Plan

ESAt – Employment Services Assessment

FaHCSIA – Department of Families, Housing, Community Services and Indigenous Affairs

FTB – Family Tax Benefit

GDP – Gross Domestic Product

GFC - Global Financial Crisis

GP – General Practitioner

GST – Goods and Services Tax

HCC – Health Care Card

HLS – Harvest Labour Services

IGR – Intergenerational Report 2010

JCA – Job Capacity Assessment

JET – Jobs, Education and Training (specifically in reference to JET Child Care fee assistance)

JSA – Job Services Australia

JSCI – Job Seeker Classification Instrument

MTAWE – Male Total Average Weekly Earnings

NAHA – National Affordable Housing Agreement

NEIS – New Enterprise Incentive Scheme

NHLIS – National Harvest Labour Information Service

NMW – National Minimum Wage

OECD – Organisation for Economic Co-operation and Development

PBLCI – Pensioner and Beneficiary Living Cost Index

PBS – Pharmaceutical Benefits Scheme or Portfolio Budget Statements

PCC – Pensioner Concession Card

PCP – Principal Carer Parent

PCW – Partial Capacity to Work

PPM – Post-Program Monitoring survey

PSP – Personal Support Programme

RBA – Reserve Bank of Australia

SES – Socio-Economic Status

VET – Vocational Education and Training

WPI – Wage Price Index

Mature Aged – Unless stated otherwise, refers to people aged 55 years or older

Youth Allowance (other) – Youth Allowance for young job seekers and early school leavers, as distinct from Youth Allowance for full-time students and apprentices

Early school leavers – recipients who are less than 22 years old, and have not completed the final year of secondary school, or an equivalent level of education (Certificate Level II and above), and are not undertaking full-time study

# Executive Summary

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## The Economic Context

While there are economic challenges, the fundamentals of the Australian economy continue to be strong and the outlook remains positive. The economy is forecast to grow around trend, the unemployment rate is expected to remain low and inflation is forecast to be well-contained. Prospects continue to be underpinned by strong growth in our regional trading partners and an unprecedented pipeline of mining investment.

Notwithstanding the challenging conditions in some parts of the economy, Australia's unemployment rate has been relatively stable and, at just above five per cent, it is lower than most other advanced countries. The unemployment rate is around half that in Europe and significantly below that in the United States.

Policy settings which focus on increasing productivity and participation remain essential to delivering strong economic growth and, therefore, higher living standards for the individual and broader community. It is crucial to enhance the employment prospects of job seekers, including those on allowances. This is achieved by arrangements which ensure that the design of allowances, supplementary payments to recipients, employment and skills development programs and strategies to support productivity work in concert to increase employment opportunities and actively encourage and support recipients of allowances to transition to work.

## Key characteristics of the Australian Social Security System

The Australian social security system has a number of distinguishing features. It is underpinned by a suite of core values and principles that seek to achieve a balance between incentives to work and providing adequate and equitable support to those who are unable to support themselves, while also ensuring fiscal sustainability.

Australia has consistently chosen to maintain an approach that is means tested and funded from general revenue. Unlike most OECD countries, Australia does not provide earnings related employment insurance and is therefore distinctive in the international context.

Embedded in our system is the fundamental notion that people who can work should do so, except where factors such as disability, age or caring responsibilities are recognised as relieving this obligation. This is reflected in the distinction between pensions and allowances within the payment system. Pensions provide for those whom the community does not expect to fully support themselves through workforce participation. Allowances assist those who are expected to transition to being self-supporting and who are generally required to be looking for work or undertaking activities that prepare them to transition to work.

These distinctly different purposes flow through into the structure and design of payments, so that allowances have a lower rate of payment, less extensive supplementary assistance and concessional arrangements, tighter income tests, and reciprocal obligations in the form of participation requirements to assist the transition to work.

## Reforms to Allowances and Pensions to strengthen work participation

There has been considerable reform of programs and policies for working age people over the past two decades as governments have responded to changing social and economic conditions.

Newstart Allowance is the primary working age payment - the most appropriate payment for people who are required to look for work and undertake activities to help them find work.

Reforms over time have been made to rationalise the number of different payments to people of working age and expand the scope of Newstart Allowance, to adjust income test and activity settings to increase work incentives for recipients and to provide additional supplementary payments to recipients to assist the transition to work.

As part of *Australians Working Together*, Partner Allowance and Mature Age Allowance were gradually phased out from 2003 and Widow Allowance in 2005. Those no longer eligible for these payments may qualify for Newstart Allowance instead, with a consequent increase in their participation requirements to restore an emphasis on engagement with work.

Later changes under *Welfare to Work* in 2006 brought into the Newstart Allowance some people with disability and a partial capacity to work and new claimants who were principal carer parents of children aged six years or older (if partnered) or aged eight years or older (if single) and strengthened participation requirements and work incentives for them. Participation requirements for mature aged recipients and the long term unemployed were also strengthened.

Reforms in recent years include measures to establish common arrangements for parents as their children become older, regardless of when they originally claimed payment. As a result of *Building Australia's Future Workforce* (2011-12 Budget) and the 2012-13 Budget, grandfathering arrangements for existing recipients of Parenting Payment (Partnered) and Parenting Payment (Single) which were introduced with *Welfare to Work* will be removed, with effect from 1 January 2013 and subject to the passage of legislation. In the short term, most existing recipients are expected to transfer to Newstart Allowance.

Reforms to the income test over time have increased the ability of recipients to combine their Newstart Allowance with employment income from part time and casual work. This can also serve as an important step towards full time work. Most recently, under the *Building Australia's Future Workforce* package, more generous income tests for single principal carers receiving Newstart Allowance were established to reduce disincentives for parents to combine their payment with employment income.

Further, design of different activity test requirements for different groups of Newstart Allowance recipients has been complemented by increased flexibility for employment services providers to match support to the individual needs of the wider range of people who now access the Newstart Allowance.

Under our employment services system (Jobs Services Australia), allowance recipients are 'fully eligible participants' who can access one of four streams of support, depending on their level of disadvantage. An individualised Employment Pathway Plan (EPP) is negotiated with the job seeker to identify the activities that will assist them to find work and/or develop the skills that will assist them to secure ongoing employment. The Employment Pathway Fund is then available to Jobs Services Australia (JSA) providers to purchase assistance to reduce vocational and non vocational barriers to work and provide work experience.

Similarly, Disability Employment Services (DES) provides specialised assistance for people with a disability to secure sustainable employment and to receive support in the workplace if required, with provider access to an Employment Assistance Fund to facilitate this.

Reforms to Youth Allowance for students have also focused on supporting participation and productivity objectives. They provide increased access to payments to assist more young people from lower income families to undertake further study to improve their work prospects. These reforms include reductions in the age of independence, increases in the Parental Income Test threshold and the introduction of Student Start-up Scholarships and Relocation Scholarships. Changes to the Personal Income Test provide students with the ability to earn more money from part time work before their payment is reduced and the flexibility to undertake seasonal work.

## **Allowances as one component of a broader suite of support**

Other forms of financial assistance are also available for those on allowances and these supplementary payments have been augmented as necessary to ensure adequate levels of support to meet specific cost pressures. These payments include Family Tax Benefit, child care payments, and Commonwealth Rent Assistance. As a consequence of the availability of additional payments and the ability to earn some income while on allowance, a recipient may achieve a total package that is more than the National Minimum Wage.

As part of Budget 2012-13, the Government announced a number of new measures to further assist those in receipt of allowances, including:

- additional investment of \$225 million to improve child care assistance to help unemployed parents receive the training and skills needed to enter or return to the workforce and
- a new supplementary allowance to help over one million allowance recipients manage unexpected cost of living expenses – providing \$210 for singles and \$175 for members of a couple each year.

It is also important to note that reforms to allowances and other payments sit within a broader suite of productivity and participation oriented initiatives (including most recently under the *Building Australia's Future Workforce 2011/12* budget initiatives). These reforms strengthen incentives to work, address labour market needs and trends, build and recognise skills, maintain work connection, and avoid a drift to welfare dependence.

Policies that support jobs and grow the productive capacity of the economy have included:

- tripling the tax-free threshold, increasing the returns from work for low and middle income earners
- significant new investment to lift the overall educational achievement and skill level of the community to meet the labour market needs of the future, including a new national entitlement which will ensure that everyone who wants training can get it, with expanded access to HECS-style income contingent loans
- support to help job seekers adapt to an economy in transition through reforms to the national training system and delivering the most effective employment services possible
- intensive support for mature aged job seekers through a new Mature Age Participation Job Seeker Assistance Package, announced in Budget 2012-13 and funded to commence from 1 January 2013, to provide job seekers aged over 55 with more intensive job seeker assistance including refresher training in information technology, skills reviews and peer support
- targeted labour market programs in areas of high unemployment including the Priority Employment Area program, introduced as a response to the GFC and continuing to June 2013, which identifies and implements locally relevant employment development initiatives in 20 areas experiencing the most acute rates of unemployment or vulnerable to unemployment due to their location, demographics or industry structure and economic circumstances
- additional services for jobless families through a trial of new approaches to tackling entrenched disadvantage and roadblocks to work in 10 locations (Kwinana (WA); Playford (SA); Hume and Greater Shepparton (Vic); Burnie (Tas); Bankstown, Shellharbour and Wyong (NSW) and Logan and Rockhampton (Qld)) and
- investing around \$3.4 billion over ten years to work in partnership with Aboriginal people and the Northern Territory Government to continue efforts to close the gap in Indigenous disadvantage through the Remote Jobs and Communities Program, announced in Budget 2012-13 and commencing from July 2013, which will deliver important reforms including integration of community development, economic development and employment initiatives and stronger job seeker support.

## **The effectiveness of the payment system as an incentive into work**

This submission suggests that the system has been functioning broadly as intended and consistent with community expectations. With particular reference to Newstart Allowance, data and evidence suggest that Newstart Allowance (reinforced by the package of work participation initiatives and services within which it sits) is meeting its fundamental and longstanding purpose as a transitional payment, designed to incentivise work engagement.

Importantly, around 60 per cent of new recipients move off Newstart Allowance within 12 months of commencement on this payment.

Relative to other job seekers, Newstart Allowance job seekers are more likely to enter employment through part time jobs and data on those placed by JSA providers shows that they are remaining in employment and ceasing their reliance on income support. Recently, of all job seekers placed in jobs, over 70 per cent were employed three months later and, of those, nearly 85 per cent were still with the same employer with whom they were originally placed.

There has also been an increase over recent years in the number of Newstart Allowance recipients accessing training and education opportunities in conjunction with job search and/or other activities. From July 2010 to June 2012, the proportion of Newstart Allowance recipients undertaking training or education rose from 16 per cent to just over 20 per cent of the total Newstart Allowance population.

## **The adequacy of Newstart Allowance**

The very nature of Newstart Allowance as the primary working age payment, reinforced by reforms which have drawn more people with partial capacity to work, mature aged people and principal carer parents on to Newstart Allowance, mean that it must meet the needs of the diverse range of recipients with very different experiences and work capabilities, and in a way that keeps step with economic and labour market trends.

There are growing numbers of Newstart Allowance recipients who are people with disability and a partial capacity to work. The reforms to direct new income support claimants who are capable of significant levels of work onto Newstart Allowance are important and intended. They aim to provide not only adequate financial incentives to work but also the required supports, which can include employment services support, childcare support and training and work experience. These additional supports are recognised as being particularly important if we are to address the emerging trend of increasingly long durations on Newstart Allowance for those who do not transition off payment within 12 months.

As our population ages, the number and proportion of recipients over 55 years of age who are in receipt of Newstart Allowance may increase. Mature age recipients are at risk of long term reliance on welfare, making up around 20 per cent of very long term (two years or more duration) income support recipients on Newstart Allowance. The new Mature Age Participation Job Seeker Assistance Package, announced in Budget 2012-13, ensures further training and support and appropriate assessment and recognition of prior skills and is an important response to this issue.

The broader package of supports for recipients with children (including family assistance payments and childcare payments) assists greatly in maintaining the adequacy of their assistance, but some single recipients appear to be under more financial stress, particularly as a result of the pressures of housing costs (which Commonwealth Rent Assistance is established to assist). For these groups, it may not be easy to live on the basic rate of Newstart Allowance for a prolonged period.

Some advocates propose that issues of adequacy be addressed by an adjustment to the base rate of Newstart Allowance of \$50 per week. Any increase of this nature would have a substantial fiscal cost which would need to

be balanced against other government spending priorities and fiscal objectives. In addition, an increase would not assist in maintaining the fundamental character of Newstart Allowance as a payment that predominantly supports work re-engagement. As the OECD acknowledges, an increase in the base rate of Newstart Allowance has the distinct disadvantage of reducing employment incentives, especially for those who can only obtain low paying employment.

Aside from the work disincentive effect associated with options that involve lifting base allowances by a significant amount, it may not be necessary, as around 60 per cent of recipients have left Newstart Allowance within 12 months of commencement on the payment. Given this, an increase in the base rate is arguably a very costly option for this group. Reforms which support productivity and participation continue to be a policy priority. In a climate of fiscal constraint, it remains important to consider expenditures on income support alongside other public expenditure priorities and to note that the position of people out of work is also assisted through investment in taxation measures, employment services and broader social policy and program reforms.

# Section 1 - Australia's Social Security System

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## Context and summary

- Australia's social security system is underpinned by the core values and principles of: community acceptance; adequacy; equity and fairness; maintaining incentives and encouraging self provision; consistency; and financial sustainability. Achieving a balance between these imperatives has implications for the design and structure of the social security system.
- Australia has consistently chosen to maintain a social security system which is means tested, funded from general revenue and not related to previous earnings.
- For those who have the capacity to work but do not have employment, support is provided through allowance payments and these payments work hand-in-hand with a broader range of policies and programs that support work participation. The broader package includes: supplementary payments (such as Commonwealth Rent Assistance and Child Care Benefits); taxation arrangements (such as the recently increased tax free threshold and Child Care Rebate); productivity initiatives (such as additional investment in increasing education outcomes and skill levels across the population); employment services and labour market strategies to actively assist people into work.
- Allowances are designed to serve the primary function of facilitating the transition to work with the rates of allowances, income and assets tests, waiting periods and participation requirements to act as an incentive to participate and a disincentive to welfare dependency.
- The participation requirements for recipients link to employment servicing arrangements, including Job Services Australia and Disability Employment Services, to assist job seekers to become job ready and find sustained employment.
- Our allowance payment system has developed over time, as social and economic changes have occurred. Significant reforms have taken place over the past 20 years and most recently reforms have consolidated the role of Newstart Allowance as the primary working age payment.
- Reforms continue to be necessary to respond and adapt to changes in the economy and society.

## 1a. Characteristics of Australia's social security system

### Values and principles

Australia's social security system is underpinned by six core values and principles:

- **Community acceptance** – a system that the community considers fair and reasonable, that is understood, and which supports participation and national prosperity objectives.
- **Adequacy** – ensuring that people have enough income to maintain a basic acceptable standard of living.
- **Equity and fairness** – treating people with similar needs equally and directing more assistance to those with the greatest need.
- **Maintaining incentives and encouraging self-provision** – encouraging people to participate in economic activity and support themselves if they have the capacity to do so.
- **Consistency** - Consistent and objective administration of rules.
- **Financial sustainability** – efficient and affordable use of public funds.

Achieving a balance between these imperatives has implications for the design and structure of the social security system, which aims to provide different packages of assistance for people in different personal circumstances and at different stages of life. This has contributed to the tightly targeted and relatively complex system of payments and support arrangements which prevails today.

Successive Australian Governments have maintained a social security system which is highly targeted, means tested and funded from general revenue. The Australian social security system does not rely on direct contributions from individuals or employers to provide for social security payments but rather offers a safety net for all Australians who are not able to support themselves, either temporarily due to illness or unemployment, or permanently due to disability or age.

In 2011-12, Australia spent \$6.6 billion on Newstart Allowance and \$4.7 billion on Parenting Payment (Single) (Australian Government 2012a). Government expenditure for other allowance payments included \$1.1 billion for Parenting Payment (Partnered), \$0.8 billion for Youth Allowance (other), \$3.3 billion for Youth Allowance (student), Austudy and ABSTUDY (tertiary and secondary), and \$0.6 billion for Sickness Allowance, Widow Allowance, Partner Allowance (Benefit) and Special Benefit (Australian Government 2012a, 2012b, 2012c). Expenditures on allowance payments are significantly smaller than expenditures on pension payments, including \$34.7 billion spent on Age Pension and \$14.5 billion on Disability Support Pension (Australian Government 2012b).

Eligibility for a range of specific payments relies upon the individual circumstances of a person, for example, on their age, parental status, work capacity, residence and activity test requirements. Payments are generally not time limited. Where a person's circumstances change, they may cease to be qualified for payment or a different income support payment is more suited to their situation, such as Age Pension. The defined nature of the system reflects the community's expectation that where people are capable of supporting themselves, they should be encouraged to do so, however, where a person is not able to support themselves, social security should provide an adequate safety net in accordance with a person's circumstances, while representing a responsible and sustainable use of public funds.

In relation to unemployed persons, it is important to note at the outset that social security payments sit alongside taxation arrangements, productivity initiatives, employment services, and labour market strategies as part of an integrated package to support productivity and work participation objectives. This reflects longstanding policy that the best form of income support is a job and the promotion of self-reliance is in the long term interests of both individuals and society in general. This is discussed in more detail below.

## **International comparisons**

The Australian social security system differs markedly from the social insurance approaches of most OECD countries.

Most OECD nations use a two level system of social protection for the unemployed. Social insurance schemes are designed to replace previous earnings for those who become unemployed. Employers and sometimes employees contribute to a fund which is then used to pay benefits to workers when they register as unemployed. These benefits may be generally time limited and not means tested. For those workers who have not made sufficient contributions or have not been employed long enough to qualify for unemployment insurance, basic social assistance is often available. These benefits are generally much lower than previous earnings, tightly means tested and not time limited.

Australia does not combine universal and publicly funded assistance with a scheme of employer or employee funded income protection or insurance. Caution therefore needs to be exercised in comparing the Australian system with other OECD unemployment schemes. Social insurance schemes in some countries may provide a higher rate of payment in the first years, with assistance tapering off or withdrawn after a set duration. In contrast, allowances in Australia are paid indefinitely at a flat rate as long as the recipient remains qualified, and is not linked to an individual's past earnings or work history.

The OECD recognised the highly targeted, redistributive and equitable nature of the Australian social security system, which provides the greatest assistance to those with the most need (OECD 2010, p 126). Its alignment with labour market programs is also a recognised feature. Australia's tightly targeted and cost effective system means that it appears towards the lower end of spending on income support payments among OECD nations. In 2007, the latest year for which comparable data is available, Australia's social spending was 16.0 per cent of Gross Domestic Product (GDP) which ranked ninth lowest among 33 OECD nations and below the average of 19.2 per cent. Australia spent 0.4 per cent of GDP on unemployment benefits in 2007, which ranked 15th out of 32 OECD countries (OECD 2007).

## **1b. The allowance payment system**

A key aspect of Australia's social security system is the categorisation of the primary social security payments into two groups – pensions and allowances. The different roles of pensions and allowances characterise many of the settings embedded in the individual payment types, such as payment rates, indexation arrangements, income tests, asset tests, activity requirements and supplementary payments.

Allowance payments include Newstart Allowance, Youth Allowance (other), Widow Allowance, Partner Allowance, Parenting Payment (Partnered), Sickness Allowance and Special Benefit. Allowances are also paid to students and include Youth Allowance (student), Austudy and ABSTUDY. Parenting Payment (Single) is often referred to as an allowance; however, due to its origin as the Sole Parent Pension, it retains a number of characteristics of a pension, such as its unique indexation methodology and means testing regime.

Allowances are distinct from pensions (such as Age Pension and Disability Support Pension), which are designed for those who are not expected to, or who have little or no on-going capacity to, support themselves through employment due to factors such as age, illness or disability. Accordingly, pensions are paid at higher rates, with comprehensive supplementary assistance and concessions also provided. Pensions also feature different

indexation arrangements, more relaxed income and assets tests compared to allowances and have little or no participation requirements<sup>1</sup>, although there are features of the means test that provide incentive and reward for self-provision, including employment income. The incentive to work is integral to the design of income tests for payments and the obligations that apply to a payment recipient.

An important distinguishing feature of a number of allowances is the notion of reciprocity, once commonly referred to as mutual obligation. This is the expectation that a recipient must, as a condition of payment, participate in activities, such as job search, training or other activities to assist them to transition into work. Similarly, student allowances are predicated upon a recipient meeting their study requirements in order to remain eligible for payment. Where allowances do not have participation requirements, it is generally a result of the specific role that the particular allowance is fulfilling - such as Sickness Allowance which is designed to meet the temporary needs of infirm working age recipients.

Allowances serve to support those who have a capacity to work but are temporarily unable to provide for themselves because of unemployment, sickness, full time study or caring for young children. The design of Newstart Allowance, for example, is of a transitional payment which provides a financial safety net for Australians while they seek to re-enter the labour market. The purpose and policy settings for Newstart Allowance are discussed further below. A description of each of the allowance payments can be found at Appendix A. A graph of allowance and pension populations from 2002 to 2012 can be found at Appendix B.

### **The scope of this submission**

The terms of reference for the Senate Education, Employment and Workplace Relations References Committee's inquiry into "the adequacy of the allowance payment system for job seekers 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" refer to the "allowance payment system as a support into work".

This submission recognises the importance of the design of the allowance payment system as well as the broader range of payments and supports that are available to allowance recipients to provide for their needs, and the fact that all of these payments work hand-in-hand with broader policies and programs that support work participation. The following issues are therefore addressed:

- payment design and operation - including activity test requirements and compliance regimes
- the transitions between allowances and pensions, and student payments
- the wide range of supplementary assistance and concessions which are available to recipients, in particular families
- the employment services and labour market strategies that are designed to support the transition to work and
- initiatives that seek to lift the education and skill level of the population as a whole.

For the purposes of the submission, the term "allowance payment system" has been taken to refer to all allowance payments, with an emphasis on Newstart Allowance as the main working age payment.

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<sup>1</sup> From 1 July 2012, new participation requirements will apply to certain Disability Support Pension recipients under age 35, who have some capacity to work. These recipients will be required to attend regular participation interviews and to develop a participation plan, aimed at building their capacity.

Student payments, including Austudy, ABSTUDY and Youth Allowance (student), are part of the allowance payment system, designed to support secondary and tertiary study and maintain structural commonalities with the other allowance payments. The submission highlights that these payments have been the subject of considerable reform and review in recent years. These reforms have included extending eligibility for these payments and additional Student Start-up Scholarship and Relocation Scholarship payments. Given that the impact of these reforms will take time to be revealed, and given the particular focus of the Inquiry terms of reference on Newstart Allowance as a support into work, the youth and student allowance payments are not analysed in detail in this submission.

The transition of recipients between Parenting Payment (Single) and other allowances has become a significant aspect of the allowance payment system since the 2006 *Welfare to Work* reforms and is therefore discussed in this submission. Partner Allowance and Widow Allowance represent a relatively small proportion of the allowance population but are nonetheless included in this submission where comparisons are useful and relevant.

## 1c. Newstart Allowance and other supporting payments and services

### Origin and purpose of Newstart Allowance

Unemployment Benefit, introduced in July 1945, was the original form of Commonwealth assistance for people of working age experiencing unemployment, replacing state-based schemes. Fundamental elements of Newstart Allowance today have their origin in the design of Unemployment Benefit and reflect the longstanding purpose of supporting those who have a capacity to work but who are temporarily unemployed.

Newstart Allowance is designed to ensure that people who are considered unemployed are financially supported while they participate in activities that will increase their chances of finding work. Recipients must satisfy an activity test and are required to undertake job search as a condition of payment, unless they are exempted from activity requirements. Failure to meet these requirements may result in non-payment or other compliance measures.

### Package of support

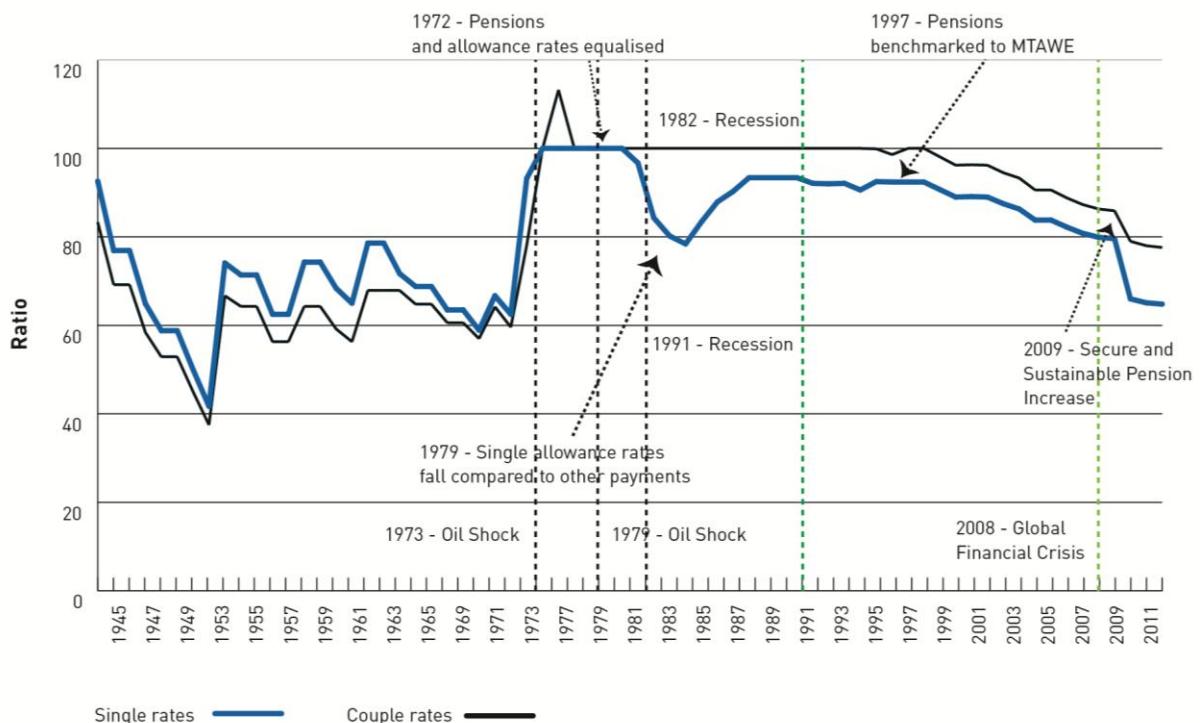
To address and balance the values and principles outlined at the beginning of this submission, a package of support is provided to Newstart Allowance recipients which includes, where eligible:

- basic rate of Newstart Allowance (including means testing)
- supplementary payments
- concessions
- employment servicing and access to training
- Family Tax Benefit for those with children and
- other support services, such as assistance with the cost of childcare.

### Rates of payment

Since 1945, various Governments have taken different approaches to setting and maintaining allowance payment rates, often reflecting changing economic and labour market conditions. The current rates of Newstart Allowance and other allowances have built on these initial rates with a combination of changing indexation arrangements and rate increases. Figure 1 shows the changing relativities between pensions and allowances since 1945.

Figure 1: Pension/allowance relativity since 1945 – allowance rates as a proportion of pension rates



Source: FaHCSIA 2012

As can be seen in Figure 1, governments have taken different approaches to setting or maintaining the relativity between the rates of allowances and pensions, although allowances have generally been set lower than pensions. It can be observed that:

- Changes to allowances did not occur regularly between 1945 and 1973. Payment rate changes meant that the benefit relativity was significantly below 100 per cent for most of the post-war era.
- In 1973, payment rates for pensions and allowances were unified. These arrangements remained for the adult rates of payment until 1979 when the single without child rate of Unemployment Benefit was decoupled from the single pension and was not increased at the same rate.
- The couple rate of allowance maintained parity with the equivalent pension payment rates until 1997. After this point, allowances continued to be indexed to Consumer Price Index (CPI) while pensions were indexed to CPI and benchmarked to 25 per cent Male Total Average Weekly Earnings (MTAWE). Because earnings typically grow faster than prices in the long run, the value of all allowances fell relative to pensions.
- The 2009 *Secure and Sustainable Pensions* reforms introduced a new single/couple relativity for pension rates and new indexation and benchmark arrangements for pensions. These reforms mean that the single pension rate is now set at 66.33 per cent of the combined couple rate, which is in turn indexed by the greater of the movement in the CPI and the Pensioner and Beneficiary Living Cost Index (PBLCI) and benchmarked to 41.76 per cent of MTAWE.

### **Basic rate of Newstart Allowance**

There are different basic rates of Newstart Allowance payment provided to people depending on their circumstances. This is in recognition of the varying costs faced by different household types and the special needs of some groups. The basic rates are shown in Table 1.

**Table 1: Newstart Allowance rates of payment - 20 March 2012 to 19 September 2012**

<b>Family situation</b>	<b>Maximum payment per fortnight</b>
Single, no children	\$489.70
Single, with dependent children	\$529.80
Single, aged 60 or over, after 9 months on income support	\$529.80
Partnered (each)	\$442.00
Single, principal carer of a dependent child (granted an exemption for foster caring/relative (non-parent) caring under a court order/home schooling/distance education/large family)	\$648.50

### **Means testing**

Means testing is a key feature of Australia's social security system. Income and assets tests help ensure that the funds available for social security expenditure are directed to those in the community most in need. They are also used to target the system so that it remains sustainable and affordable for Australian taxpayers.

The rate of income support payable depends on the income and assets tests. The rate of payment is calculated under the two separate tests and the test resulting in the lower (or nil) rate is the one that applies.

### **Assets Tests for Newstart Allowance**

The assets test which is applied to allowances is not tapered and assets which are held over the applicable limit will disqualify a recipient from payment. This test does not include the family home which is considered an exempt asset. This differs from the assets test which is applied to pensions which uses a taper rate to slowly reduce pensions over a certain limit, as asset values rise. The current assets test limits are:

**Table 2: Assets Test for Allowances**

<b>Family situation</b>	<b>Assets Test limit</b>
Homeowner, Single	\$192,500
Homeowner, Partnered (combined)	\$273,000
Non-Homeowner, Single	\$332,000
Non-Homeowner, Partnered (combined)	\$412,500

## **Income test for Newstart Allowance**

The definition of ‘income’ for the purposes of calculating social security entitlement includes employment income, investment income and ‘deemed’ income (certain investments and loans are assigned a notional minimum rate of return that represents an amount an investor could expect to receive). The income taken into account for the income test is gross income (before taxation).

Employment income affects Newstart Allowance when it is earned, not when it is received. This ensures that people who receive their earnings at irregular intervals are treated in the same manner as those who earn the same amount, but are paid on a regular basis. For this system to work, recipients need to report employment income in the fortnight it is earned. To enable more accurate reporting of income, Newstart Allowance recipients have the option of changing their fortnightly payment delivery day, and the day of the week on which they are required to report, to coincide with their pay day.

The income free area is an amount of income that a person can have without the income affecting a person’s income support payment and for Newstart Allowance it is \$62 per fortnight. The nature of the relationship between the design of the income tests and the incentive to work is discussed later in this section and the key point to note here is that payment reduces as income increases beyond the income free area.

For income earned above \$62 and below \$250, each dollar earned reduces Newstart Allowance by 50 cents in the dollar. Income above \$250 reduces payment by 60 cents in the dollar. Partner income which exceeds the partner income free area of \$830.00 reduces fortnightly allowance by 60 cents in the dollar (this is benchmarked to the cut-off point for a partnered Newstart Allowance recipient’s personal earnings).

From 1 January 2013, a new income test will apply for single principal carer parents on Newstart Allowance. From this date, a 40 cent in the dollar taper rate will apply for all income earned above \$62 per fortnight.

**Table 3: Income thresholds for Allowances**

<b>Family situation</b>	<b>Cut-off point (per fortnight)</b>
Single, 21 years or over, no children	\$ 909.50
Single, 21 years or over, with children	\$ 976.34
Single, 60 years or over, after 9 months (PhA)	\$ 986.67
Partnered (recipient income only)	\$ 830.00
- partner's income must be less than (partner income only)	\$ 1,566.67
- combined income must be less than	\$ 1,660.00
Single, principal carer of child (granted an exemption for foster caring/relative (non-parent) caring under a court order/home schooling/distance education/large family)	\$ 1,174.17
Parenting Payment (Single)	\$1,797.85*

\* This threshold increases with each additional child after the first (see Appendix A for Youth Allowance (student) and Austudy)

Allowance recipients also have access to Working Credit which enables them to retain more of their payment where they undertake paid employment. Working Credit also serves to encourage recipients to undertake short term full time work by simplifying the reclaiming of their allowance. Where a recipient’s total income is less than

\$48 a fortnight, they automatically build working credits. When a recipient then has income from work, they are able to use their credits to reduce the effect which income has on their payment until their Working Credit balance returns to zero. An allowance recipient can collect up to 1,000 credits (3,500 credits for Youth Allowance (other) recipients) and for every credit, they can earn \$1 extra before their allowance payment is reduced.

### **Waiting and preclusion periods**

People who claim and qualify for income support may have to serve a waiting or preclusion period before they can be paid. Waiting and preclusion periods are generally applied because recipients are expected to use their funds to support themselves, before calling on the community for income support.

A Liquid Assets Waiting Period is applied to claimants who have liquid assets, such as bank deposits, shares or financial investments, above the designated thresholds. If a person has liquid assets of more than \$2500 for a single person without dependants, or \$5000 for other claimants, at the time he or she becomes unemployed or claims payment, they may incur a Liquid Assets Waiting Period of up to 13 weeks. The length of the waiting period, in weeks, is calculated by dividing the amount of liquid assets above these thresholds by \$500 or \$1000 respectively. A person can ask for a review of their Liquid Assets Waiting Period if they are in financial hardship due to unavoidable or reasonable expenditure during the waiting period.

From 1 July 2013, under changes announced in the 2012-13 Budget, the maximum amount of liquid assets a person may hold before potentially being subject to a waiting period will double to \$5,000 for a single person without dependants or \$10,000 for other claimants. This allows newly unemployed people to be more financially secure by retaining modest levels of savings while being able to access income support.

Allowance payment recipients may be subject to preclusion periods, such as the compensation preclusion period. The compensation provisions reflect the principle that if a person has been compensated for loss of income, they should not receive income support from both the social security system and compensation systems for the same period.

### **Income Maintenance Periods**

An Income Maintenance Period is applied if a person or their partner receives a leave or redundancy payment on ceasing work. While not technically a waiting period, the Income Maintenance Period provisions divide the leave or redundancy payment by the person's normal weekly pay rate, which is then applied to the income test. Generally, the amount applied to the income is sufficient to preclude a person from payment and the calculation provides the number of weeks that the person is precluded from income support. The Income Maintenance Period may be waived if the person is in severe financial hardship because they have incurred unavoidable or reasonable expenditure, while serving it.

### **Indexation**

To maintain the real value of payments over time, most allowances are increased on 20 March and 20 September each year in line with movements in the CPI. Youth Allowance is indexed once a year on 1 January in line with movements in CPI. Parenting Payment (Single) is also indexed to CPI twice a year on 20 March and 20 September, and is then benchmarked to 25 per cent of MTAWE to reflect changes in wages.

In comparison, pensions are indexed twice each year by the greater of the movement in CPI and the PBLCI. The combined couple rate is also benchmarked to 41.76 per cent of MTAWE and the single rate is equivalent to 66.33 per cent of the combined couple rate.

An analysis of indexation related issues, including the CPI and measurements of the cost of living, is contained in Section 4e.

## **Supplements**

Newstart Allowance recipients may be eligible for a range of supplementary payments that provide eligible recipients with targeted assistance for day to day costs (e.g. Pharmaceutical Allowance and Remote Area Allowance) or the costs of participation (e.g. Education Entry Payment and Approved Program of Work Supplement). A summary of available supplements, their eligibility criteria and purpose is at Appendix C.

As part of the 2012-13 Budget, the Australian Government announced a new Income Support Bonus that will be paid to certain allowance recipients from 1 January 2013 (subject to the passage of legislation) to build a buffer against unexpected costs. The amount of Income Support Bonus will be \$210 each year for a person who is single and \$175 each year for each eligible member of a couple.

## **Assistance for families with children**

Family assistance payments are intended to help Australian families with the cost of raising children, and are able to be accessed by allowance payment recipients. These payments are very important to the overall financial circumstances of Australian families who receive them, including income support recipients.

Family Tax Benefit Part A is a per child payment. It is income tested and the size of the payment is based on the age of each child. The Part A amount is reduced where adjusted taxable income exceeds \$47,815 at a rate of 20 cents in the dollar. However, the income test is not applied to families in receipt of income support to avoid the household being simultaneously affected by withdrawals from the income support system and Family Tax Benefits

Family Tax Benefit Part B is paid to single parents and to partnered parents where one has no income or low income. It is not paid where the single parent or, in the case of partnered parents, the higher income partner, has income in excess of \$150,000 a year. For couples, the payment is subject to a personal income test on the lower income partner. This test does apply to income support couple families and can have two significant effects:

- It can reduce the effective marginal tax rate applying to first earners where increases in the first earner's income reduces the second earner's income support (income support is taken into account in the Part B income test, so a reduced rate of income support can lead to an increased rate of the Part B payment).
- It can increase the effective marginal tax rate applying to second earners due to the simultaneous application of the Part B income test and the income support income test.

## **Child Care Rebate and Child Care Benefit**

To help with child care costs, the Australian Government offers two types of financial assistance: the Child Care Rebate and the Child Care Benefit. Child Care Rebate is not income tested. Recipients may be eligible to receive this rebate even though their family income is too high to receive the Child Care Benefit.

Recipients may choose to receive the Child Care Rebate on a weekly or fortnightly basis, paid either to their child care service as a fee reduction or directly to the recipients bank account. Whether recipients receive a weekly or fortnightly Child Care Rebate payment depends on when their child care service submits their attendance data. Recipients can still choose to receive the Child Care Rebate payments quarterly or annually as a lump sum directly to their bank account.

The Child Care Rebate pays up to 50 per cent of out-of-pocket expenses for child care up to an annual cap. For the 2012-2013 income year, the Child Care Rebate annual cap is \$7,500 per child per year. It is not income tested, so recipients may be eligible to receive it even if they don't get the Child Care Benefit from their fees. Recipient's out of pocket child care costs are calculated after deducting any Child Care Benefit from their fees.

Child Care Benefit is a Government subsidy for families to reduce their child care fees. Child Care Benefit is an income tested payment so that it is targeted to people most in financial need. Child Care Benefit helps cover the cost of child care, including long day care, family day care, occasional day care, outside school hours care, vacation care, pre-school, and kindergarten. It may also help cover the cost of child care provided by grandparents, relatives, friends or nannies. The amount of Child Care Benefit a person receives depends on the amount and type of care they use, their family's income, the number of children they have in care, and whether they meet the 'work, training, study test' (or an exemption applies).

### **Jobs, Education and Training Child Care fee assistance**

Jobs, Education and Training (JET) Child Care fee assistance is a payment to help with the cost of approved child care if recipients are on an eligible income support payment. It can help meet the cost of care by paying most of the "gap fee" - that is, the difference between the full fee charged and the Child Care Benefit received - while participating in work, study or training activities.

This assistance is available for approved child care where used to undertake activities such as work, study, training or job search as part of an Employment Pathway Plan (EPP), to help enter or re-enter the workforce.

This payment is only available if recipients are receiving maximum rate of Child Care Benefit and receive an eligible income support payment.

Recipients are required to pay a co-contribution to the child care service for care used. If recipients use more hours than entitled, recipients have to pay the full cost for these additional hours.

In the 2012-13 Budget, the Australian Government announced increased funding and changes to JET Child Care fee assistance to ensure assistance is better targeted to parents to assist them in getting the training and skills they need to get into work.

Some of these changes will take effect for new JET Child Care fee assistance recipients and all changes will apply to all JET Child Care fee assistance recipients from 1 January 2013.

### **Commonwealth Rent Assistance**

Commonwealth Rent Assistance (CRA) is a non-taxable income supplement paid to eligible Australian residents, including Newstart Allowance recipients, who rent in the private rental market and community housing. Private rent can include site fees in caravan parks and residential parks, mooring fees, board and lodgings, some retirement village fees and fees paid to occupy non-Commonwealth funded beds in an aged care facility such as a hostel or nursing home.

CRA rates are based on a customer's family situation and the amount of rent they pay. For singles without children, the maximum rate also varies if accommodation is shared. CRA is paid at a rate of 75 cents for every dollar above the rent threshold until a maximum rate is reached. Customers are expected to pay the amount of rent below the rent threshold. There is no additional CRA once the maximum rate has been reached.

## **Concessions**

Allowance payment recipients are generally automatically eligible for a Health Care Card (HCC). HCC holders (and in some instances their dependants) are entitled to:

- medicines listed on the Pharmaceutical Benefits Scheme at the concessional rate
- bulk-billed GP appointments, at the discretion of the GP (the Australian Government provides financial incentives for GPs to bulk-bill concession card holders) and
- a reduction in the cost of out-of-hospital medical expenses, above a concessional threshold, through the Medicare Safety Net.

Certain allowance recipients may be eligible for a Pensioner Concession Card (PCC). This includes people who are:

- receiving Parenting Payment (Single)
- receiving Newstart Allowance, Parenting Payment (Partnered) and Youth Allowance (other) and are assessed as having a partial capacity to work, or are a single principal carer of a dependent child or
- aged 60 and over who are receiving Newstart Allowance, Partner Allowance, Widow Allowance, Parenting Payment (Partnered), Sickness Allowance or Special Benefit and have been in continuous receipt of income support for nine months or more.

In addition to receiving all the benefits provided under the HCC, PCC holders in all states and territories receive valuable core concessions. These include reductions on fares on public transport, council and municipal rates, including water and sewerage, electricity bills, and motor vehicle registration charges. State, Territory and local governments and some private providers may offer some additional health, household, transport, education and recreation concessions to PCC holders. However, they offer these concessions at their own discretion and they may vary from state to state.

Allowance recipients who are PCC holders, who become ineligible for payment because of employment, can retain their PCC for 12, 26 or 52 weeks depending on their payment type and circumstances. Those with a partial capacity to work or who are single principal carers of a dependent child retain their PCC for the maximum of 52 weeks.

## **Other support for allowees**

Further assistance for allowees is available through the Department of Human Services (DHS), including financial counselling and access to social workers who are able to provide confidential counselling, support and information.

## **Participation requirements and employment services**

Newstart Allowance, Youth Allowance (other) and some Special Benefit recipients must satisfy an activity test in order to be eligible for payment. Parenting Payment recipients must satisfy participation requirements. For all practical purposes, the terms “activity test” and “participation requirements” both largely apply to the same process: the range of things a person must do in order to continue to receive payment.

Participation obligations for recipients of Newstart Allowance are generally facilitated through a recipient’s engagement with an employment services provider. In most cases a recipient will have to undertake activities, such as job search or short term training, in order to fulfil their activity test or participation requirements, unless granted an exemption. These requirements are reinforced through a compliance regime which ensures that allowance recipients are actively looking for work and doing everything that they can to become ready for work in the future.

Participation requirements differ from person to person thereby recognising that the needs and circumstances of some allowance recipients will differ from those of others. The activity test and the broader package of support is tailored to different groups of allowance recipients, and may include part time participation requirements and exemptions from the activity test in certain circumstances.

Further, design of different activity test requirements for different groups of Newstart Allowance recipients links with increased flexibility for employment services providers to match support to the individual needs of the wider range of people who now access Newstart Allowance.

JSA is the Australian Government's major vehicle for the delivery of employment assistance to unemployed people and those newly entering the labour market, while DES delivers effective employment assistance for job seekers with disability. Appendix D provides details of the services provided by JSA and DES.

Under JSA, allowance recipients are 'fully eligible participants', who can access one of four streams of support (depending on their level of disadvantage). An individualised Employment Pathway Plan (EPP) is negotiated with the individual job seeker to identify the activities that will assist the job seeker to develop the skills that will assist them to secure ongoing employment. The Employment Pathway Fund (EPF) is then available to JSA providers to purchase assistance to reduce vocational and non vocational barriers to work and provide work experience.

Providers are given flexibility to deliver services tailored to the individual needs of job seekers and have the ability to use the EPF to purchase goods and services that job seekers may require to assist their employment efforts.

Similarly, DES provides specialised assistance for people with a disability to secure sustainable employment and to receive support in the workplace if required, with provider access to an Employment Assistance Fund to facilitate this.

A job seeker with an assessed capacity to work of 0-7 or 8-14 hours a week can meet their activity test requirement by attending a quarterly interview with DHS to discuss their participation and by meeting the terms of their EPP. The job seeker can volunteer to accept a referral to a suitable program of assistance but cannot be penalised for not accepting a referral. An allowance recipient may be assessed as having a capacity to work of 0-7 or 8-14 hours a week where he or she has a short term physical, intellectual or psychiatric impairment and has been assessed as being temporarily unable to work.

Recipients of Newstart Allowance are required to enter into an EPP and participate in activities that will increase their chances of finding work. The EPP is an individually tailored plan that identifies a job seeker's vocational goals, and records the activities the recipient will undertake to reach these goals. If a job seeker has an employment services provider, the plan will also list specific ways the provider will support a job seeker to improve his or her employment prospects and gain sustainable employment.

Activities included in an EPP focus upon achieving sustainable employment, including looking for a particular number of jobs each fortnight. However, for some job seekers, including all early school leavers (recipients who are less than 22 years old, and have not completed the final year of secondary school, or an equivalent level of education (Certificate Level II and above), and are not undertaking full time study) the primary focus must be the undertaking of approved courses of education, training or other approved activities that, on completion, will improve their employment prospects. The courses, training and activities should generally be vocationally orientated and designed to improve the job seeker's capacity and skills to enable them to secure and undertake suitable paid work.

An EPP is required to meet the needs of individual job seekers and not place unreasonable demands on the job seeker with regard to their personal circumstances. Particular care is taken in negotiating activities with job seekers with a limited or partial capacity to meet their activity test requirements, for example due to health issues

or family/caring responsibilities. This ensures that the job seeker has the capacity to undertake each of the activities in their EPP.

A legislated job seeker compliance framework provides for a range of financial sanctions to apply to job seekers who fail to comply with their activity test requirements. These sanctions range from temporary suspension of payment, with full back payment on compliance, to complete loss of payment for up to eight weeks.

In some circumstances, consideration may be given to exempting a person from participation requirements for a period of time. Exemptions may be granted if the person is temporarily unable to work for eight or more hours per week due to illness or incapacity, as evidenced by a doctor's medical certificate, and is unable to undertake another appropriate activity.

Other participation exemptions may be provided in unforeseen or unavoidable circumstances that cause major disruption for the job seeker and where it would be unreasonable to expect the job seeker to meet any of their requirements for a specific period of time. These circumstances may include, but are not limited to, major personal crises, family violence, declared natural disasters, temporary caring responsibilities, jury duty, being a newly arrived refugee, volunteering during a state or national emergency, or undertaking Indigenous cultural business.

### **Incentives to work for allowance**

In combination with participation requirements and labour market programs, payment rates and income tests for Newstart Allowance and other allowances seek to maintain the incentive for recipients to take up paid work and to ensure that a person who is undertaking paid work is always financially better off than a person who is not.

The rates of Newstart Allowance and other allowance payments are set such that they ensure that receipt of these payments do not become an attractive and viable alternative to paid work. Individuals invariably balance a range of considerations, including their own work preferences, caring commitments, and the financial impact of associated costs such as child care and transport in deciding the amount of work they are willing to undertake.

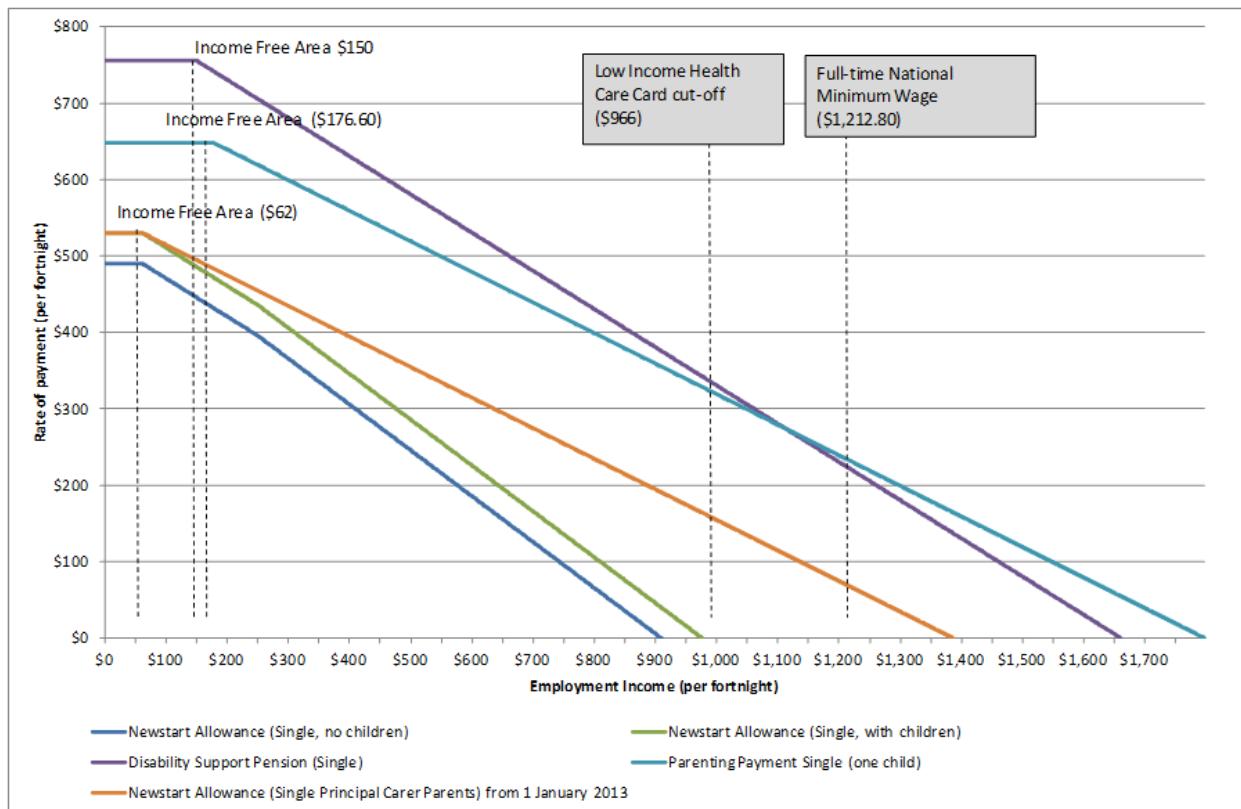
Income test settings also play an important role in maintaining the incentive to work. The rate at which allowances are reduced is intended to ensure that the amount of income that a person gains from employment is always greater than the amount they lose from their allowance. For this reason, Newstart Allowance reduces by 50 cents or 60 cents for each dollar of employment income above the set thresholds, rather than a dollar for dollar reduction. The compounding effect of the taper rate and the personal income tax system can result in higher effective marginal tax rates at certain income levels, although tax offsets and the recent increase in the tax free threshold may serve to reduce this effect.

The taper rates and the income test thresholds also affect the amount of employment income which a person can receive while still receiving an allowance. From a policy perspective, this can be leveraged to encourage certain groups of allowance recipients to combine paid work and income support, such as from 1 January 2013 single principal carers. Changes from 1 January 2013 will introduce a flat taper rate of 40 cents per dollar for single principal carers receiving Newstart Allowance, allowing them to continue receiving payment with employment income of less than \$1,386.50 per fortnight (based on 20 March 2012 rates).

In addition to a higher basic rate of payment, recipients of Parenting Payment (Single) have their payment reduced at a flat rate of 40 cents for each dollar of employment income above the income free area, which allows them to continue receiving payment while earning less than \$1,797.85 per fortnight or higher depending on the number of dependent children they have. This is significantly higher than the \$909.50 per fortnight cut-off for single Newstart Allowance recipients and \$976.34 per fortnight for single Newstart Allowance recipients with dependent children.

For most allowance recipients, an important payment design consideration is that a person undertaking full time paid work, even at the National Minimum Wage, should not also be able to access Newstart Allowance. The considerations which go into setting the National Minimum Wage and award wages should ensure that people working full time at those wages do not require Newstart Allowance to supplement their employment income. However, this relativity is considered less important for pensioners who are not expected to support themselves through paid work and single principal carers who need to be able to balance work and caring for their young children, and for whom maintaining some connection with the workforce is likely to improve their chances of transitioning into employment once their children have grown older.

**Figure 2: Effect of income tests for single pension and allowance recipients**



Source: Based on rates at 1 July 2012. 'Full-time National Minimum Wage' is based on 38 hours per week at the National Minimum Wage of \$15.96 per hour as at 1 July 2012, with rounding.

The rise of part time work in the Australian labour market raises particular challenges for payment design. If people in receipt of payments are encouraged to take part time employment there is an inherent risk that they will substitute this for full time permanent work. In addition, some people will be able to maintain a satisfactory lifestyle by combining work and benefit over the course of a year. On the other hand, part time or short term work can act as a "stepping stone" to full time permanent work for some people who have only a marginal attachment to the labour market. There are also some people who, because of caring responsibilities or disability issues, cannot participate in full time work but have capacity to undertake part time or occasional work.

Allowing people to combine work and benefits reduces the number of people entirely dependent on benefits and may reduce total benefit expenditure, even as it fails to reduce the total number of people receiving some benefits. Yet there is a risk that promoting this combination weakens the message that people should be making the maximum effort they can to fully support themselves.

## 1d. Developments in allowance payments policy and design and complementary reforms

### Work participation emphasis

There has been considerable, purposeful reform of programs and policies for working age people over the past two decades as governments have responded to changing social and economic conditions. In particular, policy changes have responded to the growing participation rates for women and older people, the changing nature of work (including the increasing availability of part time and casual employment opportunities and a shift to higher skilled jobs) and recent economic downturn.

Newstart Allowance has been reinforced as the primary working age payment - the most appropriate payment for people who have the capacity and who are required to look for work and undertake activities to help them find work. It is designed to maintain an incentive for recipients to return to work and is one part of a broader package of government supports and services aimed at encouraging skills development and workforce participation.

### Newstart Allowance reforms- the primary working age payment

Reforms over time have been made to expand the scope of Newstart Allowance (with commensurate changes to other payments), to adjust income test and activity settings to increase work incentives for recipients, and to provide additional supplementary payments to recipients to assist the transition to work.

A chronology of key payment reforms and initiatives is provided at Appendix E. A more detailed chronology and history of the payment system is provided at Appendix F.

The amalgamation of Newstart Allowance for the long term unemployed and Job Search Allowance for short term job seekers into a single payment known as Newstart Allowance in 1996 began a trend of catering for a wide range of groups within a single payment type which continues today.

Restrictions placed on eligibility for payments for partners, widows and older recipients under *Australians Working Together* in the early 2000s and for people with disability and parents of young children under *Welfare to Work* in 2006 have continued the expansion of Newstart Allowance to include a number of new cohorts, many of whom previously had no requirement to look for work or undertake training and other activities to help them find work.

- As part of *Australians Working Together*, Partner Allowance and Mature Age Allowance began to be phased out in 2003 and Widow Allowance in 2005 - those no longer eligible for these payments qualified for Newstart Allowance, emphasising the importance of engagement with work.
- In 2006, under *Welfare to Work*, reforms were aimed at increasing participation by ensuring that people who had some capacity to work but who had traditionally been out of, or disadvantaged within the labour market, were actively engaged with the labour market. People with disability and a partial capacity to work of 15 to 29 hours per week would no longer qualify for Disability Support Pension. Instead they became eligible for Newstart Allowance and were required to look for suitable paid work of at least 15 hours per week. Similarly, new claimants who were principal carers of children aged six years or older (if partnered) or aged eight years or older (if single) were no longer eligible for Parenting Payment and were also required to look for suitable paid work of at least 15 hours per week. Participation requirements for mature age recipients and the long term unemployed were also strengthened.
- In 2009 Early School Leaver provisions were introduced for Youth Allowance (other), which make this a more appropriate payment to support young people to improve their skills and future chances of employment. These provisions were extended to 21 year olds from 1 July 2012.

- Reforms have continued in recent years, including measures to establish common arrangements for parents as their children become older. Announced in the 2012-13 Budget was the abolition of grandfathering arrangements introduced with *Welfare to Work* in 2006 for existing recipients of Parenting Payment (Partnered) and Parenting Payment (Single). Subject to the passage of legislation, grandfathering will be removed with effect from 1 January 2013 and most existing recipients will transfer to Newstart Allowance.

The primary consequence of the reforms has been to significantly extend the scope of Newstart Allowance to support a wider population group, including the participation of partners, parents of young children, people with a partial capacity to work and the mature aged, and to support a wider variety of activities such as part time and casual work.

In addition to extending the scope of Newstart Allowance, reforms to the income test have assisted recipients to combine their Newstart Allowance with employment income from part time and casual work, as this also serves as an important step towards full time work for many recipients.

- The introduction of Working Credit in 2003 under *Australians Working Together* allows recipients to keep more of their Newstart Allowance when they first start paid work or undertake a short period of paid work.
- A more generous income test was introduced with *Welfare to Work* in 2006, which allows recipients to keep more of their allowance while they are undertaking part time and casual work, replacing the 70 per cent taper for income above \$142 per fortnight with a 60 per cent taper for income above \$250 per fortnight.
- Reforms announced under *Building Australia's Future Workforce* (2011-12) package included more generous income tests for Youth Allowance (other) from 1 July 2012.
- Reforms announced under *Building Australia's Future Workforce* (2011-12) package also provided more generous income tests from 1 January 2013 for single principal carer parents receiving Newstart Allowance, to encourage these parents to combine their payment with employment income. This recognises that parents (including those who may be moving from parenting payments onto Newstart Allowance) may have spent considerable periods of time out of the workforce and that re-entry via part time work will be a common re-engagement strategy.

In addition, the Government's most recent Budget included the relaxation of rules relating to the Liquid Assets Waiting Periods, to allow newly unemployed people to keep more of their savings while looking for a new job or studying.

Another significant change in recent decades is the establishment of different activity test requirements for different groups of Newstart Allowance recipients and increased flexibility for employment services providers to tailor services, programs and other assistance to the needs of individual job seekers. This has supported increased participation requirements for Newstart Allowance recipients and allowed services and assistance to be targeted to the individual needs of the wide range of people who now access Newstart Allowance.

- Under *Working Nation* (1995), the Government introduced systematic profiling of job seekers to measure the risk of long term unemployment, a competitive purchasing model for case management, and employment services with a strong focus on wage subsidies, training and customised assistance.
- In 1998, the publicly owned Commonwealth Employment Service was replaced with a national network of organisations contracted by the Australian Government to deliver employment services, known as Job Network. Job Network focused more on job search assistance, intensive and customised assistance and

also Work for the Dole, as a complementary program as part of the Government's Mutual Obligation policy framework.

- *Australians Working Together* (2003) introduced a major shift in the delivery of employment services through the Active Participation Model. Job seekers were assigned to a single provider and remained with them during their period of unemployment. Services for job matching, job search training and intensive support were combined into one contract and providers were paid standard service fees and outcome payments with clear weightings to incentivise placing the most difficult into employment. A job seeker account, the forerunner to the current EPF, was introduced for use to purchase goods and services to address barriers to employment.
- JSA was introduced in 2009 bringing together multiple employment and pre-employment programs together in an integrated service.

Supplementary payments also continue to be available and augmented as necessary. As part of the 2012-13 Budget, the Government announced a number of new measures to further assist those in recipient of allowances, including:

- additional investment of \$225 million to improve child care assistance to help unemployed parents receive training and skills needed to enter or return to the workforce and
- a new supplementary allowance to help over one million allowance recipients manage unexpected cost of living expenses.

### **Recent reforms to student allowances**

Recent reforms to student income support payments including Youth Allowance (student), Austudy and ABSTUDY, have also contributed to better supporting young people from lower income families to undertake further study and improve their future employment prospects. A key element of the Government's student income support reforms was the introduction of the Student Start-Up and Relocation Scholarships from 2010.

In addition, commencing from 1 July 2012, the Youth Allowance (student) personal income test threshold for full time students and apprentices has been increased from \$236 to \$400 per fortnight so that young people are able to earn more from employment before their payment is reduced. This is in recognition of the increased availability and importance of casual and part time employment for students.

The Student Income Bank has also increased from \$6000 to \$10,000, providing additional flexibility for students to take advantage of seasonal employment during university breaks and holidays when their study load is reduced.

### **Complementary Policy and Service Reforms**

Reforms to allowance and other payments sit within broader taxation settings and productivity and participation initiatives as part of the ongoing policy effort to build work readiness, capability and engagement. Broader arrangements to address labour market needs and trends, build and recognise skills, and maintain work connection complement the employment services described above.

At the highest level, taxation settings are a central policy lever and adjustments to the income threshold at which income tax is first paid is important to the incentive to work for all Australians.

From 1 July 2012, the tax free threshold was raised from \$6000 to \$18,200. As a result, people, including income support recipients, can earn more money before paying tax. Further, up to a million low-income earners who currently interact with both the tax system (through the Australian Taxation Office) and the transfer system

(through DHS) will no longer have to lodge a tax return from 2012-13. The tax free threshold will rise again to \$19,400 in 2015-16, which will free a further 100,000 people from having to lodge a tax return.

Other reforms and policies that support jobs and grow the productive capacity of the economy have included significant new investment to lift the overall educational achievement and skill level of the community, to meet the labour market needs of the future and to help job seekers adapt to an economy in transition through reforms to the national training system.

- Under *Building Australia's Future Workforce* the skills reforms that commenced in the 2010-11 Budget were extended. These reforms are designed to build the overall skill level of the community to meet the labour market needs of the future and include establishing a national entitlement to a training place, investing in literacy and numeracy programs and increasing funding for pre-vocational training.
- The Government's skills agenda includes additional investment in tertiary education that is driving an increase in the numbers of vocational education and training (VET) and higher education students and will see further increases over the next few years. These reforms aim to achieve a target of 40 per cent of Australians aged between 25 and 34 having a Bachelor degree by 2025. By 2020, the Government is also aiming to ensure that 20 per cent of undergraduate students in higher education should be from low socio-economic status (SES) backgrounds, that the proportion of Australians aged 20 to 64 years without at least a Certificate III qualification will be halved (compared to 2009), and that the number of higher VET qualifications (diploma and advanced diploma) will be double the 2009 figure. Specific reforms include:
  - Council of Australian Government (COAG) agreement that all Australians will have an entitlement to study for a first qualification up to the Certificate III level.
  - Access to income-contingent loans to help meet the cost of fees for people wanting to study higher level VET qualifications.
  - In higher education demand-driven funding for undergraduate places has opened up opportunities for more people to get a degree.
  - Targeted support for disadvantaged students is increasing the number of people from low SES backgrounds enrolled in university.

Intensive support for mature aged job seekers and workers and targeted labour market programs in areas of high unemployment including additional services for jobless families are also important.

- As part of Budget 2012-13, a new Mature Age Participation Job Seeker Assistance Package was funded to commence from 1 January 2013 so that job seekers over 55 can receive more intensive job seeker assistance including refresher training in information technology, skills reviews and peer support.
- Labour market strategies have also been pursued and include a number of targeted place based strategies.
  - The *Priority Employment Area program* that was introduced as a response to the GFC and will continue to June 2013. This involves identification and implementation of locally relevant employment development initiatives in 20 areas experiencing the most acute rates of unemployment or vulnerable to unemployment due to their location, demographics or industry structure and economic circumstances.
  - Greater support for jobless families is being provided. *Building Australia's Future Workforce* includes a trial of new approaches to tackling entrenched disadvantage and roadblocks to work in 10

locations: Kwinana (WA); Playford (SA); Hume and Greater Shepparton (Vic); Burnie (Tas); Bankstown, Shellharbour and Wyong (NSW) and Logan and Rockhampton (Qld). The focus is on getting young parents back to school and in training, as well as helping jobless families with children into work.

Indigenous participation and closing the gap in Indigenous disadvantage has included investing around \$3.4 billion over ten years to work in partnership with Aboriginal people and the Northern Territory Government.

- In remote areas, including for Indigenous communities, it has been recognised that a more flexible and integrated approach to delivering services is important. As part of Budget 2012-13, the Government announced the *Remote Jobs and Communities Program*, which will commence from July 2013 and deliver important reforms including integration of community development, economic development and employment initiatives and stronger job seeker support.

### **Maintaining a focus on employment participation**

Work will continue to be important because of the fundamental benefits to individuals, families, communities and society. These benefits are most obviously economic and financial, but there are also non-economic benefits. For the individual or household, a job provides enormous financial security as employment helps an individual to maintain and deepen their work skills and allows them to invest in long term assets like housing or superannuation. In addition, it promotes other outcomes for the family such as breaking the cycle of intergenerational disadvantage as parental labour market outcomes are positively associated with their children's labour market outcomes. Work also offers important non-economic benefits to individuals. Research shows that those who are employed generally have a higher subjective wellbeing compared to those who are unemployed. Having a job provides people with a sense of worth and dignity that flows through to greater mental and physical wellbeing.

In addition to the value of work for individuals, there are a number of benefits to society from higher workforce participation. The main economic benefits relate to increased tax revenue and reduced fiscal outlays on welfare and related services. This provides society with the ability to purchase other things that are of value, such as health care. Having more people at work is also important as it helps mitigate certain challenges such as those relating to demographic and structural change. With an ageing population, growth in living standards will decline unless we have people supplying the necessary amount of labour. Aside from these economic benefits, society will also benefit in terms of greater social inclusion as work connects and engages people with others in their community.

It is evident that evolutionary reforms to Newstart Allowance (and associated payments and supports) have been driven by a need to maintain its effectiveness and relevance as a payment to support transitions to work, taking into account broad shifts in the labour market, the economy and in community expectations. These changes have included the increasing participation rates for women and mature aged people, the growth of part time employment opportunities in the 1990s, and the increasing proportion of skilled jobs.

By the middle of this century, Australia's population is projected to rise to around 36 million. The proportion of Australians in work or looking for work is projected to stabilise and then decline significantly over this period. The old age dependency ratio (the ratio of people of working age to people aged 65 years or older) is projected to double by the middle of the century. In 40 years time there is projected to be just 2.7 people of working age for each person aged 65 years or older, compared with 5.0 people today and 7.5 people 40 years ago.

Ongoing, purposeful reform to the allowance payment system which promotes higher workforce participation and productivity growth is critical to helping Australia manage an ageing population. Receiving income support over the long term leads to the loss of skills and workforce attachment, foregone housing and retirement savings accumulation, less taxation revenue and greater expenditure by Government on income support.

The linkages and connection between design of the social security system and broader skills and labour market reforms will remain particularly important to the future prosperity of the country. These connections reflect the fact that adjustments to the design and level of allowances need to form part of an integrated strategy to facilitate employment participation and future economic growth.

## Section 2 - Economic outlook

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### Context and summary

- The state of the labour market is particularly important for determining the number of people moving onto allowances and their re-employment prospects.
- The fundamentals of the Australian economy continue to be strong and the outlook remains positive. The economy is forecast to grow around trend, the unemployment rate is expected to remain low and inflation is likely to be well-contained. Prospects continue to be underpinned by strong growth in our regional trading partners and an unprecedented pipeline of mining investment.
- Trends in the key price and wage indicators have a strong link to the state of the labour market, while also being important for assessing trends in living costs for recipients and expenditure on allowances.
- The global outlook remains highly uncertain and domestic economic conditions are expected to remain uneven across sectors in the near term. For this reason maintaining fiscal sustainability is particularly important to sustain confidence in the strength of Australia's public finances, as well as addressing longer-term challenges arising from issues such as population ageing.
- Australia's unemployment rate has remained low, and is far below the unemployment rates seen in many advanced economies. The shift in labour (and capital) towards the fast-growing sectors of the economy is likely to continue, as patterns of demand change and the economy undergoes a long-term transition. While the unemployment rate is expected to remain low, it is also expected to tick-up slightly as this transition in the economy takes place
- The health of the economy is a key driver of employment. Income support settings need to be able to facilitate movement of individuals into employment to give businesses prospective new employees, enable income support recipients to compete for emerging jobs and reduce the potential for inflationary labour bottlenecks.
- The growth rate of the cost of living in Australia, as measured by the Consumer Price Index, has moderated over the past year.
- Wages growth is currently below trend, and is expected to remain modest over the next two years in line with the expected tick-up in the unemployment rate and contained inflation.

## 2a. Economic conditions

Despite ongoing global weakness and uncertainty, Australia's unemployment rate has remained low and is currently at 5.2 per cent – lower than in most advanced economies. Domestically, the transition taking place in the economy poses a particular risk for the labour market as these transitional frictions could see a temporary rise in the unemployment rate while businesses adjust to the evolving patterns of demand.

With patterns of demand changing and the economy in a long-term transition, the shift in labour and capital towards the fast-growing sectors of the economy is likely to continue, with solid, albeit weaker employment growth expected in the services sector. Strong employment growth is expected in the rapidly expanding but less labour-intensive resources and resources-related sectors over coming years.

In the 2012-13 Budget, employment is forecast to grow 1.25 per cent through the year to the June quarter of 2013 and 1.5 per cent through the year to the June quarter of 2014 (Australian Government 2012). The unemployment rate is forecast to drift up to around 5.5 per cent by the June quarter of 2013. It is then expected to remain broadly stable through to the June quarter of 2014.

The fundamentals of the Australian economy remain strong and the outlook is favourable, with solid growth, low unemployment and well contained inflation. However, the global economic outlook remains highly uncertain and the downside risks from the global economy remain substantial. Australia's economic growth is expected to be driven by surging resources sector investment and supported by non-rural commodity exports and household consumption. The 2012-13 Budget forecasts real Gross Domestic Product (GDP) to grow 3.25 per cent in 2012-13 and 3 per cent in 2013-14, around the long run trend rate.

Financial contagion from the euro area sovereign debt crisis remains the biggest risk to the global and domestic economic outlook. The capacity of many advanced economies to respond to a re-escalation in the euro area sovereign debt crisis and a severe downturn in the global economy is limited. While output remains well below potential in the major advanced economies, emerging economies continue to be the key drivers of global growth. In the 2012-13 Budget, the Australian Government forecasts global growth of 3.5 per cent in 2012, before improving to 4 per cent in 2013.

Domestic economic conditions are expected to remain uneven across sectors in the near term, with the resources and resources-related parts of the economy expected to grow strongly. External demand from Asia is expected to remain strong, particularly for non-rural commodities, with Australia's exports forecast to grow solidly and non-rural commodity prices expected to remain high. Robust demand in Asia should continue to underpin the strong outlook for the resources sector. The resources investment pipeline is currently over \$500 billion, with more than half of these projects already committed or under construction.

Strong growth in the resources sector is expected to continue to spill over into other sectors, including parts of the construction sector, parts of manufacturing and parts of the services sector.

However, activity in other parts of the economy is expected to be mixed. The high Australian dollar is weighing heavily on trade-exposed sectors of the economy such as manufacturing and tourism. Ongoing global uncertainty has also reinforced the cautious behaviour that consumers have shown since the global financial crisis (GFC) and they remain reluctant to take on more debt. This is particularly challenging for the retail sector and others sectors linked to the retail sector, such as wholesale trade and road transport. Weak demand and tight credit conditions are also making conditions challenging in parts of the construction sector.

## 2b. Inflation

The cost of living in Australia, as measured by CPI, has moderated over the past year. Headline CPI is 1.2 per cent higher through the year to the June quarter 2012, down from 1.6 per cent through the year to the March quarter 2012.

In the 2012-13 Budget, the Government forecasts inflation to remain contained over the next two years, in line with the outlook for around trend economic growth and a relatively stable outlook for the labour market. Underlying and headline measures of the inflation rate are expected to be 2.75 per cent and 3.25 per cent through the year to the June quarter of 2013 respectively. Both inflation measures take into account a one-off carbon price impact of one-quarter of a percentage point for underlying inflation and three quarters of a percentage point for headline inflation.

Both the underlying and headline inflation rates are then expected to ease to the middle of the RBA target band at 2.5 per cent through the year to the June quarter of 2014.

The Government has announced a household assistance package that contains a range of measures to assist households with the modest cost impacts associated with the carbon price. Under a \$23 carbon price in 2012-13, it is estimated that, on average, households will see cost increases of \$9.90 per week, but will receive assistance of \$10.10 per week.

## 2c. Living costs

The core of the terms of reference of the Inquiry relates to the adequacy of Newstart Allowance in meeting the everyday living costs of recipients. In order to inform this discussion, particularly in Section 4 of this submission, it is important to note that there are various measures of living costs which are often used in this debate. The Analytical Living Cost Indexes (ALCI) series was first published by the Australian Bureau of Statistics (ABS) in June 2000 and reflects changes over time in the purchasing power of the after-tax incomes of households. In the March quarter 2012, there were falls in the ALCI for self-funded retiree and employee households, while the ALCI for age pensioner and 'other government transfer recipient' households rose modestly. In through-the-year terms, the ALCI for self-funded retiree, employee, and age pensioner households were weaker than the March quarter 2012 CPI outcome. Historically, with the exception of the Self-funded retiree ALCI, the other measures of ALCI have grown slightly faster than the CPI.

The Pensioner and Beneficiary Living Cost Index (PBLCI), introduced as part of the Pension Reforms, was first published by the ABS in June 2009 and is a combination of the age pensioner index and the 'other government transfer recipient' index. The PBLCI rose 0.1 per cent in the March quarter 2012, in line with the March quarter 2012 CPI outcome. However, the PBLCI is 1.4 per cent higher through the year, a smaller through-the-year rise compared with the March quarter 2012 CPI outcome (1.6 per cent).

While the PBLCI is a relatively short series, despite the March quarter 2012 outcome, it has typically grown faster than the CPI, reflecting the high weights of food, pharmaceuticals, utilities, tobacco and financial and insurance services in the PBLCI.

The standard of living of income support recipients is discussed further in Section 4.

## 2d. Wages

Wages growth, as measured by the Wage Price Index (WPI), remained below trend in the beginning of 2012, with private sector wages continuing to grow at a faster rate than public sector wages. In the 12 months to the March quarter 2012, the WPI grew 3.6 per cent. Public sector wages increased 3.1 per cent over this period (well below trend), while private sector wages grew 3.7 per cent (around trend), noting that private sector wage growth slowed considerably following the GFC. Public sector wage increases have exceeded those in the private sector for the most of the past decade.

Wages growth is currently below trend, and is expected to remain modest over the next two years in line with the tick-up in the unemployment rate and moderation in inflation. In the 2012-13 Budget, the Government forecasts WPI growth of 3.75 per cent through the year to the June quarter of both 2013 and 2014, with continued strong wages growth in resources-related industries expected to be offset on average by more modest wage increases in other parts of the economy.

## 2e. Fiscal challenges

Fiscal sustainability is essential to maintaining macroeconomic stability, reducing economic vulnerabilities, and achieving sustained growth in living standards. Maintaining fiscal sustainability and credibility is particularly important at this time of ongoing global economic uncertainty when many countries face the significant task of generating growth while at the same time restoring fiscal sustainability and reducing excessive sovereign debt levels. A strong fiscal position sustains confidence in the strength of Australia's public finances, and is a key reason behind Australia's triple A sovereign credit rating by all three major global credit rating agencies.

Fiscal sustainability is also a priority because of the longer-term challenges arising from issues such as population ageing. The 2010 Intergenerational Report (IGR) projected that with unchanged policies Australian Government spending on health, age-related pensions and aged care would increase by 5.3 per cent of GDP over the following 40 years (Australian Government 2010). To avoid exacerbating these pressures, it will be important to maintain fiscal discipline while demographic influences remain favourable.

In addition, the 2010 IGR projects that real GDP growth per person is projected to grow at an average of 1.5 per cent per year over the next 40 years, compared with 1.9 per cent over the previous 40 years. At the same time the number of traditional working age people to support each retiree is expected to fall from 5 people in 2010, to 2.7 people in 2049-50 (Australian Government 2010).

Delivering surpluses now will foster fiscal sustainability which will assist in managing the effects of the high terms of trade while helping meet the challenges of population ageing. Surpluses will also improve economic resilience by reducing Australia's vulnerability to adverse shocks. The commitment to restrain real growth in spending to 2 per cent, on average, until surpluses are at least 1 per cent of GDP and while the economy is growing at or above trend will continue to restrain government expenditure and the ability to fund substantial new commitments (as offsetting savings in current expenditure).

In addition to the need to restrain growth in outlays to maintain fiscal sustainability, there is likely to be some pressure to keep the tax take as low as possible over the medium to long-term. An efficient tax-transfer system oriented to support strong and sustainable economic growth is important for increasing productivity, lifting economic growth and preparing Australia to take advantage of the opportunities of the Asian century. In relation to the labour market, the tax-transfer system should not unduly reduce incentives to participate in the workforce and to acquire productivity-enhancing skills.

## Section 3 - The Australian labour market and its changing structure

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### Context and summary

- The Australian economy and labour market have evolved considerably over the past few decades, adapting to changing social norms, work practices, economic reforms, and global competition.
- Since the 1980s, there has been a significant change in the composition of employment, with a notable shift to part time employment, although this has levelled off in recent years.
- In spite of the recent fluctuations in the Newstart Allowance population, the level has remained low in an historical sense, with the current total of 546,319 in June 2012 similar to that last seen in mid-2002.
- The participation rate has generally increased over the last decade but it is uneven across population segments. Historical data indicates: little progress in relation to improving the labour force outcomes for people with disability; a strong increase in the participation rate of women; a decline in male participation rate; a significant increase in the participation rate of mature-age people; a clear trend towards increasing part time employment for youth; and couple families participation is significantly higher than the participation rate for lone parents.
- A significant and growing number of people, many of whom have disability or who have obsolete skills, continue to face barriers accessing the same opportunities as others.
- Reflecting movements in unemployment, the average duration of unemployment (per unemployed person) also fell reasonably consistently up until the GFC.
- Over the last decade, the rate of employment growth has varied substantially by state and territory. Over the ten years to May 2012, employment increased by 2,283,400 to reach an historical high of 11,151,700 (full time and part time).
- Employment for occupations commensurate with a Bachelor degree or higher has increased. Lower skilled occupations have also experienced employment growth. The growth of skilled employment heightens the critical nature of education and training to the Newstart Allowance population.
- Recent trends in industry employment are expected to continue over the next five years. Health Care and Social Assistance is projected to increase followed by Construction, Professional, Scientific and Technical Services and Mining. Manufacturing is the only industry in which the share of employment is projected to decline.
- Australia uses both the National Minimum Wage and a highly targeted tax-transfer system to reduce income disparities and encourage workforce participation of low skilled workers. Low wage employment represents a significant destination for Newstart Allowance recipients. Appropriate minimum wages balance the rewards for entering work and the capacity for business to create jobs for low skill workers.

The design of Newstart Allowance as a transitional payment which provides a financial safety net for Australians while they seek to re-enter the workforce highlights the importance of considering the ability of the labour market to accommodate this large and diverse group of people. An important consideration is the ability of the labour market to provide suitable jobs for the newly unemployed as well as the long-term unemployed, people who can only re-enter the labour market on a part time basis, parents who may require substantial flexibility around their caring responsibilities, and those who may need ongoing assistance to maintain their job once employed.

The Australian economy and labour market have evolved considerably over the past few decades, adapting to changing social norms, work practices, macroeconomic reforms and global competition. For the most part this has been a successful transformation but challenges remain. The skills and training which Australian workers possess have also advanced although they have not always done so in accordance with the demands of the economy. A significant and growing number of people, many of whom are disabled or who have obsolete skills, face barriers associated with accessing the same opportunities as others.

It is for this reason that the Government has focused on education and training to bridge the gap wherever possible. Through measures such as the Early School Leavers initiative, which ensures as many young people on income support as possible obtain their Year 12 qualification or equivalent, the 2011-12 *Building Australia's Future Workforce* package, and the National Partnership Agreement on Skills Reform with the states and territories, the Government is attempting to ensure that unemployed people are well positioned in terms of education and training, to obtain the skilled positions that Australian industry requires for further economic growth and future prosperity.

The Government's reforms and additional investment in tertiary education are driving an increase in the number of Australians studying for tertiary qualifications and will see further increases over the next few years.

### 3a. Employment and unemployment

Australia has outperformed nearly all advanced economies since the Global Financial Crisis (GFC). In particular, employment growth in Australia has been much stronger relative to most other developed economies, supported by the macroeconomic policy response of the Government and the Reserve Bank of Australia. At the onset of the global recession, however, the Australian labour market slowed, with employment growing by just 0.5 per cent over the year to September 2009 (see Figure 3) and the unemployment rate peaking at 5.9 per cent in June 2009. This corresponded with an increase in overall Newstart Allowance numbers from a low of 399,401 recipients in June 2008 to 562,600 recipients in March 2010<sup>2</sup>.

Australia's long term unemployment is well below OECD average, which the OECD attributes to "close linking of unemployment allowances to active labour market policies and a well functioning compliance and sanctions regime" (OECD 2010, p128). This highlights the importance of Australia's more recent reforms to the allowance payment system – particularly in mutual obligation and labour market support, as essential attributes of an income support system that is effective in achieving the transition to employment. Against the backdrop of strengthening commodity prices and an associated pick-up in the pace of economic activity, labour market conditions subsequently strengthened in Australia over 2010, with employment growing by 3.3 per cent and the unemployment rate falling to 4.9 per cent in December 2010.

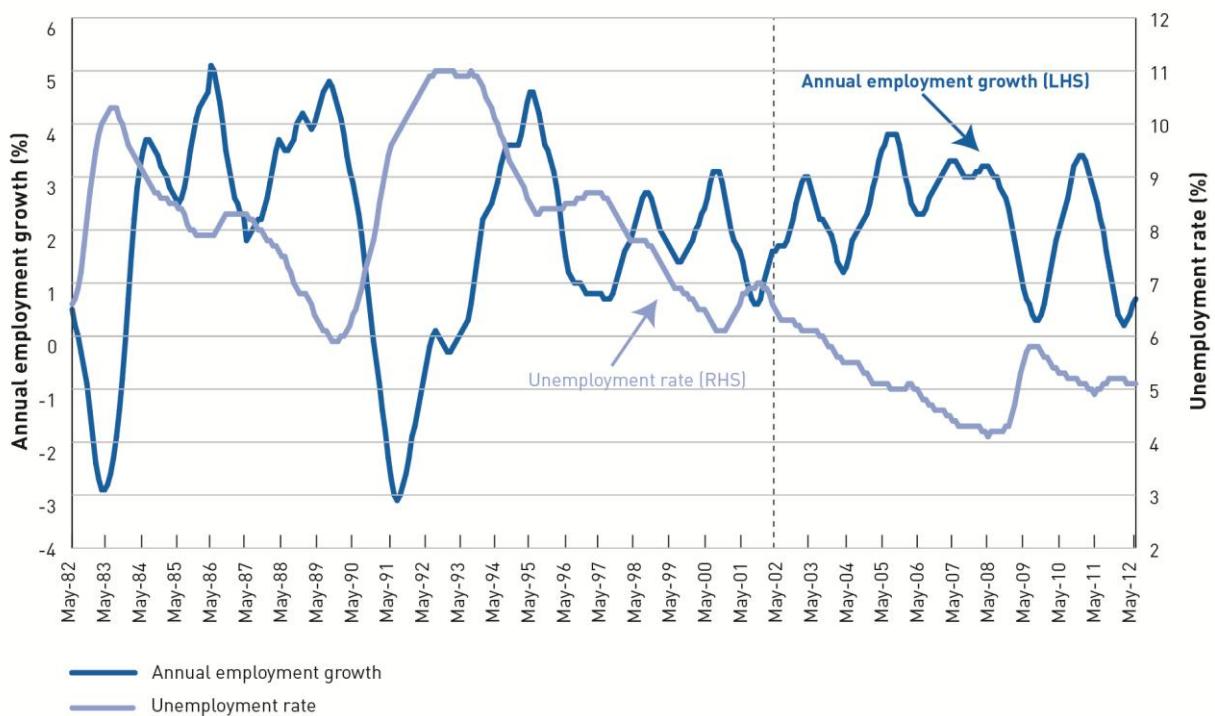
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<sup>2</sup> Note: Newstart Allowance numbers are in original terms and would be seasonally higher in March than in June.

However global uncertainty, the impact of the high exchange rate, consumer caution, and shifting patterns of demand have all made employers more hesitant to hire new workers. Following strong employment growth in 2010, there was less employment growth in 2011.

Newstart Allowance recipient numbers have followed a broadly similar pattern with numbers falling over the course of 2010, before rising in late December 2010 and early 2011. It should be noted that, in spite of the recent fluctuations in the Newstart Allowance population, the level has remained low in an historical sense, with the current total of 546,319 in June 2012 similar to that last seen in mid-2002.

**Figure 3: Annual employment growth and unemployment rate (%), May 1982 to May 2012**



Source: ABS 2012c, trend data

### Changes in full time and part time employment

Over recent decades there has been a significant change in the composition of employment, with a notable shift to part time employment and a declining share of full time employment (see Figure 4). There are a number of factors that have led to the increased prevalence of part time employment. For many people, working part time helps them balance work with other activities or responsibilities, including full time study, caring for children or those in ill health, and also assists people who are phasing in their retirement.

In May 1982, just 16.3 per cent of total employment was part time. This increased to 27.8 per cent in May 2002 and has risen to 29.7 per cent in May 2012. Between May 1982 and May 2002, the part time share of employment

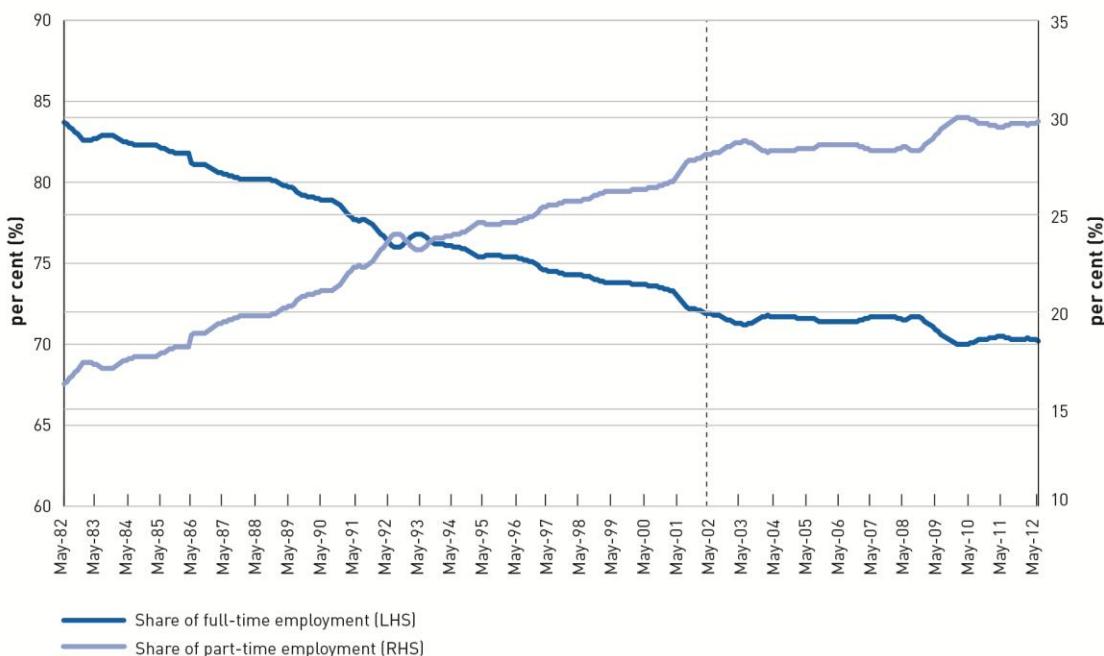
for both females and males increased considerably, by 10.5 percentage points and 8.4 percentage points respectively. Over the past 10 years, this upward trend has continued (albeit now more moderately), with the part time share of employment for males rising by 2.4 percentage points to 16.4 per cent in May 2012, while females experienced a small increase, up by 0.3 percentage points over the decade, to 45.6 per cent.

The growth of part time work across the economy is significant for Newstart Allowance, particularly in relation to part time participation requirements for principal carer parents (the vast majority of whom are female) and recipients with a partial capacity to work. Principal carer parents have participation requirements of 30 hours per fortnight from when their youngest child turns six years of age. Therefore a parent fulfilling his or her requirements while earning the National Minimum Wage (NMW) of \$15.96 per hour would earn \$478.80 per fortnight and retain over \$300 Newstart Allowance per fortnight plus other benefits and supplements. It should be noted that principal carers are able to maintain their status until their youngest child turns 16 years of age. This characteristic of Newstart Allowance means that the allowance is operating differently for principal carer parents, that is, having elements of longer-term wage subsidisation in its role as a transitional payment.

Newstart Allowance recipients with a partial capacity to work have participation requirements of less than 30 hours per week. In a similar vein to principal carer parents, partial capacity to work recipients may meet their requirements while retaining a residual amount of Newstart Allowance.

The longer-term shift toward part time employment for men can be explained, in part, by changes in their preferences but also reflects the structural shifts in the economy, such as the relative decline in the creation of full time jobs in male-dominated industries. The factors that have influenced the shift to part time employment for females is provided in the discussion on female participation rates.

**Figure 4: Full-time and part time share of employment, May 1982 to May 2012**



Source: ABS 2012c, trend data

## Trends in unemployment and the unemployment rate

Reflecting the generally strong economic conditions recorded at the national level over the last decade, the level of unemployment in Australia declined considerably between May 2002 and September 2008 (at the onset of the GFC), from 623,800 to 495,100. With the onset of the GFC in September 2008, however, the level of unemployment increased, peaking at 680,800 in June 2009, with both male (up by 135,100 or 53.2 per cent) and female unemployment (up by 50,600 or 21.0 per cent) increasing between September 2008 and June 2009. Following the peak of the downturn in mid 2009, the level of unemployment began to improve, declining by 58,000 (or 8.5 per cent) between June 2009 and May 2012, to stand at 622,800. The recent decline in the level of unemployment has been more than entirely due to a fall in male unemployment (of 71,200 or 18.3 per cent), as men have taken advantage of jobs emerging in the booming male-dominated Mining industry.

## 3b. Trends in the participation rate

Over the last decade, the participation rate has increased by 2.3 percentage points to stand at 65.5 per cent in May 2012 (below the record high of 66.0 per cent recorded in November 2010), significantly above the 60.8 per cent recorded three decades ago. The rise in the participation rate can be attributed to a range of factors, including the increase in the participation rate of females (and the emergence of industries where part time employment opportunities predominate), as well as higher rates of participation amongst mature age workers.

### Female

From a supply-side perspective, since the 1980s, there has been a strong increase in the participation rate of women, particularly with respect to married (or partnered) females. This has been due to a range of factors, including changing social attitudes and gender roles, reduced fertility rates (from those in the 1960s and 1970s, in particular), greater access to childcare and an increasing acceptance of women with children remaining in the labour force or returning to the workforce after childbirth.

Reflecting these changes, between May 1982 and May 2002, the female participation rate increased by a robust 10.1 percentage points, to 54.7 per cent. Over the last decade, this upward trend (albeit now more muted) has continued, with the female participation rate increasing by 4.5 percentage points to stand at a record high of 59.2 per cent in May 2012. The participation rate of married (or partnered) females has increased by 5.4 percentage points over the last 10 years (and by 20.4 percentage points over the last 30 years), to stand at 62.6 per cent in May 2012. This compares with a 3.5 percentage point increase in the participation rate of unmarried females over the last decade (or a 6.3 percentage point increase over the last three decades), to 54.9 per cent in May 2012<sup>3</sup>.

According to an international OECD comparison, the participation rate for women aged 15-64 is 71 per cent: 12th of 34 OECD countries behind several countries of Scandinavia, north western Europe, New Zealand and Canada (OECD 2011).

Significant modifications to the income support system have, in part, come about as a result of, and an attempt to promote wider social changes and new labour market realities, such as the increasing participation of women in the workforce. The 2006 *Welfare to Work* reforms, for example, introduced part time participation obligations for principal carers parents (who are predominantly female) on Parenting Payment with a youngest dependent child

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<sup>3</sup> Please note that data for married (or partnered) and unmarried females are in *original* terms, as *seasonally adjusted* (or *trend*) estimates are not available at this level of aggregation.

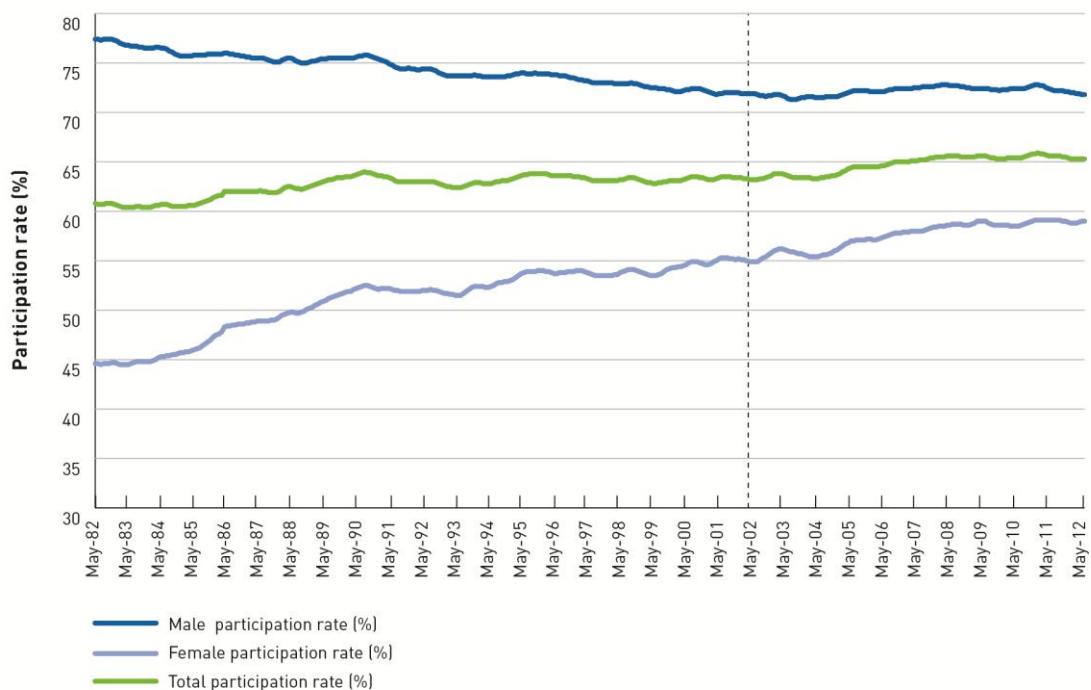
aged 6 to 15 years of age, as well as changing the qualification criteria for the payment so that new recipients would be required to transition to Newstart Allowance earlier.

## Male

By contrast, the male participation rate has declined considerably over recent decades, although has stabilised over the past decade. Indeed, the male participation rate fell from 77.4 in May 1982 to 71.9 per cent in May 2002 (where it remains today), with a large fall experienced during the early 1990s recession, when many of the male-dominated industries, including Manufacturing and Construction, suffered large lay-offs. Moreover, as mentioned earlier, the shift toward more female-dominated service industries will have also had an impact on the declining male participation rate.

In OECD comparisons, Australia's male participation rate is 6th of 34 OECD nations, behind countries including Iceland, Japan, Netherlands and New Zealand (OECD 2011).

**Figure 5: Male, female and total participation rate (%), May 1982 to May 2012**



Source: ABS 2012c, trend data

## **Mature age**

Over the last decade, there has been a significant increase in the participation rate of mature-age people (aged 45-64 years)<sup>4</sup>. Between May 2002 and May 2012, the labour force participation rate of those aged 45 to 64 years has increased by 6.2 percentage points to stand at 73.9 per cent. The large increase in the mature-age participation rate over the last decade has been strongly influenced by people who are ageing (and moving into the older age brackets) having a higher participation rate than the cohort who are moving out.

OECD (2011) comparisons of mature age participation (aged 55-64) indicate that Australia is 12th of 34 OECD countries.

This overall increase is reflected in the composition of Newstart Allowance in which the number of mature age recipients has grown from 74,365 in September 2006 to 98,050 in June 2012. While an aging population, softer labour market conditions and greater mature-age participation have been factors in the growth of this cohort, a contributing factor has also been the steadily increasing Age Pension age threshold, which has been increasing from 60 to 65 for women between 1995 and 2013. The Age Pension age is set to rise for males and females over the next decade from the current 65 years to reach 67 years by 1 July 2023. Another has been the closure to new entrants of non-activity-tested income-support payments that were oriented towards mature workforce age people, such as Mature Age Allowance and Partner Allowance.

## **Youth**

Over recent decades, there has also been a clear trend towards increasing part time employment for youth (people aged 15-24 years). For instance, the part time share of employment for youths increased from 44.4 per cent in May 2002 to 48.4 per cent in May 2012 (and is up from just 15.8 per cent in May 1982). The substantial shift toward part time employment for this cohort can, in large part, be attributed to the significant increase in the proportion of young people who are now participating in full time education and combining study with a part time or casual job. Indeed, 49.0 per cent of youth are now in full time education compared with only 29.9 per cent in March 1987.

In OECD comparisons Australia's young people's (aged 15-24) participation rate is 68 per cent; third behind Iceland and the Netherlands (OECD 2011).

## **People with disability**

Four million people in Australia (or 18.5 per cent of the total population) reported having a disability in 2009, according to the results of the Survey of Disability, Ageing and Carers (ABS 2009).

As shown in Table 4, the participation rate of workforce age (15-64 years) people with disability was 54.3 per cent in 2009 (latest available data), compared with 82.8 per cent for people without a disability. The unemployment rate for workforce age people with disability was 7.8 per cent in 2009 compared with 5.1 per cent for people without a disability. People with disability who were employed were more likely to be working part time in 2009 (38 per cent) than those with no disability (31 per cent).

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<sup>4</sup> When examining mature age participation rates it is often preferable to look only at persons aged 45 to 64 years old, as the 65+ cohort has a very low participation rate, (due to large numbers of retirees who are not expected to participate in the labour force).

Historical data indicates there has been little progress in relation to improving the labour force outcomes for people with disability over the 11 years from 1998 to 2009. The labour force participation rates have risen marginally over this period for all people with disability.

**Table 4: Labour force participation and unemployment rates for persons aged 15-64, living in households 1998 - 2009**

	With reported disability		No reported disability	
	Unemployment Rate (%)	Participation Rate (%)	Unemployment Rate (%)	Participation Rate (%)
1998	11.5	53.2	7.8	80.1
2003	8.6	53.2	5.0	80.6
2009	7.8	54.3	5.1	82.8

*Source: ABS 2009.*

### 3c. Changes in the family structure

In June 2011, there were 2,937,400 families with dependants in Australia, an increase of 65,000 (or eight per cent) over the last five years (ABS 2011c). Some 78.5 per cent were couple families (below the 79.3 per cent recorded in June 2006), while 21.5 per cent were lone-parent families<sup>5</sup> (compared with 20.7 per cent in June 2006).

#### Children (aged 0-14 years) in jobless families

There were 275,300 jobless families with children (aged 0-14 years) in June 2011, compared with 280,900 in June 2006. Jobless families with children comprised 11.6 per cent of all families with children in June 2011, down from 11.9 per cent in June 2010 and 12.5 per cent recorded five years ago.

Over the five years to June 2011, there has been an increase in the number of children in jobless families, up by 4400 (or 0.8 per cent) to 525,900. Over this period, the number of children in jobless lone-parent families decreased by 11,900 (or 3.4 per cent) to 343,300, while the number of children in jobless couple families rose, by 16,300 (or 9.8 per cent) to 182,600 in June 2011.

#### Participation rates for couple and lone parent families with children

The participation rate for couple families (81.2 per cent in June 2011) is significantly higher than the participation rate for lone parents (63.6 per cent). Encouragingly, however, over the five years to June 2011, the participation rate for lone parent families has increased to a greater extent than the participation rate for couple families (2.5 percentage points compared with 1.5 percentage points). It is also important to note that the participation rate of the head of lone parent families varies significantly by age of the youngest child. An unemployed parent on Parenting Payment (Single) for example, would not have participation obligations until their youngest child turned

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<sup>5</sup> This will not sum to 100 per cent. The remainder were classified as 'other' families eg: a brother and sister sharing accommodation.

six years of age and therefore a majority of these recipients would not be considered to be participating in a labour market sense.

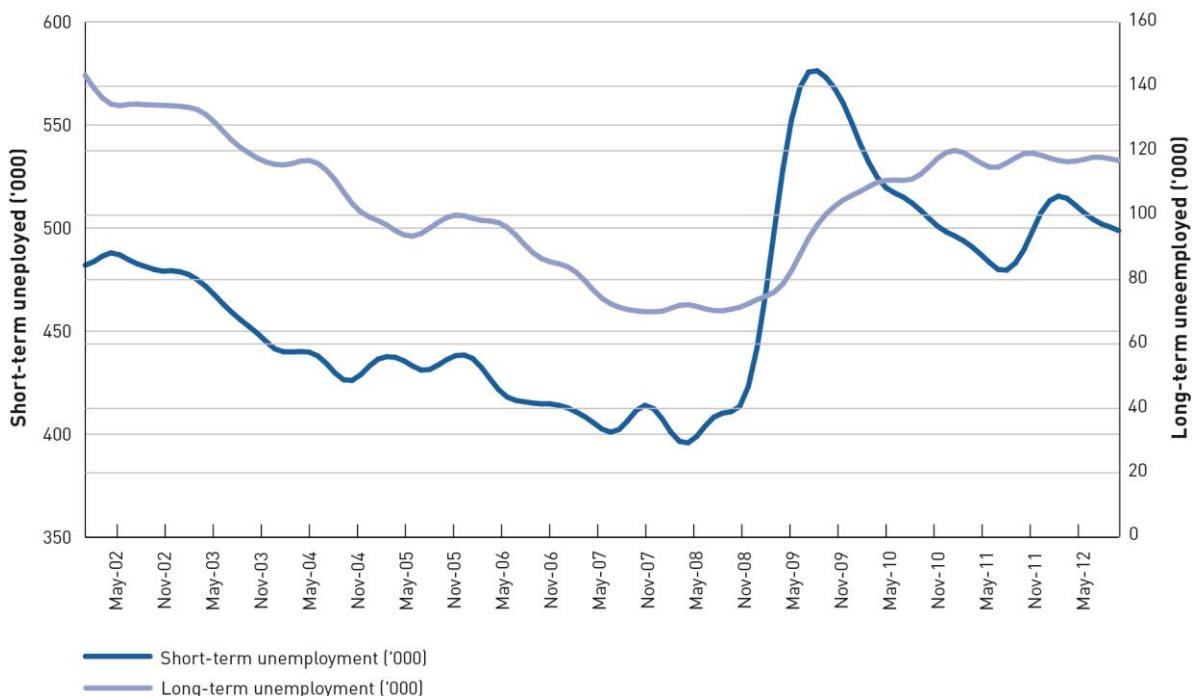
### 3d. Trends in long term unemployment and duration of unemployment

#### Long term unemployment

The definition of long term unemployment which underlies ABS data differs considerably from the definition used throughout this submission. The ABS defines long-term unemployment as referring to persons who have not undertaken paid work lasting for two weeks or longer during the previous 52 weeks but were available to start work and had actively looked for full time or part time work during this period. The definition of long term unemployment commonly used throughout this submission refers to a person who has been in continuous receipt of income support, with a break of no longer than 12 weeks before returning to payment, for a period of 12 months (very long-term unemployment refers to a period of 24 months). The following discussion draws upon ABS data and therefore the ABS definition of long term unemployment is used.

The level of long term unemployment has varied considerably over the last decade and has broadly reflected (following a lag) the changing fortunes of the labour market and economy over the period. For instance, prior to the onset of the GFC, when labour market conditions were strong, long-term unemployment had been declining steadily, falling from 140,900 in May 2002 to 78,300 in September 2008 according to the ABS (2012c) Labour Force survey (*long-term duration on Newstart Allowance* from March 2002 to September 2008 fell from 321,374 to 274,174 recipients).

**Figure 6: Short term unemployment and long-term unemployment, May 2002 to May 2012**



Source: ABS 2012c, trend data.

Higher levels of long term unemployment have also coincided with a high incidence of long-term unemployment (the proportion of the total unemployment pool who have been unemployed for one year or more), the latter of which increased from a low of 12.4 per cent in April 2009, to 18.4 per cent in May 2012.

### Average duration of unemployment

Reflecting movements in unemployment more generally, the average duration of unemployment (per unemployed person) also fell consistently up until the GFC, from 49 weeks in May 2002 to a low of 26 weeks in January 2009 (based upon ABS data). It should be noted that average duration of unemployment varies significantly by age, with the average duration of mature-age unemployment (persons aged 45 years and above) standing at 62 weeks in May 2012, well above the 34 weeks for prime-age workers (people aged 25-44 years) and 24 weeks for those aged 15-24 years. The reason for the significant difference in mature age average duration on payment is discussed in detail in Section 4.

Overall, this trend is not mirrored in DHS administrative data due to the different definitions of unemployment. Average duration on Newstart Allowance dropped considerably from a high of 201.65 weeks in December 2007 to a low of 159.21 weeks in June 2009 as a result of a large influx of new recipients coming onto payment and a dilution of the existing body of recipients in terms of duration.

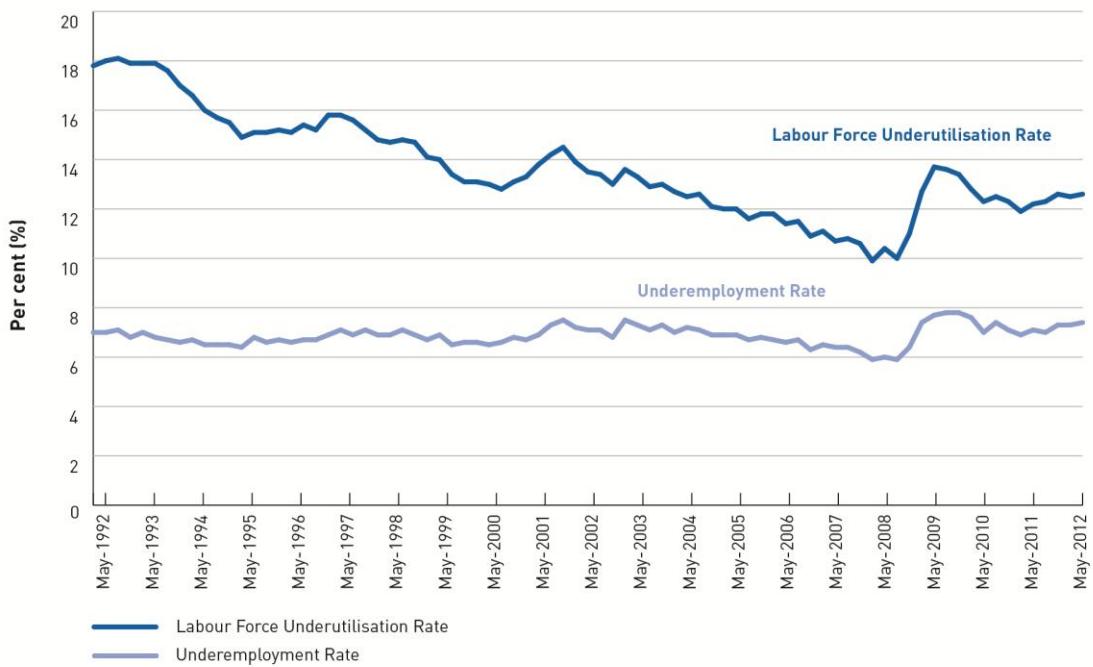
### Underemployment

The ABS (2011a, p4) defines underemployed people as:

- “part time workers who would prefer to work more hours and were available to start work with more hours, either in the reference week or in the four weeks following the [labour force] survey; and
- full time workers who worked part time hours in the reference week for economic reasons (such as being stood down or insufficient work being available).”

Underemployment is composed overwhelmingly (92 per cent of the total in September 2011) of part time workers (ABS 2011a, p3). Of the underemployed part time workers in September 2011, 55 per cent preferred to work full time and the mean preferred number of extra hours per week was 14.1 (ABS 2012 pp5-8). As at May 2012 there were 894,500 underemployed people. This was a rise of 1.6 per cent over the quarter; and a rise of 4.7 per cent over the year. The underemployment rate has been larger than the unemployment rate since May 2001.

**Figure 7: Quarterly Underemployment and Labour Force Underutilisation Rates, May 1992 to May 2012.**



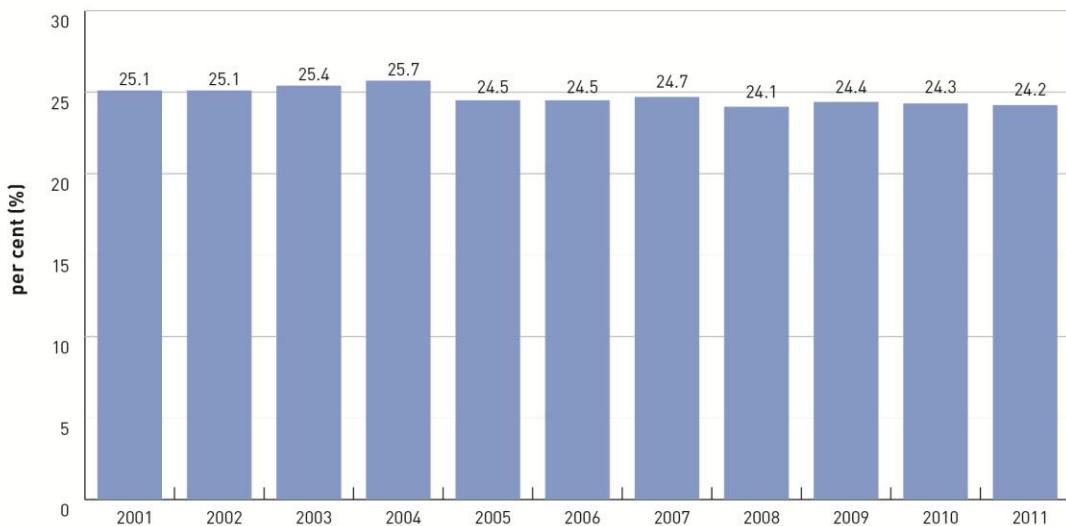
Source: ABS 2012c, seasonally adjusted data. Labour Force Underutilisation is the sum of unemployed and underemployed persons.

## Casual Employment

The ABS defines casual workers as those employees who are not entitled to either paid holiday leave or sick leave, while any other employee is considered permanent. The Government is aware that casual work presents a number of challenging social and economic issues. This type of employment has an appropriate place in a modern flexible market economy, and it can provide appropriate flexibility and productivity benefits for both employers and employees. Casual employment accommodates fluctuating work cycles, and can in some circumstances provide a stepping stone into permanent employment. Casual employees generally receive a 25 per cent loading which is intended to compensate them for sick leave, annual leave and other entitlements that are available to permanent employees.

As shown in Figure 8, the incidence of casual employment among all employees (excluding owner managers of incorporated enterprises) has remained broadly unchanged over the past decade and was 24.2 per cent in August 2011 (latest data available). It is important to note that while the number of casual workers has grown over time, there is no evident growth trend in the incidence of casual labour and in fact the figures suggest a slight decline.

Figure 8: Casual Employee Incidence – August 2001 to August 2011.



Source: ABS 2011 (and previous issues). Calculation excludes owner managers of incorporated enterprises.

### 3e. Regional Disparities - Trends in State/Territory and regional labour markets

#### States and Territories

Over the last decade, the rate of employment growth has varied substantially by state and territory. The best performances were recorded in the resource-rich states of Western Australia (recording an annual average growth rate of 3.2 per cent over the decade) and Queensland (3.0 per cent), followed by Victoria (2.3 per cent, buoyed by strong population increases) and the Northern Territory (2.2 per cent, also benefiting from the resources boom).

**Figure 9: Annual average employment growth over the decade and unemployment rate by State and Territory, May 2012**



Source: ABS 2012c, seasonally adjusted figures except for the figures for the ACT and the Northern Territory, which are in trend terms.

### Regional disparities

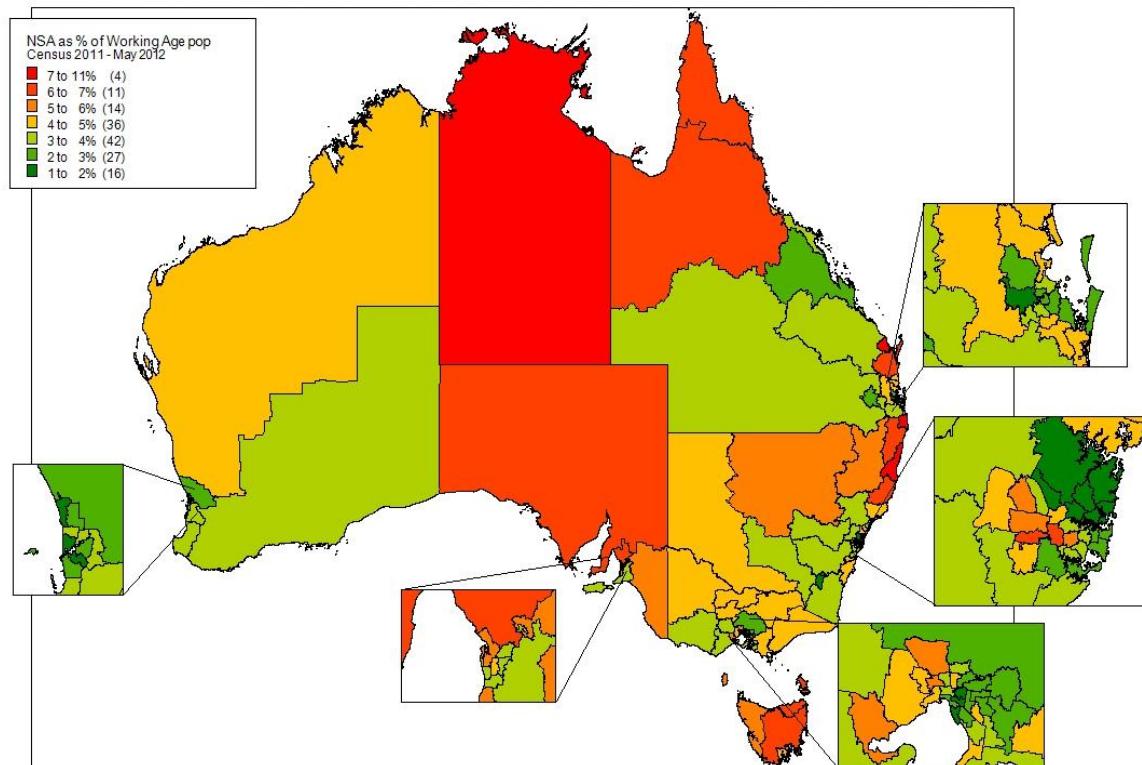
It is important to note that economic performance varies within, as well as between, states and territories. Even in states with relatively strong labour markets, significant pockets of disadvantage can be evident, while in the states experiencing softer labour market conditions, there are still areas that are performing relatively well.

As the national unemployment rate decreased over the first decade of the new millennium, up until the onset of the GFC, regional disparity<sup>6</sup> also declined, from a decade-high of 12.9 percentage points in December 2002, to a decade-low of just 4.9 percentage points in April 2008. The current global economic slowdown, however, has resulted in some widening of regional disparity, to a post-GFC peak of 9.9 percentage points in August 2009, but has since declined to its current level of 7.3 percentage points in May 2012.

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<sup>6</sup> Measured by the gap between the highest and lowest regional unemployment rate.

**Figure 10: Newstart Allowance recipients (May 2012) as a proportion of the working age population (Census 2011), by Commonwealth Electoral Division (ASGS 2011)**



Source: Centrelink administrative data - DEEWR Bluebook dataset and ABS data (Census 2011).

Regional disparities in terms of allowance receipt appear stark, with considerable differences apparent between states and territories, within regions, and within major cities. As illustrated in the map above, an example of this lies within Queensland which has experienced robust employment growth in the Bowen Basin region and an ensuing low unemployment rate, however just to the south of this region, the Harvey Bay to Bundaberg area, the unemployment rate remains persistently high. Areas with a high incidence of allowance receipt are not restricted to areas where high unemployment and low employment growth coincide, such as Tasmania, but are also evident in areas which have, to some degree, benefitted from robust employment growth, such as the Northern Territory. This seemingly contradictory situation reveals the complexity of the underlying employment picture in which economic prosperity frequently cohabits with some of the most disadvantaged communities, particularly in areas with high Indigenous populations. Regional disparities in labour market outcomes are also particularly pronounced in areas where there are higher proportions of Indigenous people and among disadvantaged Indigenous communities.

### 3f. Employment Growth

Over the ten years to May 2012, employment increased by 2,283,400 to reach an historical high of 11,151,700 (full time and part time). This has been spread somewhat disproportionately across 19 broad industries. In May 2012, almost 40 per cent of employment occurred within just four industries: Health Care and Social Assistance with 1,359,900 workers, Retail Trade employing 1,206,700 workers, Construction employing 996,800 workers and

Manufacturing with 962,000 workers. The Mining industry, whilst a key economic contributor, and with an accelerating pace of employment growth, remains nonetheless a comparatively small employer.

**Table 5: Industry Employment – Current employment and 10 year growth to May 2012**

Industry	Employment Level May 2012 (000s)	10 Year Growth to May 2012 (000s)	10 Year Growth to May 2012 (%)	Share of national employment (%)
Agriculture, Forestry and Fishing	349.1	-70.2	-16.7	3.0
Mining	269.3	188.8	234.4	2.3
Manufacturing	962.0	-96.1	-9.1	8.4
Electricity, Gas, Water and Waste Services	156.0	74.6	91.6	1.4
Construction	996.8	297.2	42.5	8.7
Wholesale Trade	404.4	32.9	8.9	3.5
Retail Trade	1206.7	148.3	14.0	10.5
Accommodation and Food Services	758.1	117.7	18.4	6.6
Transport, Postal and Warehousing	547.8	99.1	22.1	4.8
Information Media and Telecommunications	228.7	12.9	6.0	2.0
Financial and Insurance Services	426.9	86.0	25.2	3.7
Rental, Hiring and Real Estate Services	222.0	65.9	42.2	1.9
Professional, Scientific and Technical Services	915.4	308.8	50.9	8.0
Administrative and Support Services	397.9	69.8	21.3	3.5
Public Administration and Safety	719.2	178.7	33.1	6.3
Education and Training	891.3	219.0	32.6	7.8
Health Care and Social Assistance	1359.9	443.9	48.5	11.8
Arts and Recreation Services	207.9	53.8	34.9	1.8
Other Services	459.8	40.0	9.5	4.0

Source: ABS 2012d, trend data.

As a result of the ongoing structural change that has been taking place in the labour market, employment growth has been systemically stronger in higher skilled service industries, such as Health Care and Social Assistance and

Professional, Scientific and Technical Services,<sup>7</sup> than in the traditionally large employing industries of Manufacturing and Agriculture, Forestry and Fishing.

This trend towards skilled employment heightens the critical nature of education and training to the Newstart Allowance population, and illustrates one of the factors behind the strong focus in recent years upon skills, education and training.

Health Care and Social Assistance has consistently dominated employment growth over the past ten years, increasing by 443,900, and accounting for 18.2 per cent of total employment growth. Health Care and Social Assistance exhibits a greater than average degree of part time workers, and has a high proportion of female workers employed in this sector (78.5 per cent).

Large employment gains were also recorded by Professional, Scientific and Technical Services (up by 308,800), Construction (297,200), and Education and Training (219,000). Reflecting the nature of a more recently emerging two speed economy, employment in Mining increased by 188,800, while employment in Manufacturing has declined by 96,100 over the ten year period.

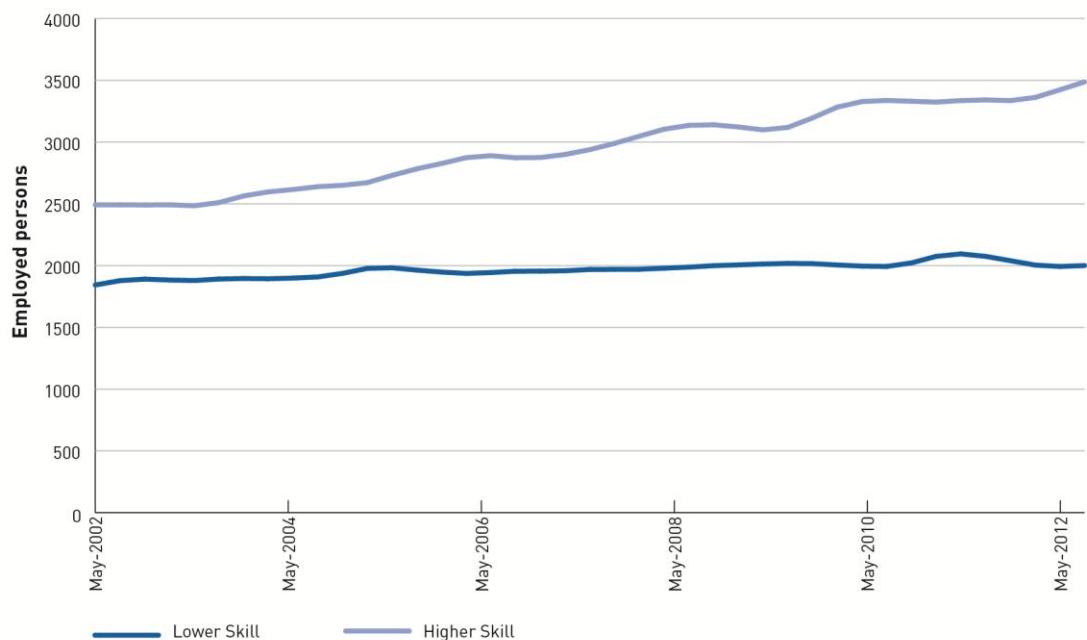
### 3g. Employment by skill level

Employment for occupations commensurate with a Bachelor degree or higher has increased by 995,300, accounting for 43.6 per cent of total employment growth over the ten years to May 2012. Lower skilled occupations, those commensurate with a Certificate I or secondary education, have also experienced employment growth, up by 156,900, however this increase accounted for only 6.9 per cent of total growth in the past decade.

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<sup>7</sup> This industry includes a range of sectors including Scientific Research Services; Architectural, Engineering and Technical Services, Legal and Accounting Services and Computer System Design and Related Services.

Figure 11: Employment Growth by Skill Level – 10 years to May 2012 ('000s)



Source: ABS 2012d, trend data.

The decline in the lower skill level share of employment in the past decade should not be seen as a barrier to entry into the labour market for those in the lower skill cohort. A range of lower skilled occupations have experienced large employment growth, including: Sales Assistants (General) (up by 31,600), Checkout Operators and Office Cashiers (31,500), Kitchenhands (25,000), Security Officers and Guards (14,200), and Commercial Cleaners (10,600). It is also important to note the degree of labour mobility and higher job turnover in many lower skilled occupations, and therefore opportunities exist for potential entrants. For example, on an annual basis, 28.6 per cent of Kitchenhands, and 21.4 per cent of Sales Assistants (General) – the largest occupation with nearly 500,000 people employed – leave their occupation, compared with the 13.1 per cent average for all occupations, creating potential job openings for relevant trained job seekers.

### 3h. Projected Future Employment

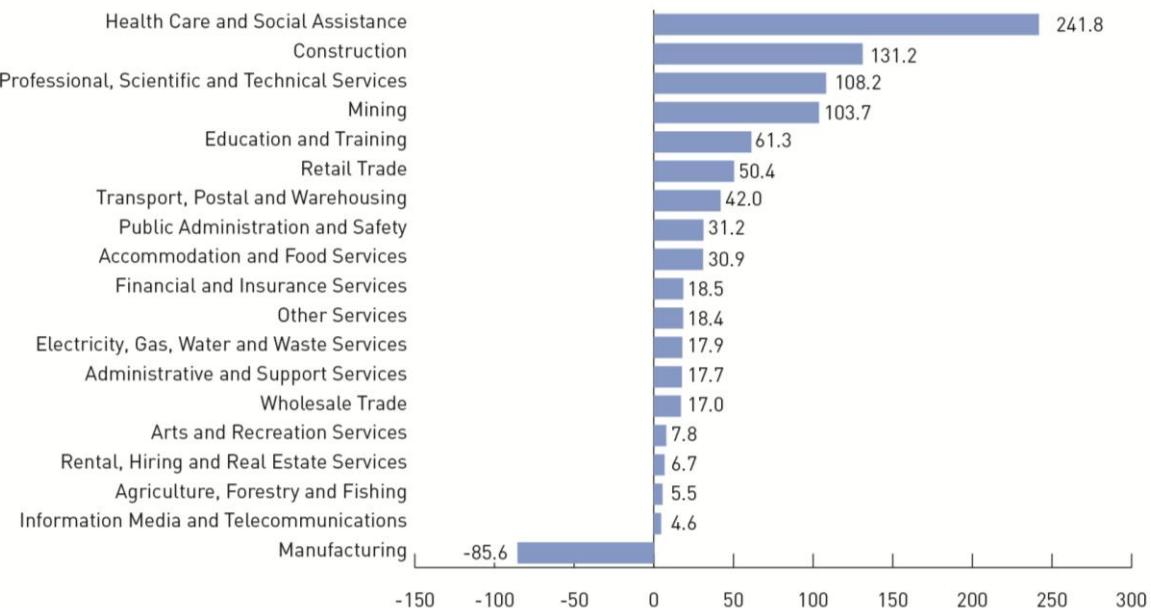
DEEWR employment projections<sup>8</sup> compiled annually (the most recent in March 2012) anticipate recent trends in industry employment to continue over the next five years to 2016-17. Health Care and Social Assistance is projected to increase by 241,800 jobs, followed by Construction (131,200), Professional, Scientific and Technical Services (108,200), and Mining (103,700). Together, these four industries are projected to provide more than

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<sup>8</sup> DEEWR five year projections are based in part on the Monash model developed by the Centre of Policy Studies at Monash University and Deloitte Access Economics projections, but also take into account recent employment trends and known industry developments at the time of compilation. The projections are also anchored to Treasury forecasts of employment growth, as published in the MYEFO. The latest projections, which are for the five years to 2016-17, were prepared in early 2012.

60 per cent of total employment growth. Manufacturing is the only industry in which employment is projected to decline (by 85,600 jobs), reflecting sustained overseas competition and the effects of a strong Australian dollar.

**Figure 12: Projected Industry Employment Growth – 5 years to 2016-17 ('000s)**



Source: DEEWR Employment Projections 2016-17.

Demand is expected to be strong for higher skilled occupations in the medium term with 322,500 new jobs projected over the five years to 2016-17 for occupations commensurate with a Bachelor degree or higher. Lower skilled occupations are also projected to experience growth, up by 59,900 over the next five years, albeit lower than all other skill level cohorts. However, strong growth is projected for some lower skilled occupations, particularly for Sales Assistants (General), projected to increase by 12,600, Commercial Cleaners (8100), Kitchenhands (7800), Building and Plumbing Labourers (5000), and Concreters (5000).

**Table 6: Past and Projected Employment by Skill Level**

Occupations commensurate with:	Employment Level - May 2012 ('000s)	10 Year Growth - May 2012 ('000s)	10 Year Growth - May 2012 (%)	Projected growth to 2016-17 ('000s)
Bachelor degree or higher qualification	3486.9	995.3	39.9	322.5
Advanced Diploma or Diploma	1331.1	402.8	43.4	100.8
Certificate IV or III	1712.5	188.9	12.4	121.8
Certificate II or III	2986.3	539.5	22.0	224.2
Certificate I or secondary education	2000.1	156.9	8.5	59.9

Source: ABS 2012d; DEEWR Employment Projections 2016-17.

### 3i. National Minimum Wage

The National Minimum Wage (NMW) provides a safety net wage to help low pay workers share fairly in Australia's prosperity. Under the Fair Work Act, minimum wages are set by the independent industrial umpire, Fair Work Australia.

Australia utilises both the National Minimum Wage and a highly targeted tax transfer system to reduce income disparities and encourage workforce participation of low skilled workers. As is noted in Section 1, this includes provision of generous family assistance payments for working parents.

When setting minimum wages, Fair Work Australia is required to take into account the performance and competitiveness of the national economy, social inclusion through workforce participation, relative living standards and the needs of the low paid, among other factors. In part, the minimum wage decision needs to provide: an incentive for job seekers to enter work and have regard for the strength of demand for labour.

Minimum wages are relatively high in Australia by international comparison and high minimum wages can increase incentives to work – especially for single parents (OECD 2010a). This is why care is taken to set the base payment for allowances below the NMW as this would undermine the incentive that is embedded in the minimum wage concept.

The NMW for 2012-13 is \$15.96 per hour or \$606.40 per week for an adult employee working 38 hours a week.

Fair Work Australia has delivered three Annual Wage Reviews. These Reviews have increased the NMW by 11.5 per cent, or on average, 3.7 per cent a year. A similar pattern is seen over the longer term – minimum wage decisions from 1997 onwards, have increased the NMW by an average of 3.5 per cent a year.

The minimum wage tends to grow faster than consumer prices, causing the NMW to grow in real terms. Under Fair Work Australia, the NMW is estimated to have grown by about 4.1 per cent in real terms or 1.3 per cent a year (DEEWR estimates based on ABS 2012a and Australian Government 2012).

Although minimum wages have grown in real terms, they have grown slower than average earnings. The average annual growth rate of the minimum wage under Fair Work Australia (3.7 per cent) is slower than the average annual growth rate of Average Full-Time Ordinary Time Weekly Earnings (AWOTE) (4.6 per cent) over a similar period.<sup>9</sup>

Another way to look at the minimum wage relative to other wages is the 'minimum wage bite' – the minimum wage as a proportion of full time median earnings. In 2011, the National Minimum Wage was 53.6 per cent of the median full time earnings. Since average earnings grow faster than minimum wages, the minimum wages bite has declined over time. In 1997 the minimum wage bite was 61.9 per cent (ABS 2011 and DEEWR calculations).

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<sup>9</sup> ABS 2012, trend data. Average annual growth rate calculated for May 2009 to February 2012.

## Section 4 - Analysis of the operation and impact of the allowance payment system

### Context and summary

- For the majority of recipients, Newstart Allowance continues to serve its primary objective in supporting people through a transitional stage of unemployment.
- Newstart Allowance job seekers are more likely to enter employment through part time jobs and they are increasingly remaining in employment and ceasing their reliance on income support.
- Recently, of all job seekers placed into jobs, over 70 per cent were employed three months later and, of these, nearly 85 per cent were still with the same employer with whom they were originally placed.
- The composition of the Newstart Allowance population has changed significantly over recent decades. Tightened eligibility for Parenting Payment, the gradual phasing out of Mature Age Allowance, Partner Allowance, Widow Allowance, Wife Pension and Widow B Pension, increased Age Pension qualifying age and changes to Disability Support Pension over time, have contributed to recent increases in the volume of people on Newstart Allowance, including recipients with part time participation requirements.
- For example, the proportion of mature aged Newstart Allowance recipients has almost doubled since June 2002, mostly due to changes in other payments but also due to population aging. However, unemployment rates for older workers have declined faster than for younger workers in recent years.
- Newstart Allowance recipients who have a partial capacity to work face particular challenges. This group has an average duration on payment of around five years and numbers in this group may reach 20 per cent of the total Newstart Allowance population in early 2014.
- Financial hardship is not uncommon among people who rely on social security payments as their main source of income. Households reliant on government pensions and allowances report higher levels of financial stress than the general population. Single sharers and single people living alone, particularly private renters who do not have dependent children, report the highest rates of rental stress.
- An increase to allowances of the kind proposed by some stakeholders would not be consistent with the intended purpose of allowance payments – it would be very costly and may reduce work incentives.

## 4a. Introduction

The composition of the Newstart Allowance population has changed significantly over the last decade, with a notable increase in the proportion of older recipients, people with disability who have a partial capacity to work, and principal carer parents now receiving the payment. This has been a result of structural change in the broader social security system which has evolved in line with successive waves of economic reform and deep changes in the culture of Australian society, discussed in the previous section. The allowance payment system has undergone purposeful, structural reforms which have extended compulsory participation requirements to mature aged recipients, people with disability and parents. This is consistent with changing social attitudes, gender roles, the rise of social inclusion as a core Australian value and greater access to affordable childcare. For the majority of recipients, Newstart Allowance continues to serve its primary objective in supporting people through a transitional stage of unemployment.

**Section 4b** provides an analysis of the characteristics of the Newstart Allowance population and how reforms over the last ten years as well as demographic shifts have expanded the scope of Newstart Allowance, with a particular focus on the volume, age, gender, relationship status and income support duration of Newstart Allowance recipients. This section also analyses trends in Newstart Allowance recipients who identify as Indigenous.

**Section 4c** examines the effectiveness of Newstart Allowance as a transitional payment designed primarily to facilitate a recipient's return to work, while **Section 4d** reviews particular cohorts within Newstart Allowance, such as people with disability who have a partial capacity to work, principal carer parents and mature aged recipients.

One important overarching consideration relates to proposals by some stakeholders to increase the base rate of Newstart Allowance in the order of \$50 per week, which has been estimated to cost between \$10 and \$20 billion over the forward estimates, depending on the scope of the increase and the payment design chosen (including whether indexation arrangements are changed). Work incentives are built into the design of Newstart Allowance and a substantial increase in Newstart Allowance payment rates would reduce the incentive for some recipients to move off payment and into self-supporting work.

**Section 4e** outlines the broader assistance provided to individuals and families by presenting the differences in the amount of transfer payment provided to households, based on their particular circumstances. It also explores considerations related to the concept of 'adequacy', discussing issues such as cost of living, relative financial disadvantage, financial stress and specific concerns around housing affordability.

## 4b. Newstart Allowance recipient trends

### Trends in volume of Newstart Allowance recipients

The overall population size of Newstart Allowance is not the best measure of effectiveness for the payment, as prevailing macroeconomic conditions of the wider economy largely dictate the number of unemployed people across the country and thereby the total inflow and outflow of people commencing on, and exiting from, Newstart Allowance.

The total number of Newstart Allowance recipients has increased slightly from 540,000 in June 2002 to 550,000 in June 2012. However, such a comparison masks the long and steady decline in recipient numbers seen in the years leading up to the Global Financial Crisis (GFC). The June 2012 number of 550,000 recipients represents a significant increase since the onset of the GFC, just prior to which the Newstart Allowance population had fallen to below 400,000 recipients in June 2008.

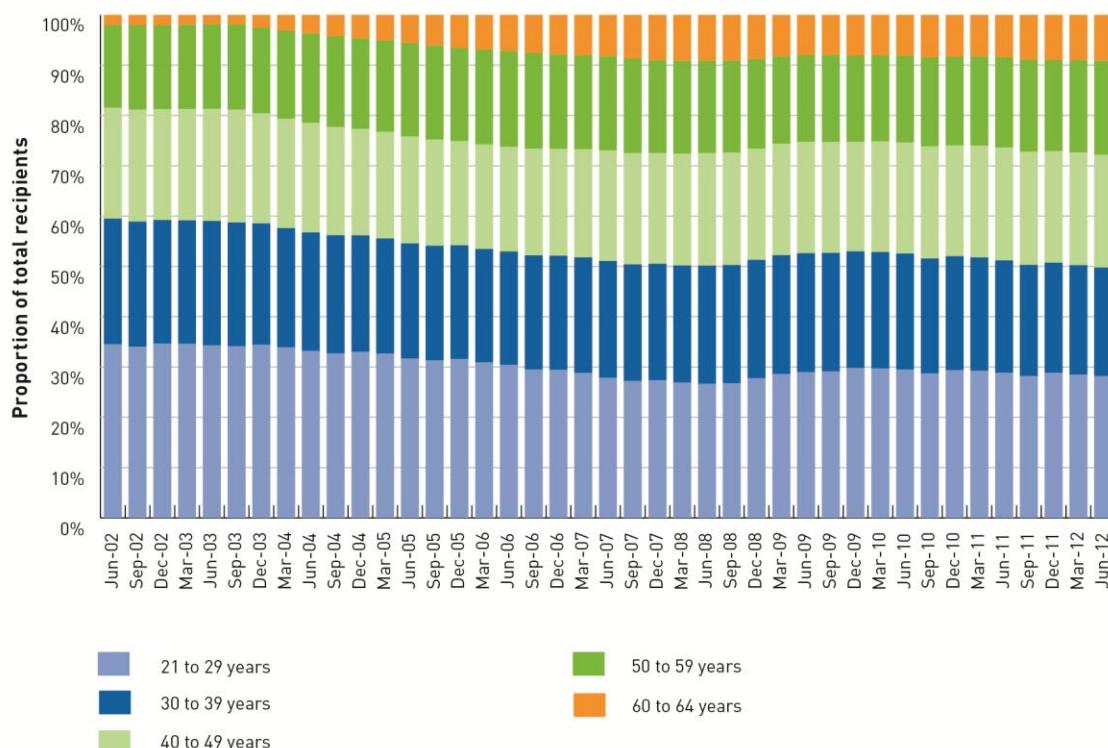
Newstart Allowance is the main working age payment, available for people in different life stages, from 22 years of age up to Age Pension age. It is by far the largest allowance payment representing 53 per cent of allowance recipients aged 22 to 64 (excluding student payments), with Parenting Payment (Single) representing 31 per cent and Parenting Payment (Partnered) a further 11 per cent. Sickness Allowance, Partner Allowance and Widow Allowance combined contribute only five per cent of the total allowance population. In comparison, there were almost 775,000 recipients of Disability Support Pension and 177,000 recipients of Carer Payment aged 21 to 64 years in June 2012.

### Trends in age of Newstart Allowance recipients

The proportion of Newstart Allowance recipients aged 60-64 years of age has increased from 2.1 per cent (11,000) in June 2002 to 9.1 per cent (50,000) in June 2012, influenced largely by the phasing out of Partner Allowance and Mature Age Allowance, as well as the steadily increasing threshold age for eligibility of the Age Pension for women. Mature Age Allowance ceased in 2008 but represented 46 per cent of the allowance recipients aged 60-64 in June 2002. The proportion of allowance recipients aged 60-64 receiving Partner Allowance has more than halved from 30 per cent in June 2002 to 13 per cent in June 2012.

The proportion of Newstart Allowance recipients aged 40-49 years has remained at approximately 22 per cent and the proportion aged 50-59 has increased slightly from 16 per cent in June 2002 to almost 19 per cent in June 2012, reflecting a decrease in the number of people eligible for Widow Allowance and Partner Allowance.

**Figure 13: Newstart Allowance Recipients by Age Group**



Source: Centrelink administrative data - DEEWR Bluebook dataset

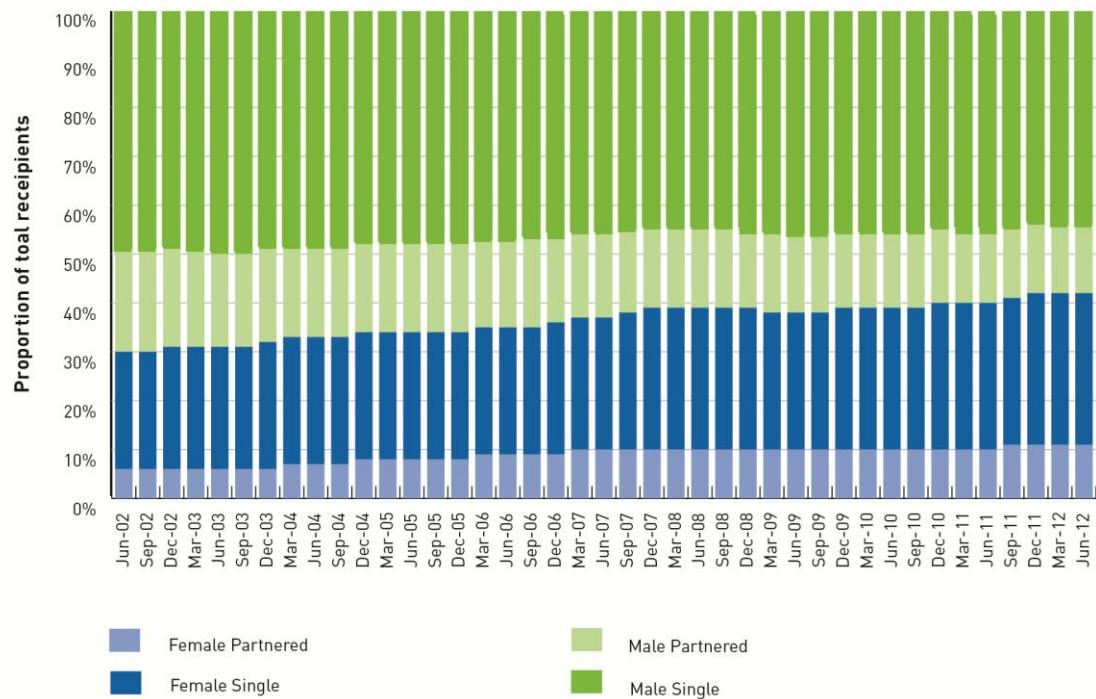
Both the number and proportion of Newstart Allowance recipients aged 21-29 and 30-39 has decreased over the last decade. The proportion of recipients aged 21-29 reduced from 34.5 per cent (186,000) in June 2002 to 28.2

per cent (154,000) in June 2012, while the proportion aged 30-39 reduced from 25 per cent (135,000) in June 2002 to less than 22 per cent (119,000) in June 2012. An increase in the number of students aged 21-29 receiving Youth Allowance and Austudy from 97,000 in June 2002 to 117,000 in June 2012, an increase in educational attainment, and a generally lower unemployment rate, would account for part of the decrease in Newstart Allowance recipients in that age range.

### Trends in gender and relationship status of Newstart Allowance recipients

The proportion of Newstart Allowance recipients who are women has also increased, from 29 per cent (159,000) in June 2002 to approximately 41 per cent (228,000) in June 2012. Significantly, in June 2012 approximately 63 per cent (722,000) of all allowance recipients, excluding recipients of student payments, were women. This is caused by the large numbers of women receiving Parenting Payment (Single) (304,000) and Parenting Payment (Partnered) (104,000).

**Figure 14: Newstart Allowance Recipients by Gender and Relationship Status**



Source: Centrelink administrative data - DEEWR Bluebook dataset

The increasing number of women receiving Newstart Allowance has been driven largely by successive structural changes to the allowance payment system over the last decade. In particular, increasing the age at which women qualify for the Age Pension (starting from 1995) and the closure of payments to new entrants traditionally received by women, such as Wife Pension and Widow Pension. It has also been driven by restrictions placed on eligibility for other payments traditionally received by women, such as Partner Allowance in 2003 and Widow Allowance in 2005 under *Australians Working Together* and changes to Parenting Payment in 2006 under *Welfare to Work* and more recently under *Building Australia's Future Workforce*. It should, however, be noted that the lower fertility rates, greater acceptance of women returning to the workforce after childbirth and increased access to childcare are

linked to the long term trend of rising participation rates for women, which exerts upward pressure on the proportion of women accessing Newstart Allowance.

The proportion of women receiving Newstart Allowance is expected to increase further from 1 January 2013 as the current grandfathering arrangement for pre-*Welfare to Work* recipients of Parenting Payment is abolished (pending the passage of legislation).

The proportion of Newstart Allowance recipients who are single has remained at approximately three-quarters of the total population in the last ten years. The higher proportion of single recipients is likely to be the result of the partner income test limiting the eligibility of people whose partners are employed full time. The gap between the partnered status of men and women receiving Newstart Allowance has closed, with the proportion of women who were single decreasing from 81 per cent in June 2002 to 74 per cent in June 2012 and the proportion of men who were single increasing from 71 per cent in June 2002 to 76 per cent in June 2012.

### Trends in Indigenous recipients of Newstart Allowance

It is more difficult to accurately analyse trends in Indigenous recipients of income support payments, as self-identification is voluntary. Nonetheless, it is clear that Indigenous people are over-represented among Newstart Allowance recipients. Approximately 9 per cent or 49,576 recipients of the total Newstart Allowance population identify as Indigenous Australians, compared to around 2.5 per cent or 548,370 people in Australia who identified as being Indigenous in the 2011 Census. Since September 2006, the number of Newstart Allowance recipients who identify as Indigenous increased by around 16,000. This increase is proportionately consistent with the overall increase in Newstart Allowance recipients over that period and has been influenced by changes to the Community Development Employment Projects (CDEP) program, particularly by the closure of CDEP to people in non-remote locations in 2009. On 30 June 2009 there were 13,343 participants (including 13,203 CDEP wages eligible participants) in remote and non-remote communities. The number of CDEP participants has reduced as a result of policy changes, such that on 30 June 2012 there were 11,376 participants (an increase from 10,321 on 30 June 2010 and 30 June 2011) of whom 3890 were eligible for CDEP wages (a decrease from 7005 on 30 June 2010 and 5291 on 30 June 2011).

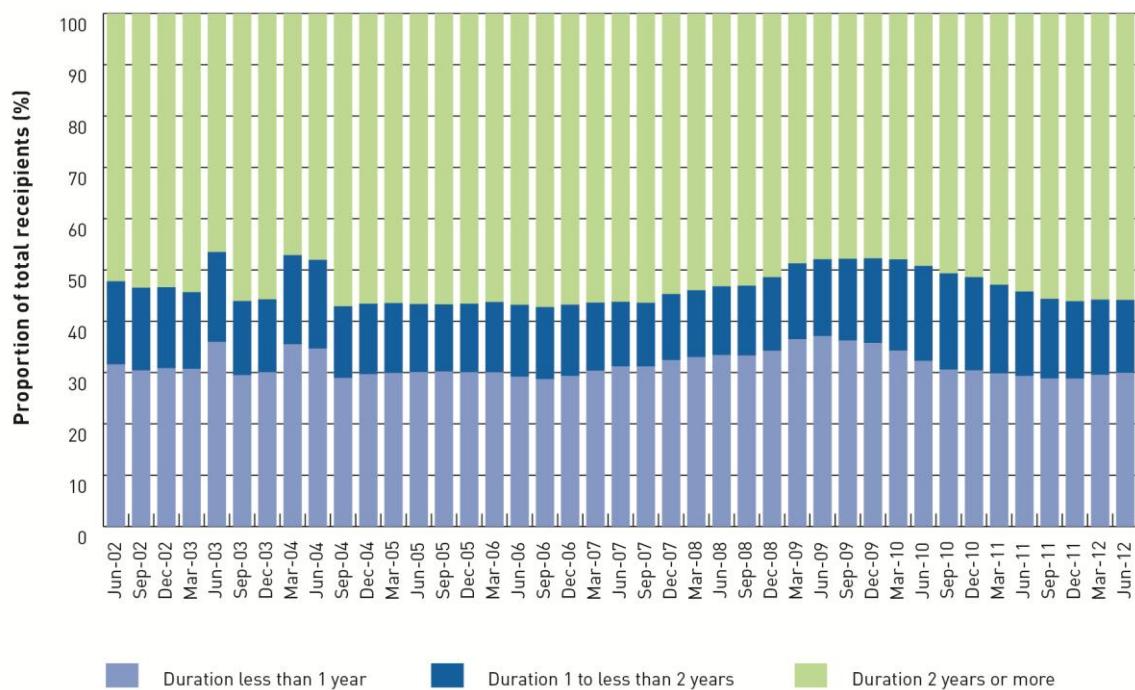
CDEP helps Indigenous job seekers to gain the skills, training and capabilities needed to find sustainable employment and improves the economic and social well-being of communities. It is one of the key Indigenous employment programs contributing to the Australian Government's aim of halving the gap between Indigenous and non-Indigenous employment within a decade.

From 1 October 2011, CDEP participants in receipt of income support payments such as Newstart Allowance, Youth Allowance (other), Parenting Payment (Partnered or Single) or Disability Support Pension will receive an Approved Program of Work Supplement of \$20.80 per fortnight for each fortnight they participate in the CDEP program. CDEP participants in receipt of CDEP wages receive a CDEP Participant Supplement (CPS) of \$20.80 per fortnight for taking part in the program. The CPS will continue to be available post 1 October 2011 to CDEP participants on CDEP wages.

As at June 2012:

- Just under two-thirds of Indigenous recipients of Newstart Allowance were male (62.3 per cent). Around 95 per cent were aged under 55, compared to 81 per cent among non-Indigenous recipients.
- Around 14 per cent had been receiving income support for more than 12 months, but less than 2 years (see Figure 15).
- More than half (55.8 per cent) had been receiving income support for 2 years or more.

**Figure 15: Indigenous Newstart Allowance Recipients by Income Support Duration**



Source: Centrelink administrative data – DEEWR Bluebook dataset.

Indigenous Newstart Allowance recipients are less likely to be earning income than the rest of the recipient population; however, reported earnings are increasing. As at the end of June 2012, 8.8 per cent of Indigenous Newstart Allowance recipients reported earnings, which is a slight increase from 7.86 per cent in September 2006. Indigenous recipients had an average duration on income support of 222.8 weeks.

It is recognised that Indigenous people face continuing disadvantage in regard to workforce participation and have higher rates of unemployment than the rest of the Australian population. As with other groups who rely on Newstart Allowance for extended periods, there is a greater likelihood that some may find it difficult to maintain a reasonable standard of living over time. Closing the gap in employment is therefore vital to ensuring a better quality of life for Indigenous people and is necessary to ensure both economic and social inclusion.

As outlined in section 3e, regional disparities in labour market outcomes are particularly pronounced in areas where there are higher proportions of Indigenous people and among disadvantaged Indigenous communities. While economic opportunities exist, communities in remote Australia still have high unemployment rates and limited access to the services on the ground. Remote Indigenous communities face a range of challenges. Indigenous Australians often have varied and complex needs, and there may be limited access to employment opportunities or meaningful participation activities.

A range of Australian Government programs and strategies specifically aim to improve employment outcomes and promote participation in economic activities among Indigenous people (see Appendix G). The Australian Government has committed to halving the gap in employment outcomes between Indigenous people and other Australians by 2018.

## Trends in duration on payment of Newstart Allowance recipients

The expressions 'long term' and 'very long term' have a defined meaning in an income support context. Individuals who have been in receipt of income support for 12 months or more on a continuous basis are referred to as long term income support recipients, while those who have been in receipt of income support for two years or more are classified as very long term income support recipients (the duration is reset to nil if an individual returns to income support after a period of more than 13 weeks not in receipt of payment). Those who have been in receipt of income support for less than 12 months could be referred to as short term recipients. Continuous receipt of income support may include receipt of different income support payments.

Figure 16 shows trends in duration on payment of Newstart Allowance recipients from June 2002 to June 2012. At the end of June 2012 approximately 62 per cent of Newstart Allowance recipients were long term income support recipients and 46 per cent were very long term income support recipients. This is consistent with the June 2002 figures (61 per cent and 46 per cent respectively) with some fluctuation over the decade, particularly as a result of the GFC in 2008 and 2009 when the proportion of short term recipients increased to as much as 50 per cent (June 2009) of the population as a result of new entrants coming onto the payment.

Figure 16: Newstart Allowance Recipients by Income Support Duration



Source: Centrelink administrative data - DEEWR Bluebook dataset.

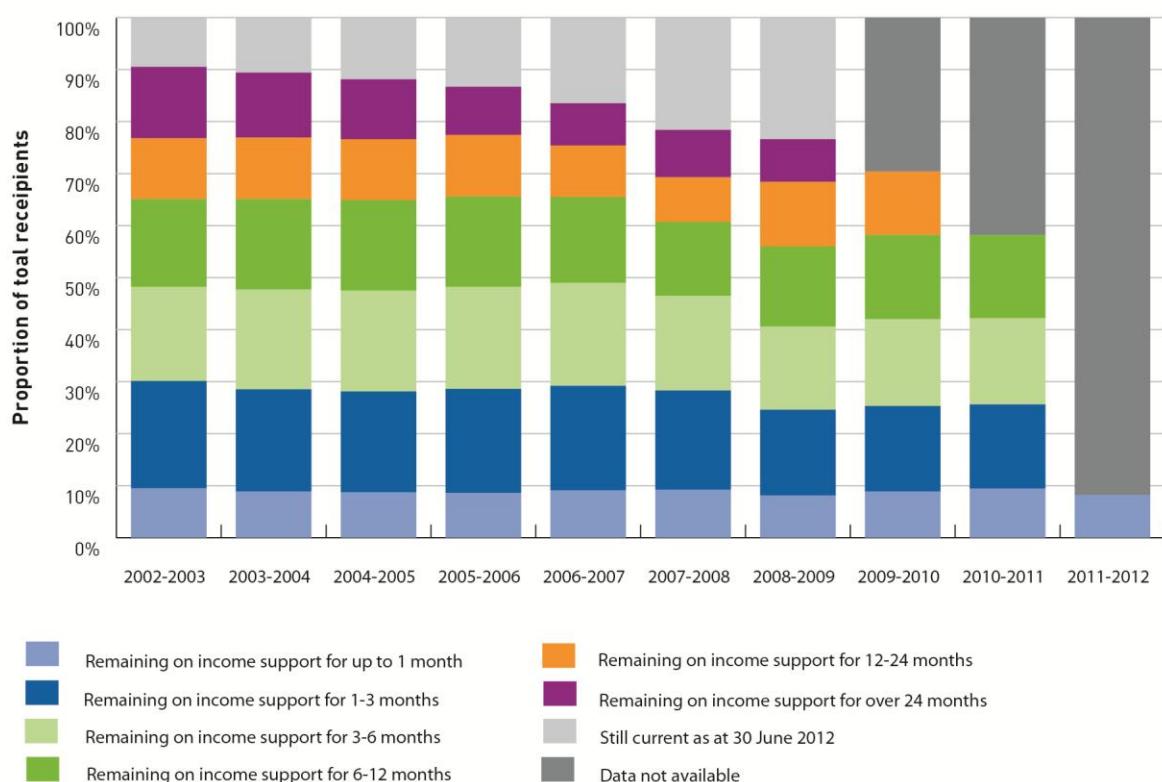
In June 2012 the average duration in receipt of income support for Newstart Allowance recipients was 179.8 weeks, almost three-and-a-half years, an increase of 25.57 weeks or almost six months since June 2002. This increase has been driven by a number of factors including the increasing durations of the very long term income support recipients and the growing proportion of principal carer parents and recipients with a partial capacity to work, both of whom have very high average durations on payment.

While the average duration on income support has remained fairly constant for most groups, when taken in isolation it has decreased by nine weeks for those in receipt of income support for between two and five years and increased by almost three years for those in receipt of income support for more than five years, from 416.31 weeks in June 2002 to 567.69 weeks in June 2012. This data reveals that there is essentially a core of very long term unemployed with average durations well over five years on payment whose duration is increasing significantly.

While the figures above show the duration on income support of people in receipt of Newstart Allowance at a given point in time, they do not reflect the high volume of individuals who move onto and off of Newstart Allowance over the course of year.

Looking instead at the duration on income support of all individuals who commence receiving Newstart Allowance each financial year it is clear that approximately 60 per cent of individuals who commence receiving Allowance each financial year in receipt of income support for less than 12 months.

**Figure 17: Duration on Income Support for all new entrants to Newstart Allowance, by financial year**



Source: Centrelink administrative data - DEEWR Research and Evaluation Database (RED).

As can be seen in Figure 17 above, which looks at the future duration on payment of all new recipients of Newstart Allowance each year, more than 60 per cent of all new recipients of Newstart Allowance in each financial year from 2002-03 to 2007-08 remained in receipt of income support for less than 12 months and almost 50 per cent remained in receipt of income support for less than six months.

This profile has shifted since *Welfare to Work* and the impact of the GFC, nevertheless it remains the case that between 50 and 60 per cent of all new recipients of Newstart Allowance in each financial year from 2008-09 to 2010-11 remained in receipt of income support for less than 12 months.

There are two different ways to look at duration on payment. The first, captured in Figure 17, looks at new recipients of Newstart Allowance each year and considers what happens to them over time. The second looks at current recipients at a point in time.

Point in time data at the end of June 2012 shows that 62 per cent of Newstart Allowance recipients had been in receipt of income support for more than 12 months.

In order to understand the different perspective on duration on payment provided by looking at new recipients of Newstart Allowance each year versus point in time Newstart Allowance recipient numbers, an analogy may be that the two duration groups (long-term and short-term) represent two different queues. The queue representing the long-term recipients moves only very slowly and is quite long, while the queue representing the short-term recipients moves very quickly and is shorter. Over the course of one year, a much larger number of people will pass through the quick short-term queue than the long-term, however, at any one given moment there will be more people in the long-term queue than the short term queue.

The apparent anomaly arises because the 38 per cent of the point in time population who remain on payment for less than 12 months churn over quite quickly, therefore over the course of one year there are many more people passing through Newstart Allowance than there are people who have a long duration on payment, who only accumulate slowly. This is why it is essential to contrast point in time income support data with longitudinal data to understand the full picture.

The data suggests that individuals with shorter income support durations are more likely to leave Newstart Allowance than individuals who have been receiving income support on a long term or very long term basis. In essence, people with up-to-date experience, relevant skills and who are job-ready find employment much quicker than those who may have become disengaged from the labour force. This does not, however, take into account individuals who transferred from Newstart Allowance to another allowance or pension, such as Age Pension, rather than who left income support to take up employment.

On this basis, it could be said that Newstart Allowance continues to serve its primary objective in supporting people through a transitional stage of unemployment for the majority of recipients, and that these individuals make up approximately 60 per cent of all people who receive Newstart Allowance over time.

### **The changing population supported by Newstart Allowance**

The range of people accessing Newstart Allowance has changed notably in the last decade, particularly since *Welfare to Work* in 2006, as access to smaller purpose-specific allowances and pensions has been restricted and as the participation requirements for Newstart Allowance and its links to labour market programs have been strengthened in the effort to improve the participation rates of parents, people with disability who have a partial capacity to work and the mature aged.

The tightening of the eligibility requirements for Parenting Payment since 2006 means that Newstart Allowance now includes 44,194 principal carer parents (June 2012). This tightening, in addition to the gradual phasing out of Mature Age Allowance, Partner Allowance, Widow Allowance, Wife Pension and Widow B Pension, has also contributed to an increase in the proportion of women receiving Newstart Allowance, from 29 per cent in June 2002 to 41 per cent in June 2012, and an increase in the number of mature aged recipients, from 74,365 or 17.0 per cent in September 2006 to 98,050 or 17.8 per cent in June 2012.

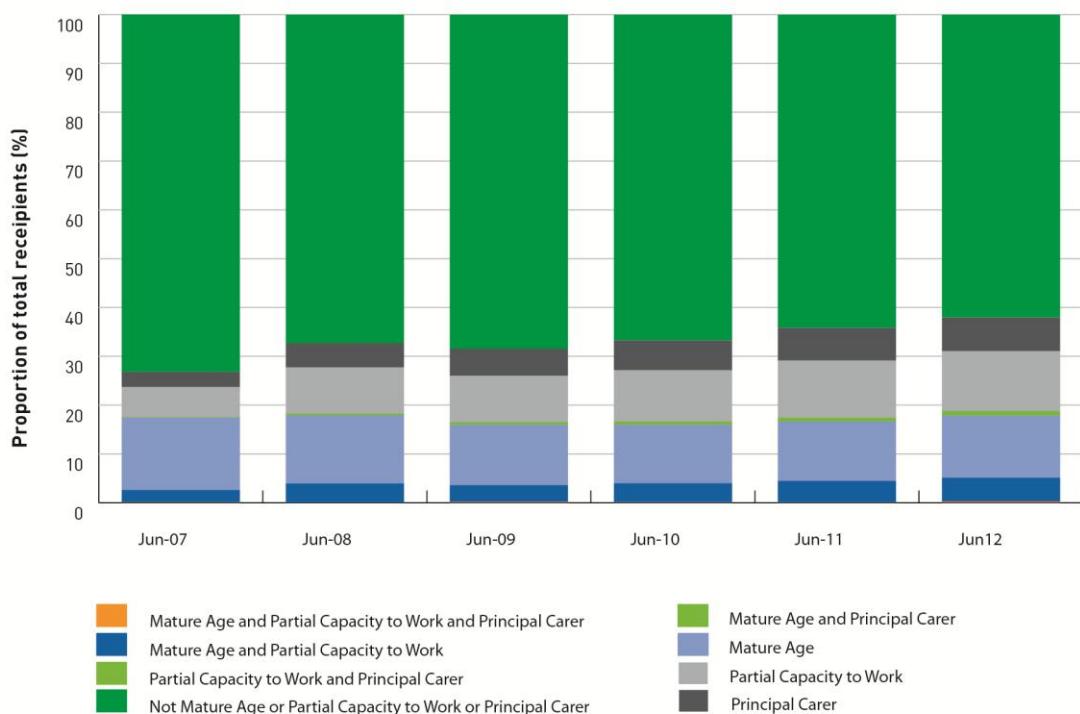
Changes to tighten eligibility for Disability Support Pension since 2006 have also extended the scope of Newstart Allowance. The *Welfare to Work* reforms introduced a new category of Newstart Allowance recipients with an assessed partial capacity to work, totalling 99,884 recipients in June 2012 or 18 per cent of the total Newstart Allowance population.

Over recent Budgets, key aspects of Disability Support Pension have been reformed to better target it to those people who need it most, while also ensuring that people with some capacity to work get the support they need to do so.

- Improved assessments to help people with disability back into the work force commenced 3 September 2011. Disability Support Pension applicants with mild to moderate impairment are now required to provide evidence that they cannot be assisted back to work. This measure provides a greater focus on a person's potential to work, with appropriate capacity building and rehabilitation. It does not affect Disability Support Pension applicants with a severe disability.
- This was also supported by the implementation of revised Impairment Tables for Disability Support Pension assessment, from 1 January 2012. These were updated for the first time since 1993, to make them consistent with contemporary medical and rehabilitation practice. The revised Impairment Tables ensure that people applying for the Disability Support Pension are assessed based on what they can do and not what they cannot do.
- Also, to provide for greater consistency, all Disability Support Pension Job Capacity Assessments are now undertaken by medical, health and allied health professionals employed by the Department of Human Services and are supported by advice from Centrelink's Health Professional Advisory Unit.

The evolving Newstart Allowance population dynamics can be seen in Figure 18, which shows the increasing proportion of recipients who can meet their participation requirements through means other than looking for full time work. Whereas previously it would be expected that the vast majority of the Newstart Allowance population would be required to seek full time work, the growing numbers of people with disability who have a partial capacity to work, principal carer parents and mature age job seekers now means that, for many in receipt of Newstart Allowance (just under 40 per cent), their requirements are such that even where they meet their requirements through paid work, they may never move off payment except to transfer to Age Pension. A number of recipients may supplement their allowance payments with employment income on a long-term basis; earnings patterns indicate that 18 per cent of Newstart Allowance recipients earned income in June 2012.

**Figure 18: Newstart Allowance Recipients - Partial Capacity To Work, Principal Carer, Mature Age Combinations**



Source: Centrelink administrative data - DEEWR Bluebook dataset

### Where do Newstart Allowance recipients come from?

The length of time that an individual has been in receipt of income support may often include periods previously in receipt of other payments, such as student payments or Parenting Payment. A person who transfers to Newstart Allowance after six years or more in receipt of Parenting Payment or three or more years in receipt of Youth Allowance, ABSTUDY or Austudy while studying full time, will be classified as a very long term income support recipient, regardless of how long they have been receiving Newstart Allowance. Data on long term and very long term income support recipients, particularly for current recipients of Newstart Allowance, can therefore be slightly misleading.

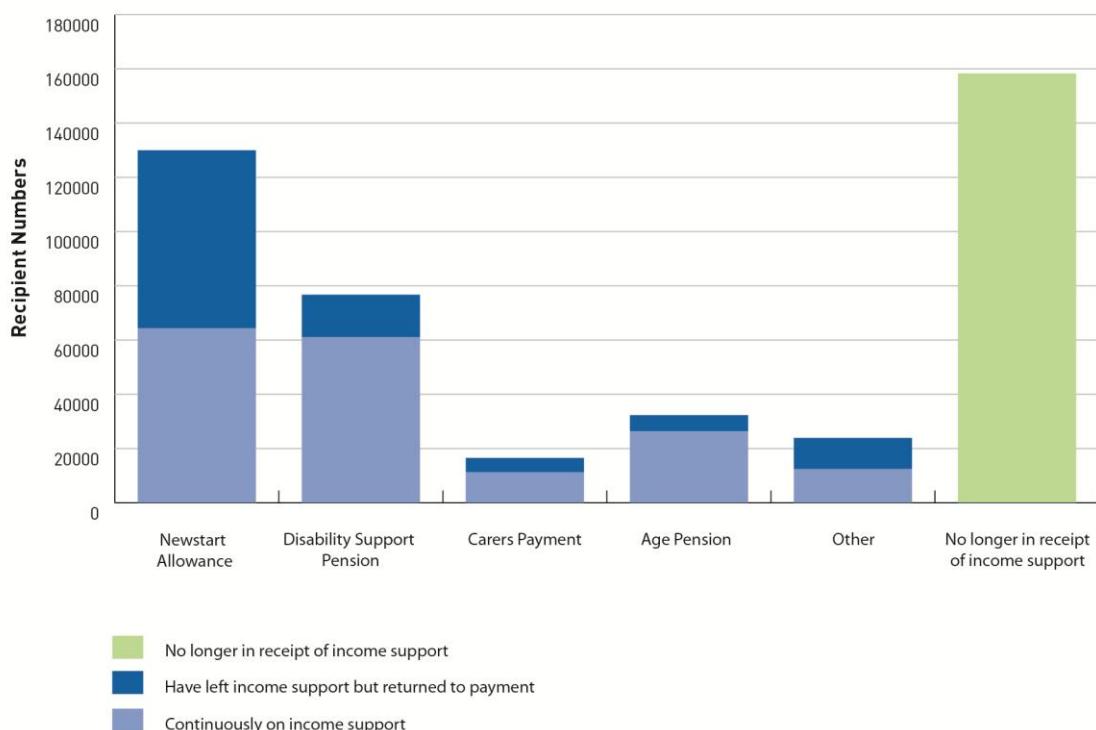
Of the new entrants to Newstart Allowance in 2011 who had transferred from another income support payment, approximately 35 per cent (32,700) came from student payments (including Youth Allowance, Austudy and ABSTUDY) and 26 per cent (25,000) came from Parenting Payment. As might be expected, a much larger proportion of those who transferred to Newstart Allowance from a student payment had left Newstart Allowance within six months (48 per cent of those who transferred from Youth Allowance (student)) than those who transferred from Parenting Payment (14 per cent of those who transferred from Parenting Payment (Single)).

A further 23 per cent (21,000) of the new entrants to Newstart Allowance in 2011 came from Youth Allowance (other) with an average duration on income support of approximately two years, of whom approximately 24 per cent left Newstart Allowance within six months.

## Where do Newstart Allowance recipients go when they leave payment?

A more complete picture of how the circumstances of Newstart Allowance recipients change over time can be achieved by taking a snapshot of the Newstart Allowance population as at 1 July 2007 and examining what happens to them over time. Five years later in 2012, 36 per cent of the individuals who were receiving Newstart Allowance on 1 July 2007 were no longer in receipt of income support. Forty per cent of those who are in receipt of income support in 2012 have not left income support for an extended period of time in the last five years.

**Figure 19: All people who were receiving Newstart Allowance on 1 July 2007 and where they are now (June 2012)**



*Source: Centrelink administrative data - DEEWR Research and Evaluation Database (RED).*

Thirty per cent of those who were in receipt of Newstart Allowance on 1 July 2007 are in receipt of Newstart Allowance five years later, although some of these individuals may have left income support and returned within the last five years. Thirty-four per cent have transferred to other payments, with 18 per cent moving to Disability Support Pension, seven per cent to Age Pension and four per cent to Carer Payment.

Table 7: Analysis of 2007 Newstart Allowance cohort

Previous duration in receipt of income support on 1 July 2007	Percentage who were not in receipt of income support in 2012	Percentage who were on another income support payment in 2012	Percentage who were in receipt of Newstart Allowance in 2012
Less than 3 months	56	21 (9% DSP)	23
3-6 months	50	25 (11% DSP)	25
6-12 months	43	30 (14% DSP)	27
12-24 months	36	35 (17% DSP)	29
24 months or more	25	41 (23% DSP)	34

Of those in receipt of Newstart Allowance on 1 July 2007, 61 per cent had already been in receipt of income support for 12 months or more at the time, with 47 per cent having already been in receipt of income support for two years or more at the time. This is typical of the Newstart Allowance population over the last decade. As shown in Table 7, there is a correlation between how long individuals had been in receipt of income support in July 2007 and how their circumstances changed in the last five years. In particular, those who had been in receipt of income support for the shortest periods were the most likely to have left income support by 2012, while those who had been in receipt of income support for the longest periods in 2007 were in 2012 the most likely to be on Newstart Allowance or another payment, especially Disability Support Pension.

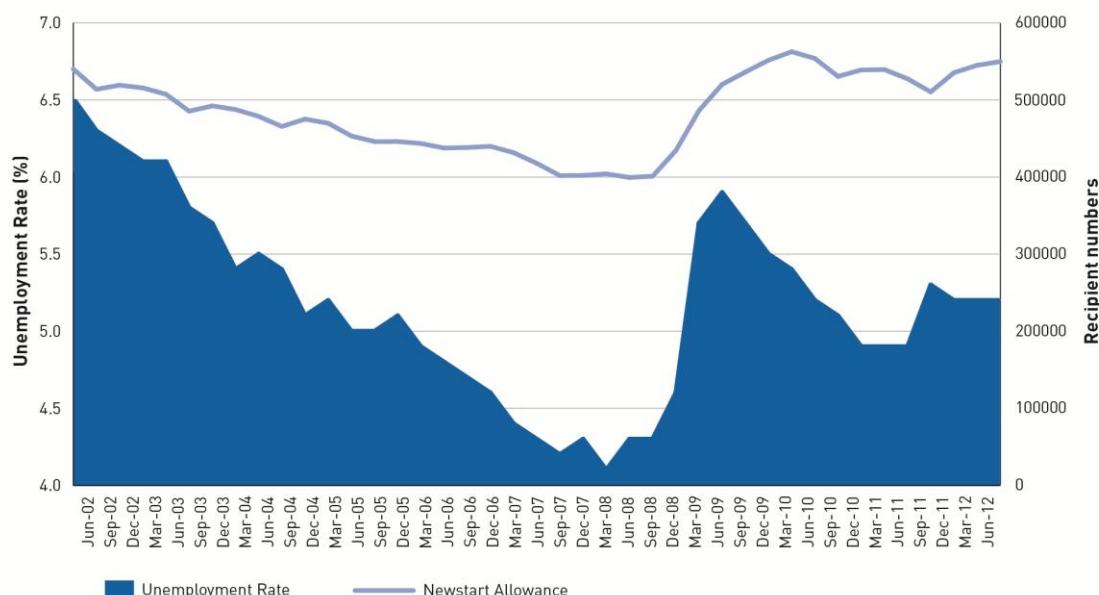
This result is to be expected as long duration on payment may be the result of a range of exogenous and endogenous risk factors, including drug and alcohol dependence, lower education attainment, difficulty in social relations, disability including in the area of mental health, and long term welfare dependency itself. Extended periods of time spent outside of the workforce can lead to the loss of job skills, less financial security for individuals and families, a loss of self esteem and little capacity to build up assets such as owner-occupied housing or retirement savings. The large migration of long term recipients of Newstart Allowance to Disability Support Pension suggests that long term unemployment is often accompanied by some degree of disability and/or illness, or that it may lead to poor health outcomes over the long term.

#### 4c. Effectiveness of Newstart Allowance in supporting transitions to work

The performance of the wider economy and external factors, such as the global economy, are central drivers of the overall unemployment picture in Australia, though not the only factors at play. Even in a very good economic environment, such as existed prior to the GFC, unemployment remained at around 400,000 people despite significant labour shortages in some industries.

From the figure below a relationship between the unemployment rate and the number of recipients on Newstart Allowance can be discerned. What is also apparent is the large number of recipients who remained on payment throughout the middle of the decade, just prior to the GFC.

**Figure 20: Unemployment Rate and Newstart Allowance**



Source: ABS 2012c, trend data; Centrelink administrative data - DEEWR Bluebook dataset.

Newstart Allowance, through its participation obligation and compliance regime, is very effective in marshalling job search or training activity for large groups of people.

Equipping people with the skills required to successfully compete in the labour market is a focus for the Government. There has been a notable increase over recent years in the number and proportion of Newstart Allowance recipients who are accessing training and education opportunities in conjunction with job search and other activities, from 16 per cent (94,288) in July 2010 to just over 20 per cent in June 2012.

Against a backdrop of strong economic growth and the increasing desire for and availability of part time work, flexible participation arrangements, income test settings and targeted labour market support provide important support to Newstart Allowance recipients to gain and maintain work. The package as a whole represents a significant and effective investment by Government in an individual's transition to being self-supporting, while attempting to harmonise the skills possessed by those Australians who are unemployed, with the skills which are in demand across the economy.

Reforms to the allowance payment system since *Welfare to Work* have seen Newstart Allowance move away from being a payment solely aimed at those people who have the capacity and availability to work full time to be recast as the primary working age payment, incorporating those with responsibility for caring for young children and those whose disability means they may often only have the capacity to work part time.

The change in the nature of the Newstart Allowance cohort presents new challenges to the ability of the allowance payment system to assist people in the transition off payment and into work. Indeed, for significant numbers of recipients, such as principal carers and recipients with a partial capacity to work, even fully meeting their requirements may not yield sufficient income to make them ineligible for payment.

## Employment outcomes for job seekers

As at 30 June 2012, there were around 740,000 job seekers receiving individualised tailored assistance from their JSA provider. Of these 509,000 or 69 per cent were Newstart Allowance recipients, with a further 11 per cent (82,000) being Youth Allowance (other) job seekers. The remainder of the caseload comprises job seekers on allowances and pensions (e.g. Parenting Payment, Disability Support Pension) and others who were not on income support payments.

As at 30 June 2012, there are almost 150,000 participants receiving individualised tailored assistance from their DES provider. Of these 79,000 or 53 per cent were Newstart Allowance recipients, 31,000 (or 21 per cent) were Disability Support Pension recipients and 24,000 (or 16 per cent) were not in receipt of income support payments.

Relative to the aggregate active caseload, Newstart Allowance job seekers tend to be slightly more disadvantaged than other job seekers. Over 37 per cent of Newstart Allowance job seekers on the active caseload as at 30 June 2012 are very long-term unemployed (i.e. they have been unemployed for more than two years). A higher ratio of 57 per cent of Newstart Allowance participants on the DES active caseload as at 30 June 2012 are very long-term unemployed. This compares to 30 per cent for non-Newstart Allowance recipients.

Further evidence of the relative level of disadvantage experienced by Newstart Allowance job seekers within JSA is assessed through looking at the distribution across the Streams. Almost 47 per cent of Newstart Allowance job seekers were in the Streams targeted towards the most disadvantaged (i.e. Streams 3 or 4).

Over the first three years of JSA, \$4.5 billion has been invested in job seekers. During this same time period, over 1.2 million job placements and 500,000 13 week outcomes have been achieved. Around 865,000 or 69 per cent of these job placements have been achieved for job seekers who were on Newstart Allowance.<sup>10</sup> Encouragingly, 39 per cent of these job placements have been achieved for the most disadvantaged job seekers (i.e. those in Streams 3 or 4).

Further, evidence from DEEWR's Post-Program Monitoring (PPM) survey shows strong employment outcomes from JSA. In the 12 months to March 2012, 49 per cent of all job seekers assisted in JSA were employed around three months later following a period of assistance. Of those employed, around 41 per cent (or 20 per cent overall) were employed full time. Employment outcomes for Newstart Allowance recipients are on par with the general job seeker population.

Table 8: Three month employment outcomes – March 2012

	Employed			Unemployed	Not in the labour force
	Full-time	Part-time	Total		
Newstart Allowance	20.7%	27.3%	48.0%	36.0%	16.0%
All job seekers	20.2%	28.8%	49.0%	34.8%	16.2%

Note: the income support types refer to the job seekers' income support type at the commencement of assistance.

<sup>10</sup> The distribution of the active caseload is a stock measure whereas the counts of the number of job placements or 13 week outcomes are flow measures. In 2011–12, almost 300,000 job placements have been achieved for Newstart Allowance recipients, or 71 per cent.

In the 12 months to March 2012, 38 per cent of all participants assisted in DES were employed around three months later following a period of assistance. Of those employed, around 26 per cent (or 9.8 per cent overall) were employed full time. Employment outcome for Newstart Allowance recipients are on par with the general participant population.

**Table 9: DES Three month employment outcomes – March 2012**

DES	Employed			Unemployed	Not in the labour force
	Full-time	Part-time	Total		
Newstart Allowance	11.1%	26.3%	37.3%	36.4%	26.3%
All job seekers	9.8%	28.1%	37.9%	35.6%	26.5%

Note: the income support types refer to the job seekers' income support type at the commencement of employment assistance.

Moreover, these employment outcomes are being achieved on a more cost-effective basis than was the case for the services it replaced. For 2010–11, each employment outcome in Streams 1–3 was achieved at an average cost of \$2,332 (this equates to approximately 9.5 weeks of Newstart Allowance) and \$8,524 for Stream 4 (17.5 weeks of Newstart Allowance). For Job Network, which assisted a similar cohort of job seekers to those assisted in Streams 1–3 under JSA it reported a higher cost per employment outcome of \$3,933 for 2008–09. Similarly, the former Personal Support Programme (PSP) assisted the most disadvantaged job seekers, a comparable cohort of job seekers those now serviced in Stream 4. The estimated average cost per employment outcomes under PSP was \$11,503.

While the evidence identifies at the aggregate level JSA is performing well, there are potential areas where there may exist scope for improvement. Only three per cent of the job placements achieved for Newstart Allowance job seekers since the start of JSA have been achieved for job seekers with a partial work capacity.

There is potentially scope to improve the rate at which Newstart Allowance job seekers convert job placements achieved to 13 week employment outcomes relative to other income support types. Around 63 per cent of paid 13 week employment outcomes were for Newstart Allowance job seekers. Although, it does need to be recognised that a greater proportion of Newstart Allowance job placements are for job seekers in Streams 3 and 4, than for non-Newstart Allowance job seekers and it is to be expected that the more disadvantaged job seekers may experience greater challenges in sustaining job placements initially.

### **Job placement outcomes**

The PPM survey shows that of all job seekers placed into jobs in the 12 months to December 2011, over 70 per cent were employed three months later. Of these, nearly 85 per cent were still with the same employer that they were originally placed with.

**Table 10: Three month job placement outcomes – March 2012**

	Employed				Unemployed	Not in the labour force
	Full-time	Part-time	Total	In the same job		
Newstart Allowance	25.8%	41.0%	66.8%	82.9%	29.2%	4.0%
All job seekers	29.8%	40.3%	70.2%	84.8%	25.9%	3.9%

Note: the income support types refer to the job seekers' income support type at the commencement of assistance.

It is noticeable that for Newstart Allowance job seekers, entry into employment is more likely through part time jobs. As will be outlined in the longer term outcomes section below, this in itself is not a measure that JSA (or previous models of employment services) are placing job seekers into low quality jobs.

Of all job seekers placed in a job in the year ending December 2011 and who were employed around three months later, 27.5 per cent were working as labourers. A slightly higher proportion of Newstart Allowance recipients were working as labourers (30.0 per cent) or machinery workers (12.0 per cent) than for all job seekers in JSA.

**Table 11: Occupations of those employed three months after a job placement – March 2012**

Profession	Not on income support	Newstart Allowance	All job seekers
Managers	2.9%	1.3%	1.5%
Professionals	13.1%	8.2%	8.5%
Technicians	15.6%	9.9%	10.8%
Community workers	9.2%	15.0%	15.3%
Clerical workers	15.9%	11.9%	12.9%
Sales	11.3%	11.6%	13.1%
Machinery workers	11.3%	12.0%	10.5%
Labourers	20.9%	30.0%	27.5%

Note: the income support types refer to the job seekers' income support type at the commencement of assistance.

### Longer-term outcomes for job seekers

Research previously conducted by DEEWR has shown that employment services have historically been effective in providing that important first stepping stone to quality, sustained jobs. A DEEWR study conducted in 2008 looked at the circumstances of job seekers around a year after they were initially surveyed through the PPM survey. Key results from the study included:

- A rise in the employment and positive outcomes (in employment and/or education or training) achieved between the standard three, and follow-up 16 month mark.
- The majority of participants who were employed at both the three and 16 month mark did not change jobs frequently with over 80 per cent being employed by only 1 or 2 employers during the previous year.
- Between the three and 16 month post assistance mark there was a move towards permanent employment and away from casual employment.

- Average weekly earnings rose for all program participants (for example, if they participated in Intensive Support job search training, Intensive Support customised assistance and so on).
- Between the three and 16 month mark there was a fall in the proportion of participants who were employed in elementary clerical sales and service and intermediate production and transport jobs. The proportion in professional, managerial and administrator type jobs increased.

These results highlight that while job seekers may enter the workforce at lower-level entry positions, they do progress to better paying, more secure and higher level jobs relatively quickly.

Current data suggests that in over 80 per cent of instances where a job seeker achieved a 26 week outcome and exited JSA they were not recorded as being on the JSA caseload six months later. This indicates that these job seekers are remaining in employment and ceasing their reliance on income support.

### **Labour market programs and place based strategies**

Under the Priority Employment Area initiative, Local Employment Coordinators drive local solutions to local employment issues in their respective areas. Local Employment Coordinators achieve this by making better connections between governments, other organisations and programs of assistance to help respond to such changes in local circumstances more quickly and more strategically.

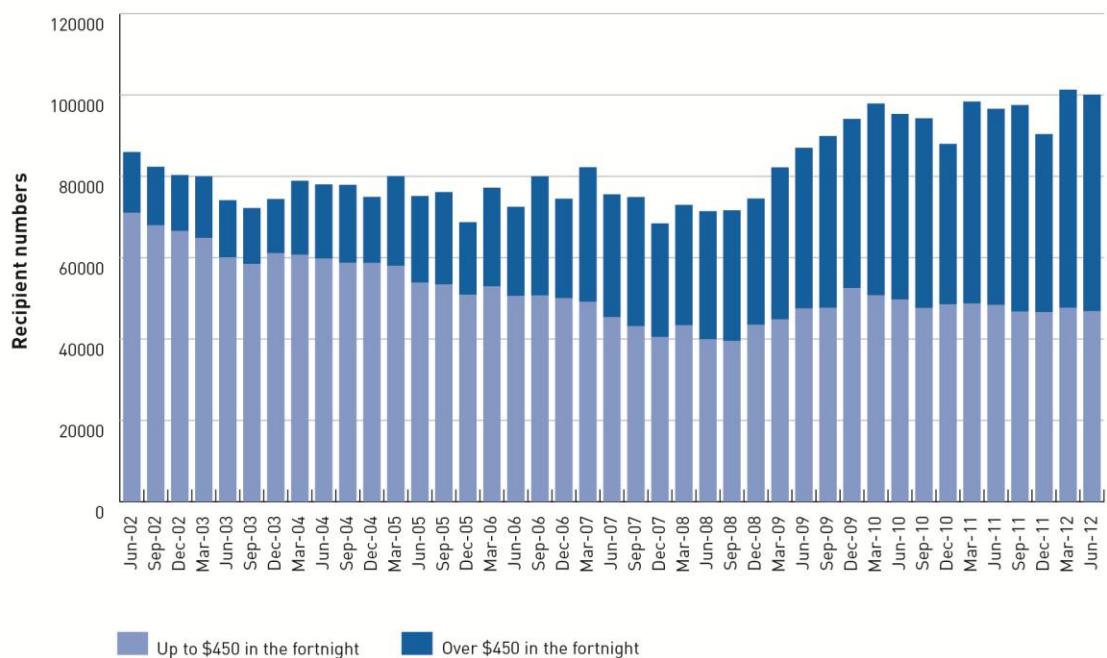
The performance of Local Employment Coordinators is measured by regular reports to DEEWR outlining their activities; six monthly performance reviews against five Key Performance Indicators and an assessment of their performance in meeting the strategies and goals outlined in their Regional Employment Plan. The measure is also being evaluated as part of the *Building Australia's Future Workforce* package. One part of their role is to develop projects and activities under the Local Employment Coordinator Flexible Funding Pool. In 2011-12 a total of 211 projects and activities were approved under the Local Employment Coordinator Flexible Funding Pool to the value of \$9.2 million (GST exclusive). Although still in the early stages of implementation, of around 100 Flexible Funding Pool projects it is estimated that around 730 disadvantaged job seekers (including Aboriginal and Torres Strait Islander people, people with disability and young people disengaged from education and training) will access training and work experience opportunities which will lead to a traineeship, apprenticeship or supported or open employment.

Since the inception of JSA in 2009 until 30 June 2012, there have been 55 Jobs and Skills Expos attracting 4301 exhibitors. Over 21,000 job seekers were connected with employment and training opportunities.

### **Earning patterns of allowance recipients**

The proportion of Newstart Allowance recipients with employment income at any given point in time has increased over the last ten years, from 16 per cent in June 2002 to 18 per cent in June 2012. This point in time data may under-represent the total number of Newstart Allowance recipients who combine employment income and income support over time. This is because recipients who did not report employment income in the fortnights for which data has been collected (in June 2002 and 2012) may report employment income in other fortnights throughout the year as work opportunities arise. It is also reasonable to expect that a higher proportion of the short term Newstart Allowance recipients, who make up approximately 60 per cent of the new Newstart Allowance recipients each year but only 48 per cent of the point in time population, would report employment income.

Figure 21: Newstart Allowance Recipients with Earnings by Earnings Amount



Source: Centrelink administrative data - DEEWR Bluebook dataset.

The proportion of Newstart Allowance recipients with earnings who are earning more than \$450 per fortnight has increased from 17 per cent of earners in June 2002 to 31 per cent in September 2006 and 53 per cent in June 2012. This has most likely been influenced more by inflation than by other changes<sup>11</sup>. There was, however, a notably greater increase in the proportion of recipients who reported earnings, earning more than \$450, from 30 per cent in June 2006 to 40 per cent in June 2007, which is likely to be due to changes to the Newstart Allowance income test and by recipients transferring from Parenting Payment (Single) onto Newstart Allowance under *Welfare to Work*.

For many Newstart Allowance recipients, part time or casual work may be an important stepping stone to finding full time or permanent paid employment. Research undertaken by the Melbourne Institute of Applied Economic and Social Research (the Melbourne Institute) for DEEWR consistently shows that “being on low pay, in casual employment, or in part time employment is a better starting point for obtaining a higher-paid, permanent or full time job than the alternative of not being in employment at all” (Melbourne Institute 2011).

Newstart Allowance is designed to support precisely this kind of transition to employment. Job seekers receiving Newstart Allowance are able to undertake paid part time or casual employment at any stage and are generally required to accept any suitable work, including casual or part time work, which is offered to them.

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<sup>11</sup> According to the ABS Consumer Price Index inflation calculator, \$450 in June 2002 was equivalent to \$504.61 in June 2006 and \$587.02 in March 2012.

Individuals can also satisfy part of their activity test requirements by undertaking part time or casual employment as an activity. Several changes to the income test for Newstart Allowance and other allowances, including the introduction of Working Credit in 2003 and the relaxation of the taper rates under *Welfare to Work* in 2006, have also been intended to encourage and support recipients undertaking part time or casual work as a stepping stone to employment. Of course, this transition does not occur for all recipients. Melbourne Institute research looking at HILDA data between 2001 and 2004 has shown that of those in low paid employment in 2001:

*About 48 per cent ‘permanently’ escape low paid employment. About 11 per cent are persistently low paid and a further 10 per cent only temporarily escape low paid employment. About 20 per cent are chancers of various types and about 11 per cent ‘permanently’ exit employment (Buddelmeyer, et al. 2007).*

Analysis of the current circumstances of individuals who were receiving Newstart Allowance on 1 July 2007 also supports the view that participation in low paid employment can lead to higher paid work in the future. Of those who had no employment income in July 2007 only 33 per cent have now left income support compared to 42 per cent of those who were earning up to \$450 per fortnight and 52 per cent of those who had been earning more than \$450 per fortnight in 2007.

**Table 12: All people who were receiving Newstart Allowance on 1 July 2007 and where they are now (June 2012)**

Circumstances in 2012	Fortnightly employment income in July 2007		
In receipt of...	Nil	Up to \$450	More than \$450
Newstart Allowance	102,771	13,355	13,806
Disability Support Pension	66,278	5,697	4,699
Carer Payment	13,052	1,699	1,778
Parenting Payment (Partnered)	3,995	497	541
Parenting Payment (Single)	10,008	1,189	1,197
Age Pension	25,536	3,333	3,404
Other income support payments	4,759	821	864
No longer in receipt of income support.	110,350	19,299	28,691

*Source: Centrelink administrative data - DEEWR Research and Evaluation Database (RED).*

Of those who were in receipt of income support in 2012, 66 per cent of those who had not had employment income in July 2007 had subsequently never left income support compared to 58 per cent of those who had earned up to \$450, and 41 per cent of those who had earned more than \$450 per fortnight. Age and disability were significant contributing factors, with:

- 29 per cent of those who had not been earning in 2007 were now in receipt of Disability Support Pension (compared to 21 per cent of those who had been earning up to \$450 and 18 per cent of those who had been earning more than \$450 per fortnight), and
- 13 per cent of those who had been earning in 2007 were now in receipt of Age Pension (compared to 11 per cent of those who had not been earning), reflecting the higher earning of mature age recipients.

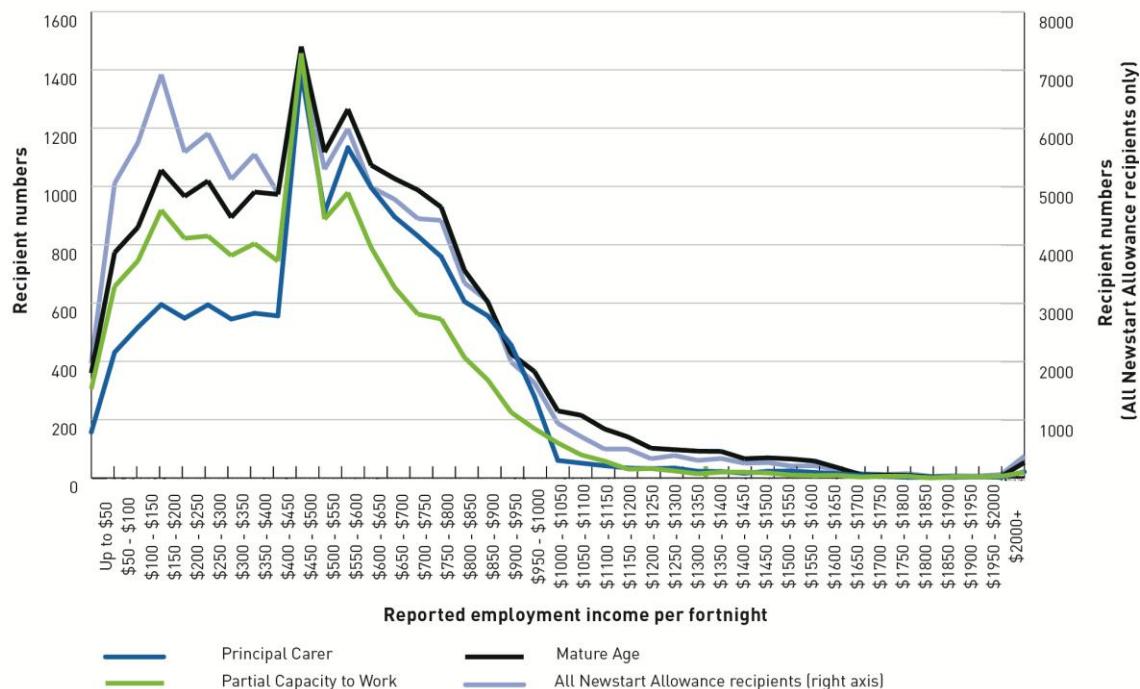
As has been noted above, Newstart Allowance recipients who are also principal carer parents, mature age or have a partial capacity to work exhibit different earnings patterns to the Newstart Allowance population as a whole and are able to satisfy the activity test by working for 30 hours per fortnight or up to their capacity. Principal carer parents and people with a partial capacity to work are also more likely to combine part time work with Newstart Allowance over a longer period of time, reflecting their ongoing limited capacity or availability for work.

**Table 13: Earnings distribution of Newstart Allowance recipients**

Group	Nil earnings	Up to \$450	\$450 or more
Partial Capacity to Work	85.9%	6.6%	7.5%
Principle Carer Parent	68.9%	10.2%	20.9%
Mature age	80.2%	8.0%	11.7%
All Newstart Allowance	81.8%	8.5%	9.7%

As can be seen in the above table and in Figure 22 below, analysis of the earnings distribution of principal carer parents, people with a partial capacity to work and mature age recipients shows a notable spike in fortnightly earnings in the \$450-\$500 bracket, which corresponds to part time work of around 30 hours per fortnight at a low wage, such as the NMW of \$15.96 per hour. This spike is also evident in the total Newstart Allowance population. It is likely that this reflects individual recipients satisfying the requirements of the activity test though part time work as much as it does the availability of this kind of work in the labour market.

**Figure 22: Newstart Allowance Recipients with earnings by amount as at June 2012**



Source: Centrelink administrative data - DEEWR Bluebook dataset

Those who are earning more than approximately \$1000 per fortnight are unlikely to be receiving any allowance payment depending on the point at which the income test would reduce their Newstart Allowance and supplements to nil. Although some of these individuals will have undertaken short term employment, those who have commenced ongoing employment with income at this level will have their Newstart Allowance cancelled after six fortnights.

### **Income support overpayments and employment**

As set out in discussion of the operation of the income test in Section 1c, where a Newstart Allowance recipient has earnings from employment above a certain level (the income free area), their rate of payment is reduced. There are self-help facilities and the ability to update details during regular scheduled contacts with DHS, such as the Personal Contact Interviews. In addition, DHS communication products remind recipients of their obligations, including the reporting of income.

To enable more accurate reporting of income, recipients have the option of changing their fortnightly payment delivery day, and the day of the week on which they are required to report, to coincide with their pay day.

The accuracy of income support payments (recipients being paid the 'right' amount) is closely monitored through the Random Sample Survey, which produces a robust estimate of the overall level of payment accuracy at a point in time from a sample of income support recipients. A payment is considered to have been 'inaccurate' where a review of a recipient's circumstances reveals a variation to their payment is required (either upward or downward). This variation could be a result of administrative error, system error, a failure by the recipient to disclose relevant information, or a combination of these reasons.

In some circumstances, a recipient may incorrectly estimate their earnings for one or more fortnights and potentially incur an overpayment. Incorrect reporting of income accounts for nearly 40 per cent of payment inaccuracy (i.e. overpayments and underpayments) for Newstart Allowance recipients. Contributing factors to the incorrect reporting of income by these recipients include:

- The recipient's reporting period not aligning with their actual period of work.
- The requirement for a recipient to report income when it is earned rather than when it is received.
- The requirement to report gross earnings rather than net earnings.
- The incorrect reporting of a partner's income.

Given the ongoing strengthening of the role of Newstart Allowance as the primary working age payment, particularly for those recipients who may work in a part time capacity and remain in receipt of payment for longer durations, a focus on supporting recipients to correctly report their income remains a key service delivery priority.

## **4d. Detailed analysis of impacts on key groups**

Changes through *Welfare to Work* in 2006, particularly the changes to eligibility criteria for new entrants to Parenting Payment and Disability Support Pension, have increased the scope of Newstart Allowance to incorporate people who are able to work part time, and who previously may have received alternative payments, such as principal carer parents and people with disability who have a partial capacity to work. In addition, the proportion of mature aged Newstart Allowance recipients has almost doubled since June 2002. Consistent with the intended policy outcome of increasing employment participation through activation, almost 40 per cent of Newstart Allowance recipients are now either principal carer parents, have a partial capacity to work, are mature aged or a combination of these, representing a significant shift in the characteristics of the Newstart Allowance population over the last decade.

These new groups of recipients are able to satisfy the Newstart Allowance activity test by working at least 30 hours per fortnight or undertaking other activities, such as part time study or voluntary work, and may also have reduced job search requirements or activity test exemptions in certain circumstances, in recognition of their reduced availability or capacity to work. For these recipients, Newstart Allowance may support part time participation on a long-term basis or the gradual transition to full time employment.

These recipients also make up a large proportion of Newstart Allowance's 253,000 very long term income support recipients. In June 2012, almost one in four very long term recipients (62,000) had a partial capacity to work, one in ten (25,000) was a principal carer parent and one in five (50,000) was aged 55 or older.

The particular situation for many Indigenous Australian job seekers on income support remains a policy challenge and has been an area of ongoing reform over recent years. To improve outcomes for Indigenous job seekers, significant reforms have been made to employment and training services which make them more responsive to the needs of employers and provide Indigenous job seekers with the right training for the available jobs.

Since JSA commenced on 1 July 2009, there have been noticeable increases in the number of employment outcomes achieved for Indigenous job seekers. Between 1 July 2011 and 30 June 2012, JSA has achieved 45,061 job placements for Indigenous job seekers. This achievement is a 2 per cent increase from the same period in 2010 to 2011 when 44,289 job placements were achieved. The increase in Indigenous job placements is significantly better than the job placements for the total job seeker population over the same period.

At the end of June 2012, the total Indigenous Employment Program commencements for employment, training and other assistance were at 35,591 – up more than 25.5 per cent on the full year target of 28,350. Also, commencements into jobs have reached 16,879, exceeding the full year target of 15,600, an 8.2 per cent increase on the target of 15,600.

In addition, the Australian Government has committed \$1.5 billion over five years from 1 July 2013 to the new *Remote Jobs and Communities Program* to provide a more integrated and flexible approach, providing better participation and employment services for people living in remote areas of Australia.

### **Recipients with short-term transitional support requirements**

The majority of Australians who make use of unemployment benefits, such as Newstart Allowance, do so on a short term basis. Approximately 60 per cent of all people who commence receiving Newstart Allowance each year will stay on that payment for less than 12 months.

While recipients may be required to serve a waiting period prior to going on payment, such as the Liquid Assets Waiting Period, many of the people who receive Newstart Allowance will only experience a short period of unemployment, possibly in the transition from one job to another or from a study or caring role to employment, and for these job seekers, the payment is considered to be adequate to the task while incentivising gainful employment.

For such job seekers, the primary purpose of Newstart Allowance remains the provision of a safety net for those who are temporarily unable to support themselves due to unemployment.

### **Recipients with a Partial Capacity to Work**

The 2006 *Welfare to Work* reforms were intended to address high levels of welfare dependency and improve workforce participation. The introduction of the partial capacity to work group to Newstart Allowance at the same time as changes to eligibility for new entrants to Disability Support Pension was a key element of these reforms,

focusing on encouraging self-reliance and recognising the capacity of many income support recipients with disability to work part time. This approach recognises the benefits and dignity of work over welfare.

## **Definition**

From an income support perspective, a person with a partial capacity to work is defined as an individual with a physical, intellectual or psychiatric impairment where their impairment prevents them from working at least 30 hours per week at the relevant minimum wage or above, independently of a programme of support, within the next two years.

In determining whether a person has a partial capacity to work, all impairments that impact on a person's capacity to work within the next two years are taken into account, regardless of whether the particular condition that gave rise to the impairment is fully treated and stabilised. An assessment is made through the completion of an Employment Services Assessment which is undertaken by a health or allied health professional. The Employment Services Assessment focuses on the impact of a job seeker's identified barriers to their capacity to work, and ensures a referral is made to the most appropriate employment service to support their needs.

Generally, where a recipient is found to have a work capacity of 0-14 hours per week (but they do not meet the Disability Support Pension qualification criteria) they will be managed by DHS and are only required to attend quarterly interviews; and where a recipient's capacity is 15-29 hours per week, they will be referred to an employment services provider. A recipient will be taken to have satisfied their participation requirement where they are undertaking paid employment of at least 30 hours per fortnight.

## **Long term growth trend**

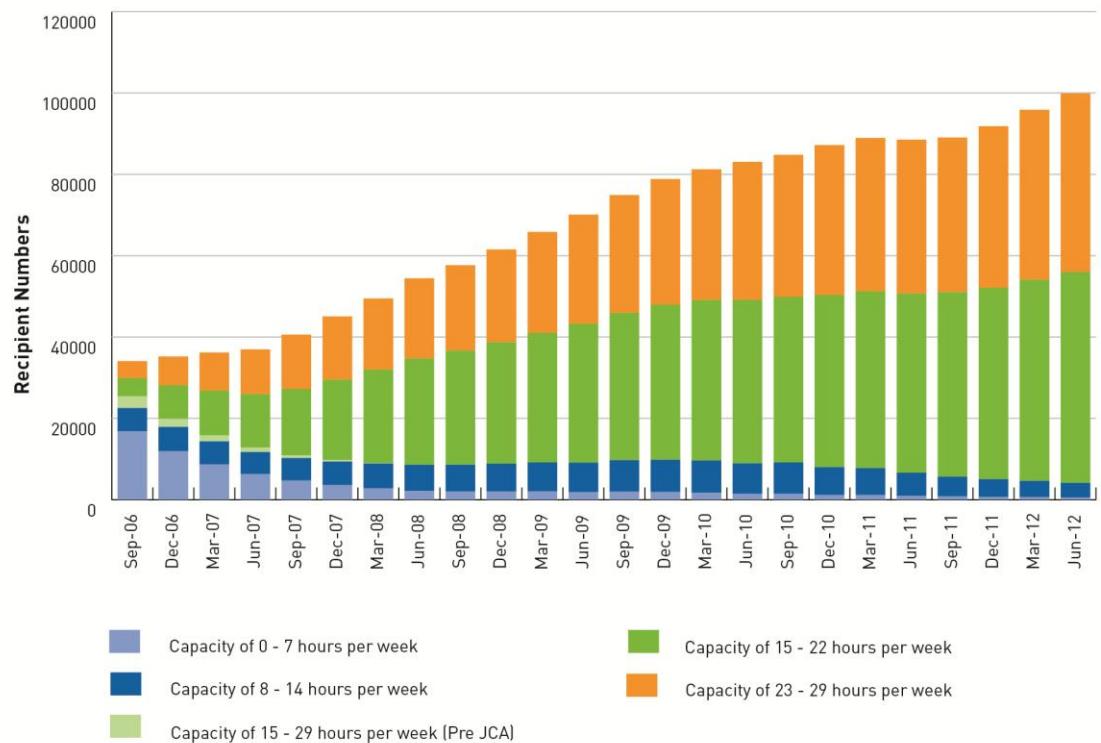
Shortly after the introduction of the *Welfare to Work* reforms, the number of Newstart Allowance recipients who were determined to have a partial capacity to work was 35,221 in December of 2006. This proportion represented 8 per cent of the total Newstart Allowance population. This proportion had risen to 14 per cent (61,544) by December 2008; and by December 2010 the number of people with a partial capacity to work stood at 16.2 per cent (87,173). The most recent data available places the total number of Newstart Allowance recipients who have been determined to have a partial capacity to work at 99,884 at the end of June 2012, representing 18.2 per cent of the Newstart Allowance population.

On current trend, the growth of the partial capacity to work group is predicted to reach 20 per cent of the Newstart Allowance population in early 2014.

In terms of the age profile of Newstart Allowance recipients with a partial capacity to work, as at June 2012, 27,110 are 55 years old and over; and 72,774, representing 72.9 per cent of the total, are less than 55 years. There is a natural progression to higher concentrations of partial work capacity recipients in older age groups, simply as a function of aging and acquiring some level of disability. On a gender basis, 53.3 per cent are male and 46.7 per cent are female.

The proportion of recipients who have a work capacity of 0-14 hours per fortnight, as at June 2012, stands at 4.1 per cent. This shows a marked change over the situation five years previously when 31.7 per cent of people with a partial capacity to work were assessed as having a work capacity of 0-14 hours, partly as a result of the bedding down of the process of assessing work capacity and partly as a result of changes to policy. Notwithstanding the improvement to this margin of work capacity, 51.9 per cent of current Newstart Allowance recipients with a partial capacity to work have a work capacity of 15-22 hours, while 43.9 per cent have a capacity of 23 to 29 hours.

**Figure 23: Newstart Allowance Recipients with Partial Capacity to Work**



Source: Centrelink administrative data - DEEWR Bluebook dataset

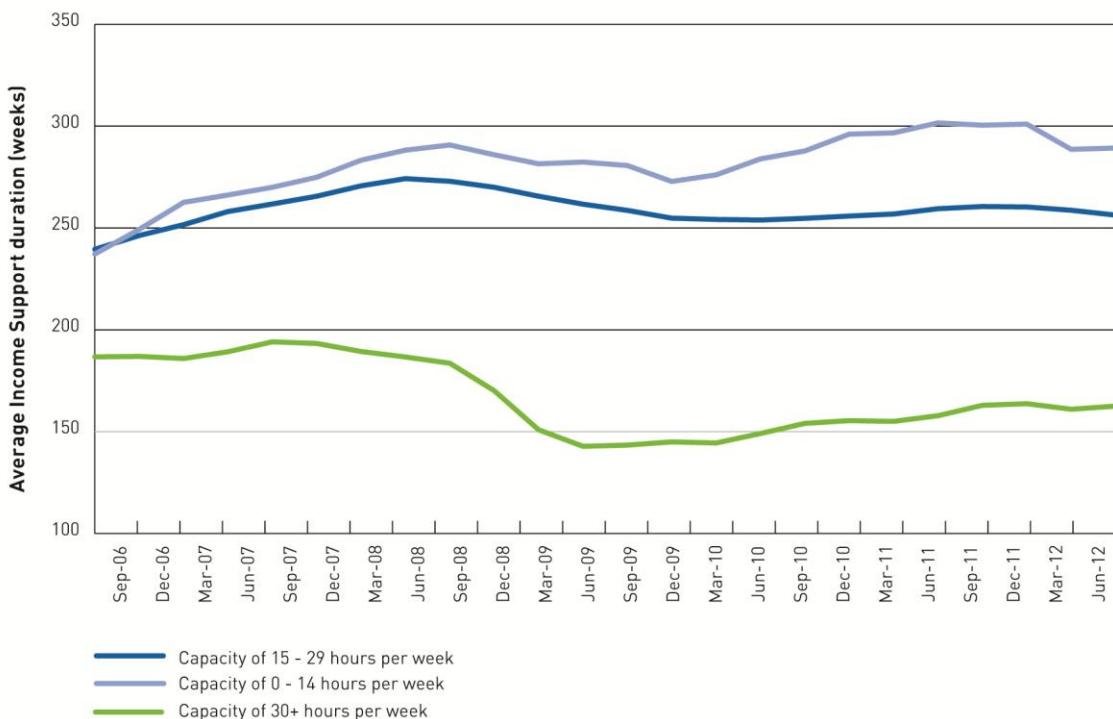
To put the issue of work capacity in context, on the current NMW of \$15.96 per hour, a recipient with a partial capacity to work who is working on the threshold of the definition of partial capacity, 29 hours per week, will earn \$925.68 before tax per fortnight. This level sits just above the Newstart Allowance income test cut-out threshold for a single person without dependent children of \$919.83 per fortnight (including Pharmaceutical Allowance). By contrast, a recipient who is working 15 hours per week or 30 hours per fortnight at the NMW would earn \$478.80 per fortnight and continue to be eligible for Newstart Allowance under the income test.

It should be noted that a Newstart Allowance recipient with a partial capacity to work, irrespective of their assessed capacity, is taken to have met their activity test requirements if they have worked for 30 hours in a fortnight. Therefore recipients with a partial capacity to work on Newstart Allowance, meeting their participation requirement of 30 hours paid employment per fortnight may continue to be able to receive some Newstart Allowance.

### High average duration on payment

There is a strong correlation between partial capacity to work and long-term duration on payment. Average duration on payment for people with a partial capacity to work at the end of June 2012 was 257.7 weeks on payment, or slightly less than five years, compared to 179.8 weeks for the general Newstart Allowance population. The median duration for Newstart Allowance recipients with a partial capacity to work is 151 weeks compared to 88 weeks for the general Newstart Allowance population.

**Figure 24: Newstart Allowance Recipients Average Income Support Duration (in weeks) by Work Capacity**



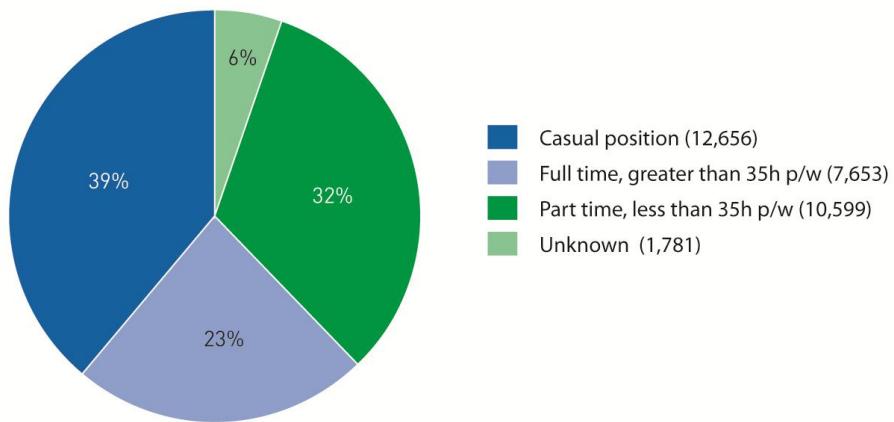
Source: Centrelink administrative data - DEEWR Bluebook dataset.

The primary employment service for Newstart Allowance recipients with a partial capacity to work is DES. On 30 June 2012, DES had a caseload of 79,570 Newstart Allowance recipients, of which 63,926 had a partial capacity to work. This latter figure represents 43 per cent of the total caseload of DES including all payments and people not receiving income support. Many of the barriers faced by this group require more complex solutions than those needed for other job seekers. DES can involve a lengthy process of rehabilitation and capacity building, training, work experience and other interventions including long-term workplace support in some circumstances.

From 1 March 2010 to 30 June 2012, DES achieved a 13 week employment outcome for 30,726 recipients of Newstart Allowance with a partial capacity to work, and a 26 week employment outcome for 20,135 people. For the 2011-12 financial year, 13 week employment outcomes were achieved for 16,666 people and 26 week outcomes for 12,684 recipients.

Based upon the 2011-12 financial year data, 12,656 or 39 per cent of Newstart Allowance/Youth Allowance (other) partial capacity to work recipients who received a 13 week employment outcome were placed in casual work. As discussed above, depending upon the actual number of hours a recipient is able to work, casual employment is likely to be insufficient to transition a recipient off payment altogether. A further 10,599 or 32 per cent of recipients were placed into part time work of less than 35 hours per week, while 7,653 full time positions were found.

**Figure 25: Disability Employment Service outcomes at 13 weeks for Newstart Allowance recipients with Partial Capacity to Work – 1 March 2010 to 30 June 2012**

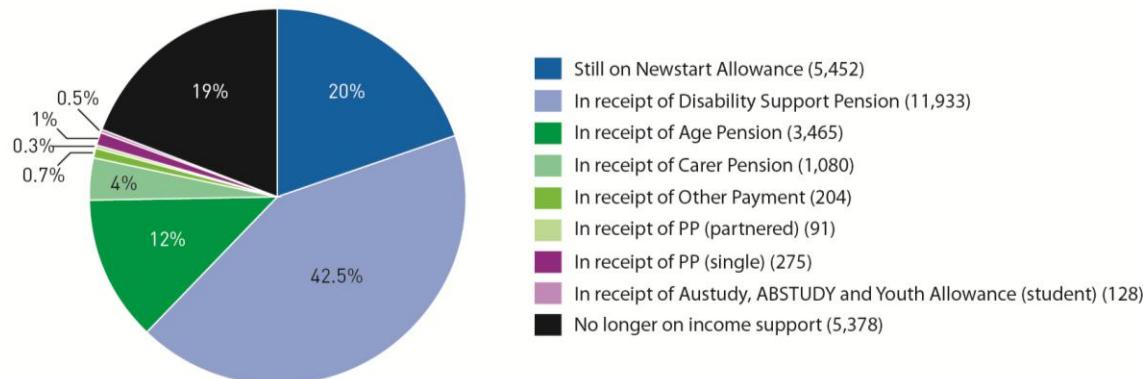


*Source: Disability Employment Services outcome data*

Some recipients of Newstart Allowance with a partial capacity to work access employment services through JSA. Since the start of JSA around 23,000 job placements and around 9,600 paid 13 week outcomes for employment and/or education outcomes have been recorded for Newstart Allowance job seekers recorded as having a partial capacity to work.

Looking at data from the PPM survey, in the 12 months to March 2012, 32.7 per cent of Newstart Allowance recipients with a partial capacity to work were employed around three months following a period of assistance. Of those employed, over 83 per cent were employed part time. Of all job seekers with a partial capacity to work who were employed three months after their job placement in the year ending December 2011, nearly half (48.3 per cent) were working as machinery workers or labourers.

**Figure 26: All people who were receiving Newstart Allowance and had partial capacity to work on 1 July 2007 and where they are now (June 2012)**



Source: Centrelink administrative data - DEEWR Research and Evaluation Database (RED).

Successive reforms to Disability Support Pension, including updated Impairment Tables and new assessment procedures, have seen the Disability Support Pension grant rate fall over recent months.

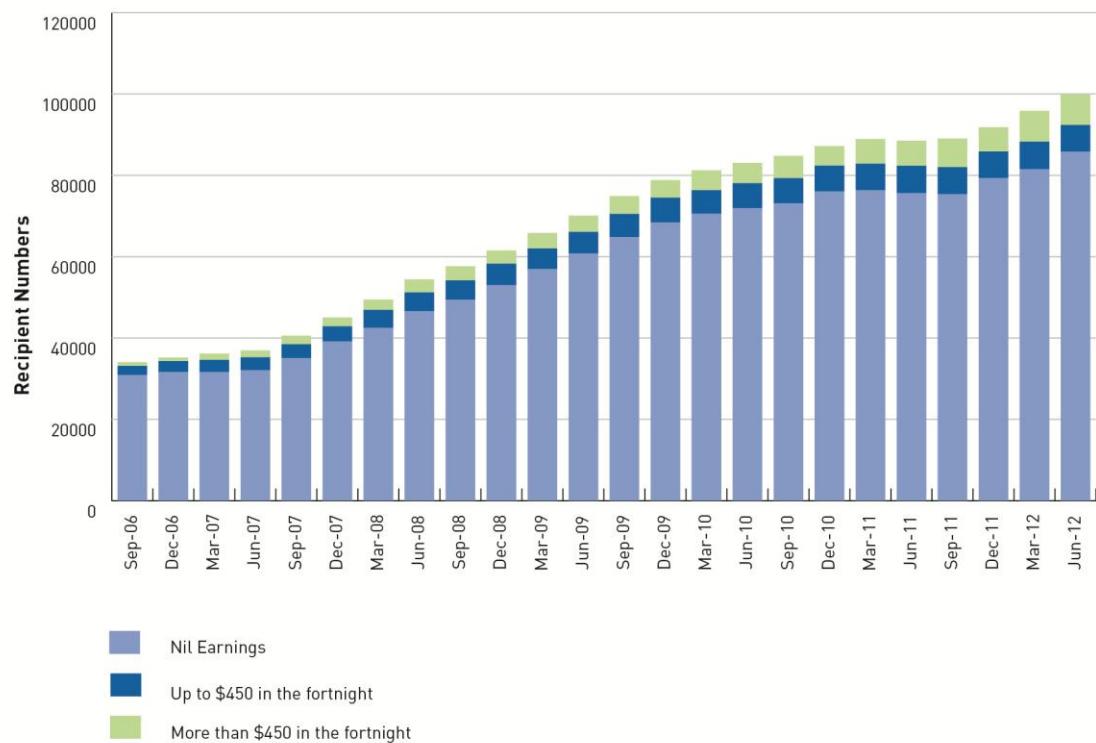
The increase in the overall number of people determined to have a partial capacity to work on Newstart Allowance can be expected to continue through a number of factors, including: the natural accretion of a growing and aging population; the focus on using Newstart Allowance as a way to assist people with disability into work, where they have a capacity to work for 15 hours or more a week; the high duration on payment experienced by this cohort; and as a result of specific policies designed to ensure that individuals who have some capacity to engage with the labour market are actively encouraged and supported to do so.

### Low earnings

In respect of reported earnings, recipients with a partial capacity to work reported a lower incidence of income derived from employment than the general Newstart Allowance population. As at the end of June 2012, 85,788 (85.9 per cent) recipients with a partial capacity to work on Newstart Allowance reported no earnings. For the general Newstart Allowance population, 81.8 per cent of recipients reported nil earnings, however, for the general population, the appreciably lower average duration spent on payment needs to be factored in. Only 7,507 partial capacity to work recipients reported earnings greater than \$450 per fortnight, which equates to 28.2 hours of work per fortnight at the NMW.

The relatively low rate of reported earnings accords with the low rate of workforce participation for people with disability and their higher relative unemployment rate when compared to the general population. Historical evidence indicates, as previously referred to in Section 3, that over the past 11 years from 1998 to 2009, little progress has been made in increasing workforce participation for people with disability over the economy as a whole. This general trend is reflected in the low reported earnings and high average duration on payment of people with a partial capacity to work.

**Figure 27: Fortnightly Earnings for Newstart Allowance Recipients with Partial Capacity to Work**



Source: Centrelink administrative data - DEEWR Bluebook dataset.

The Productivity Commission's inquiry into Disability Care and Support highlights that Australia has a "relatively poor performance in employment of people with disabilities" (Productivity Commission 2011, p958), with a 2010 OECD report ranking Australia 21 out of 29 nations (OECD 2010b). The Productivity Commission (2011, p960) stresses, however, the economic benefit that would accrue, noting:

*"Were Australia to reach the average OECD relative employment rate for people with mild to profound disabilities (compared with those without such disabilities), then it is estimated that their overall employment would rise by around 100 000 by 2050. This equates to an increase in the employment rate of this group of 11 per cent above its counterfactual level. This employment increase would in turn increase GDP by around 0.2 percentage points above its counterfactual level. The latter may not sound very high, but it would be a permanent effect, and GDP is a large value. So, in 2050 alone, the increase in constant price terms of GDP would be around \$8 billion."*

In this context, the role of DES and JSA is important in achieving these employment outcomes, particularly given the high duration on payment for the increasing partial capacity to work cohort on Newstart Allowance, which is, on average, a few weeks short of five years.

## Principal Carer Parents

### Definition

A principal carer is defined as a person who has a dependent child less than 16 years of age in their care. The *Social Security Act 1991* specifies that only one person at a time can be the principal carer of a particular child. If

two or more people have legal responsibility for the day-to-day care, welfare and development of a child, then the person with the greater degree of care and control of the child is generally the principal carer of that child. In all shared care situations, a determination is made as to which of the carers is the principal carer based on who has the greater degree of responsibility for the child's day-to-day care, welfare and development.

The sole attribution of principal carer status has been, at times, contentious in respect of changes to family law which allows for a shared equal care arrangement between two separated parents. In this respect, social security law has not adapted to changes in the family law.

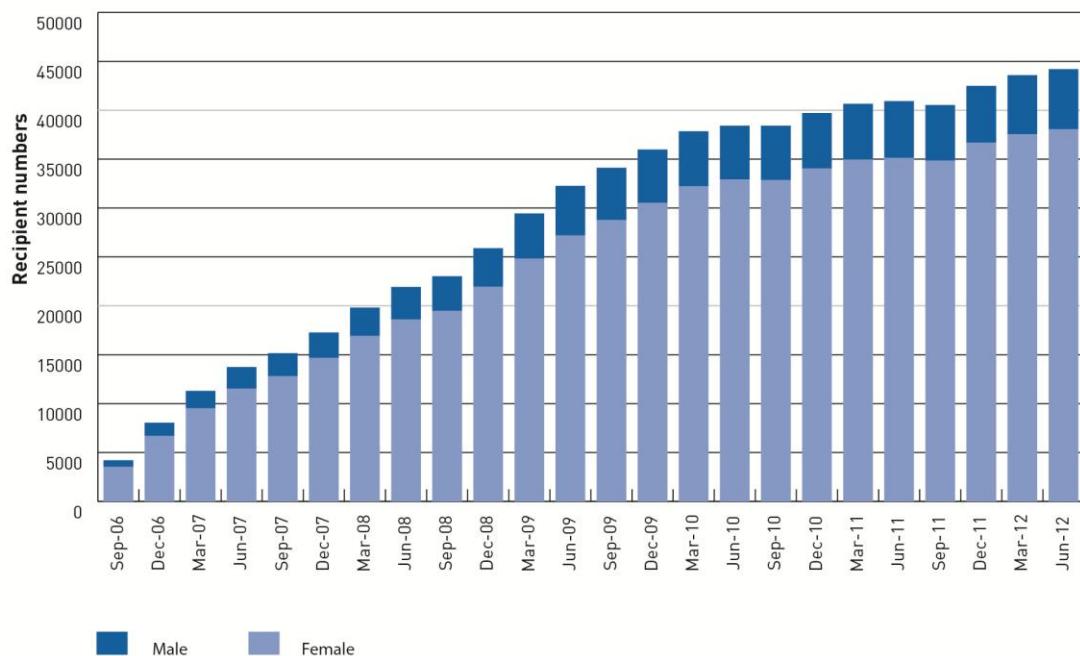
One of the most significant features of principal carer status is the reduction in participation requirements.

Principal carer parents are able to fully meet their participation requirements by looking for part time work of at least 15 hours per week or by undertaking part time employment, study or voluntary work (in some circumstances) for 30 hours per fortnight. Principal carers are also able to undertake a combination of activities, for example part time work and study, to meet their participation requirements. Principal carers also have access to flexible arrangements over the long school holidays, as well as access to exemptions from participation requirements when their circumstances prevent them from effectively participating in work or study.

## **Demographics and population growth**

Principal carer parents on Newstart Allowance are predominantly female with 38,066 recipients or 86 per cent of the total number of 44,194 recipients. This is mirrored in the Parenting Payment (Partnered) population with 91 per cent being female, and Parenting Payment (Single) of which 95 per cent are female.

**Figure 28: Principal Carer Newstart Allowance Recipients, by Gender**



Source: Centrelink administrative data - DEEWR Bluebook dataset. Quarterly point in time data.

The steady growth of the principal carer group on Newstart Allowance is a direct result of the 2006 *Welfare to Work* reforms discussed in Section 1. Under these reforms, all recipients on Parenting Payment who have applied for payment since 1 July 2006 automatically transfer to Newstart Allowance when their youngest child turns six years if partnered, or eight years if single. Similarly, parents who have applied for payment for the first time since 1 July 2006 and whose children are above these ages will most likely have qualified for Newstart Allowance or Youth Allowance (other) rather than a Parenting Payment. This has meant that with each succeeding year since 2006 the principal carer population on Newstart Allowance has grown noticeably, however, over the past 12 months, overall numbers have begun to plateau.

As a result of changes announced in the 2012-13 Budget and contained within the Social Security Legislation Amendment (Fair Incentives to Work) Bill 2012, currently before the Senate, a significant number of Parenting Payment recipients will transition to Newstart Allowance from 1 January 2013. This will increase the number of principal carers on Newstart Allowance by around 60,000 recipients between 1 January 2013 and 30 June 2013, with an ensuing inflow of about 23,000 over the next three years as a result of the removal of Parenting Payment grandfathering arrangements.

### **Jobless families**

Jobless families are more likely to experience higher rates of poverty with both parents and their children generally recording poorer health status and lower education attainment than families with a working parent. The majority of jobless families are single parent families who are headed by women. While single parent employment rates are increasing they still fall short of rates for partnered parents across the economy, and are low compared to most other OECD countries. The life-time economic security, including superannuation savings, of sole parents and their children is negatively impacted by extended periods spent outside of the labour market with long lasting consequences.

As at 16 February 2012, there were 641,009 families in receipt of some form of income support with dependent children. Out of the 641,009 families, 258,907 or 40 per cent are considered to be persistently jobless families<sup>12</sup>, of which 218,894 or 85 per cent are single parent families. Forty-one per cent (105,839 of 258,907) of all persistently jobless families had a youngest child six years of age or older.

Out of the 258,907 persistently jobless families as at 16 February 2012, 141,438 or 55 per cent of them have been jobless for three years from 16 February 2009 to 16 February 2012. Among the 141,438 jobless families, 119,465 or 84 per cent are single parent families, while the other 21,973 or 16 per cent were partnered. Forty-eight per cent of all families who have been jobless for three years had a youngest child six years of age or older.

On face value, the data paints a bleak image of the number of jobless families, particularly single parent jobless families, currently in Australia. However, this needs to be viewed in light of income support policy settings which do not require single parents to search for work until their youngest child turns six years of age, whilst providing generous financial support to the parent.

Over the course of the first participation-free five years, a single parent with one child on average will receive approximately \$30,000 per annum from Parenting Payment (Single), Family Tax Benefit, Rent Assistance and one or two minor supplemental payments, plus a Pensioner Concession Card. This is the equivalent of working approximately 1880 hours per year at the minimum wage (tax-free), which translates to be 72 hours per fortnight

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<sup>12</sup> A ‘persistently jobless family’ is defined as a family with at least one dependent child under the age of 16 where all parents (partnered or single) are on income support and have no reported earnings *in the previous year*.

or, essentially, a couple of hours short of a full time job at minimum wage. The incentive for jobless single parents to work is therefore exercised through generous income testing arrangements and the fact that a single parent will retain their entitlement to Family Tax Benefit. Nevertheless, with a base transfer payment of \$30,000 per annum for a recipient on Parenting Payment (Single) (which drops to around \$25,000 per annum for a single parent on Newstart Allowance with one child), there can be little doubt that the incentive to work is at least partially mitigated by the largesse of the broader social security system.

### **Separated parents who provide minority care**

There are a significant number of recipients of allowance type income support payments who have full parental responsibilities to provide adequate and appropriate care and living conditions for their children but are not principal carer parents. These parents in general, receive the higher ‘with child’ rate of Newstart Allowance. The parents in question can be broadly described as ‘minority care’ separated parents in that they have care of their children for a significant proportion of the time but not a majority of the time. Data from the Child Support Agency (CSA) shows that at March 2012 18 per cent of all child support payers in the Child Support Scheme provided ‘Regular Care’ of their child support children (Regular Care is care from 14 per cent up to 35 per cent of the time), and a further 10 per cent of all child support payers provided ‘Shared Care’ of their child support children (Shared Care is care from 35 per cent up to 65 per cent of the time).

The number of these non-principal carer Shared Care and Regular Care parents who are in receipt of Newstart Allowance or another allowance-type income support payment is currently not certain, however it is estimated that it is likely that there are in the order of 20,000 such parents in receipt of an allowance-type income support payment. Those who are single and eligible for Newstart Allowance can receive the higher single rate of Newstart Allowance in recognition of their parenting responsibilities.

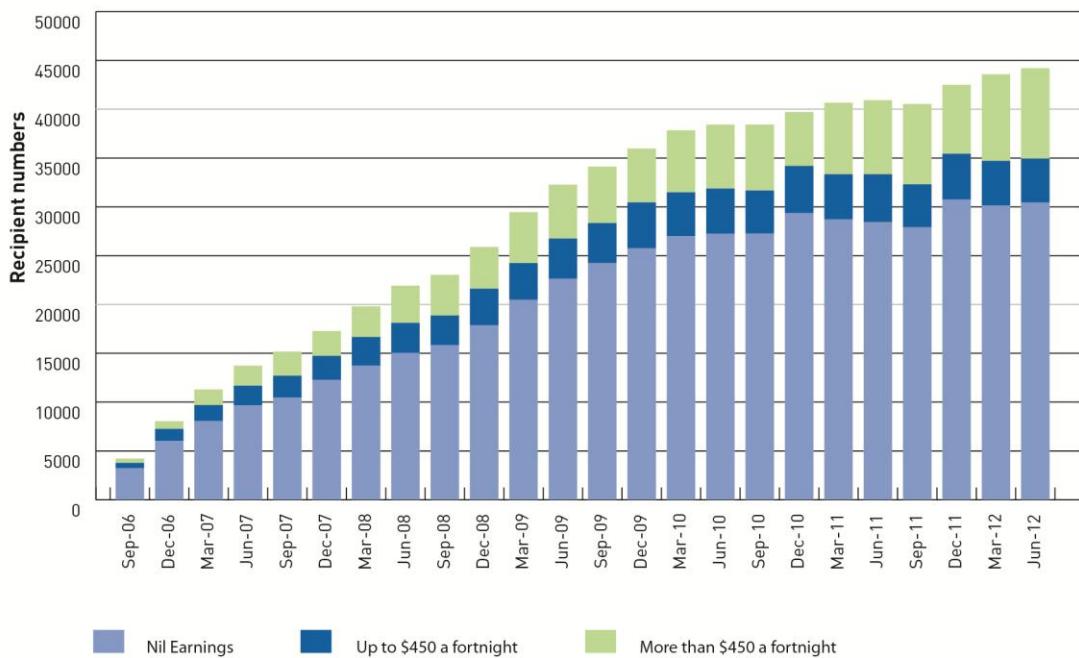
Most of these parents will face significant costs in providing care of their children. Some of those with Shared Care receive a share of Family Tax Benefit but those with Regular Care are not entitled to receive a share of Family Tax Benefit (though they can receive Commonwealth Rent Assistance (CRA) through the Family Tax Benefit system if they are in private rental).

### **Employment and principal carers**

In meeting their participation obligations, parents on income support, particularly single parents, must balance their caring responsibilities, such as being available to pick up and drop off young children from school. It is for this reason, in addition to the financial considerations, that parents on income support are very sensitive to effective marginal tax rates when considering and participating in work. Parents of children with heightened or special needs face particular challenges, as it can be difficult to maintain employment while experiencing recurring interruptions to their working life, such as medical appointments, being called to attend their child’s school on a regular basis, normal childhood illnesses and school holidays.

Given these challenges, it is significant that parents on Newstart Allowance, in particular single parents, and Parenting Payment (Single) recipients, exhibit the highest frequency of earnings of all groups on income support by a considerable margin.

**Figure 29: Fortnightly Earnings for Principal Carer Newstart Allowance Recipients**



Source: Centrelink administrative data - DEEWR Bluebook dataset. Quarterly point in time data.

A single parent on Newstart Allowance with two children aged nine and eleven years, receiving maximum CRA and assuming no employment income, will receive a little over \$32,000 per annum in total transfer payments per year, not including the value of a Pensioner Concession Card. When supplemented by modest employment income, such as \$500 per fortnight, a single parent's overall income rises to around \$1496 per fortnight (around \$38,890 per annum) and from 1 January 2013 when new income testing arrangements commence for single principal carers on Newstart Allowance, their overall income would be approximately \$1565 per fortnight (around \$40,690 per annum).

As at the end of June 2012, 13,763 principal carers on Newstart Allowance reported earnings, representing 31 per cent of the principal carer group on Newstart Allowance. Approximately 35 per cent of single principal carers on Newstart Allowance reported earnings as at the end of June 2012. The average for all recipients on Newstart Allowance reporting earnings is considerably lower at 18 per cent, which drops to 17 per cent once principal carers are excluded.

This earnings proportion is mirrored in the Parenting Payment (Single) population with 33.5 per cent of recipients reporting earnings in the last fortnight of June 2012, noting that only 32.5 per cent of Parenting Payment (Single) recipients had participation requirements at this time.

Parenting Payment (Partnered) reveals quite a different story with 11.2 per cent of recipients reporting earnings, however, only 8.2 per cent of recipients had participation requirements. This lower proportion reflects the participation requirements and income test for this payment, recipients' partnered status and the different life circumstances of the cohort (most have young children). It also reflects the relatively small number of parents retaining their grandfathering status on Parenting Payment (Partnered) who therefore generally have older

children. For Newstart Allowance principal carers who are partnered, approximately 22 per cent of recipients reported earnings at the end of June 2012.

The overall ratio of earnings is relatively stable between single principal carers on Newstart Allowance and Parenting Payment (Single), however, when more accurately comparing Parenting Payment (Single) recipients who have older children against their Newstart Allowance counterparts; they in fact exhibit a much higher rate of earnings. In part, this is due to the different income test thresholds whereby recipients with a high level of earnings are able to remain on Parenting Payment (Single) longer than Newstart Allowance, with its lower income test threshold and taper rate.

The main employment service which principal carers on Newstart Allowance utilise is JSA. Since the start of JSA on 1 July 2009, around 47,500 job placements have been recorded for Newstart Allowance recipients identified as principal carer parents. This represents around 5.5 per cent of job placements recorded for Newstart Allowance recipients. Over this same time period, 20,200 13 week outcomes have been recorded for this cohort (or 6.2 per cent of all 13 week outcomes achieved by Newstart Allowance job seekers). Principal carer parents have achieved a higher proportion of 13 week outcomes for education outcomes, representing some 8.3 per cent of 13 week outcomes, compared to 5.5 per cent overall for Newstart Allowance job seekers.

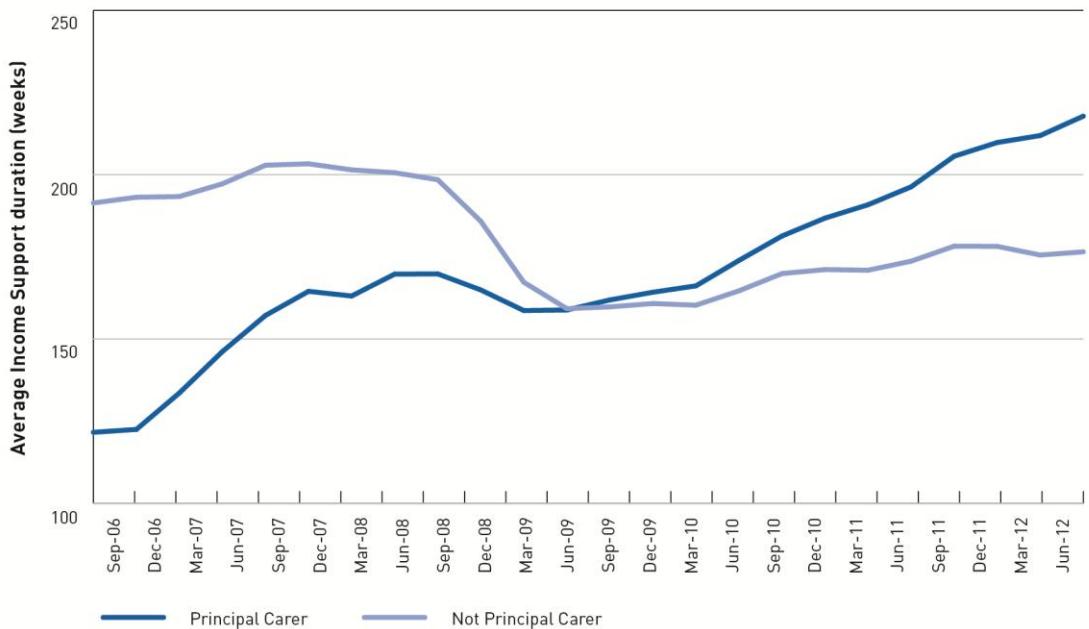
### **Duration on Payment**

As at the end of June 2012, the average duration on income support for Newstart Allowance principal carers was 217.8 weeks (4 years, 9 weeks and 5 days), with the median duration being 127 weeks. This is considerably longer than the average duration for all recipients on Newstart Allowance of 179.8 weeks.

This average duration on payment for this cohort reflects a recipient's total time on income support rather than just on Newstart Allowance. It is therefore influenced by the duration which a recipient may have spent on Parenting Payment prior to transferring to Newstart Allowance. It is important to note that where a non-grandfathered recipient of Parenting Payment (Partnered) transfers to Newstart Allowance, they will not have thus far been required to undertake participation obligations up until their transfer. In a similar manner, a non-grandfathered Parenting Payment (Single) recipient transferring to Newstart Allowance when their youngest child turns eight years of age will only have had participation requirements from when their youngest child turned six years of age and a grandfathered recipient will have had participation requirements since their youngest child turned seven years of age. Inevitably, these parents will transfer to Newstart Allowance with an existing high duration on payment which inflates the overall data.

The average duration on payment of principal carers on Newstart Allowance is forecast to rise significantly from 1 January 2013 when grandfathering arrangements arising from the 2006 *Welfare to Work* reforms are terminated.

Figure 30: Newstart Allowance Recipients Average Income Support Duration (in weeks) by Principal Carer Status



Source: Centrelink administrative data - DEEWR Bluebook dataset.

Notwithstanding the inflationary effect on the Newstart Allowance principal carer duration data, the very high duration on payment for principal carers is significant in two ways. The first is that it highlights that many Parenting Payment recipients who are activated in a participation sense for the first time when their youngest child turns six years, have potentially been out of the workforce for a very long time. Previous labour market inactivity is a high risk factor for predicting future long duration on payment (cf. Table 7): recent workforce experience, recent training, up-to-date and relevant skills are essential for recipients to be job ready which greatly assists in gaining employment in a timely fashion. The lack of participation requirements for a six year period, which is often much longer depending on the number of children a recipient may have, can leave parents deskilled upon their re-entry to the labour market.

The second significant reason for long duration on payment relates to the relationship of the participation requirements which principal carers have and the income test. This has been briefly discussed in the context of the labour market in Section 3 and operates in a similar manner to Newstart Allowance recipients with a partial capacity to work.

With a maximum participation requirement of 30 hours per fortnight for principal carer parents, a parent fulfilling their requirements whilst earning the National Minimum Wage of \$15.96 per hour would earn \$478.80 per fortnight. With a maximum fortnightly rate of Newstart Allowance of \$529.80 they would retain \$298.52 of their Newstart Allowance under the income test. The income threshold at which a Newstart Allowance single principal carer recipient would finally move off payment on current rates is \$976.34 (not including Rent Assistance or Pharmaceutical Allowance). At the National Minimum Wage, this represents more than 60 hours of work per fortnight, which is more than double the participation requirements for a principal carer.

As a result of the introduction of a new taper rate for single principal carers from 1 January 2013 (40 cents in the dollar for income earned above \$62 per fortnight), the income threshold is set to rise to \$1386.50 per fortnight on current rates, noting that this figure will increase as a result of the indexation of the basic rate of Newstart Allowance on 20 September 2012. This threshold is equivalent to 86.9 hours work per fortnight at the National Minimum Wage.

It is therefore likely that for a significant number of single principal carers on Newstart Allowance who are earning income, their primary income support payment is operating as a de facto long term income subsidy rather than the transitional payment that it was originally designed to be. However, the more generous taper rate and other transfer payments mean that there is a significant package of support for single principal carers as a whole. For example, Figure 33 suggests that the total package of support for a single parent, renting, with two children aged 9 and 11 years could be \$1239.87 per fortnight (not including Child Care Benefit) without employment income.

### **Mature Aged recipients**

For the purposes of Newstart Allowance, mature aged recipients are defined as those aged 55 years or older. In June 2012 there were approximately 98,000 mature aged recipients of Newstart Allowance, 18 per cent of the total Newstart Allowance population. Included in this group is 27,000 recipients, almost 28 per cent, who have been identified as having a partial capacity to work and 1500 who are principal carer parents.

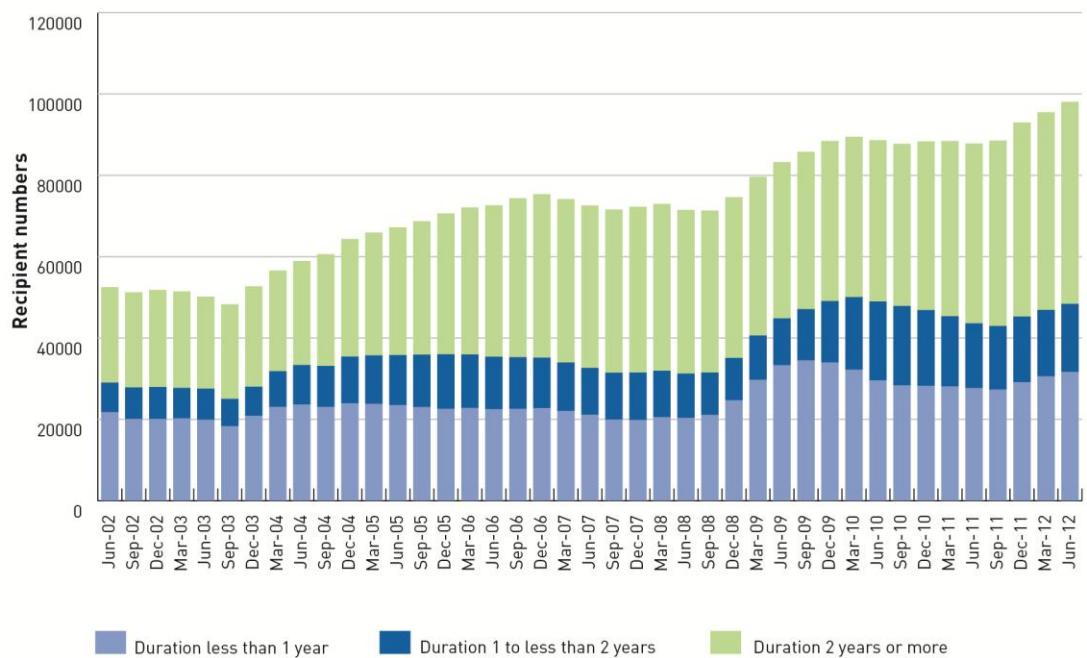
The proportion of mature aged recipients in Newstart Allowance has not changed significantly since *Welfare to Work* although both the number and proportion of mature aged recipients have almost doubled since June 2002 when there were approximately 52,500 mature aged recipients of Newstart Allowance, representing 10 per cent of the Newstart Allowance population.

This growth has been driven by the eligibility restrictions placed on Mature Age Allowance and Partner Allowance in 2003, and Widow Allowance in 2005, however, it should be noted that these reforms have not simply transferred older allowance recipients from one payment to another. The total number of allowance recipients (excluding student payments) aged 50 or older has decreased by about 29 per cent from 302,000 in June 2002 to 213,000 in June 2012, consistent with an increase in the participation rate for mature aged people over the same period.

Reflecting the former provisions for Mature Age Allowance, single recipients of Newstart Allowance, Partner Allowance, Sickness Allowance, Special Benefit, Widow Allowance and Parenting Payment (Partnered) who are aged 60 years or older and who have been in continuous receipt of income support for nine months or more, are able to access a higher basic rate of payment of \$529.80 per fortnight (equivalent to the rate paid to a person who is single and has dependent children). In addition, recipients may receive Pharmaceutical Allowance, Telephone Allowance and the Pensioner Concession Card (noting that Sickness Allowance recipients are automatically eligible for Pharmaceutical Allowance). Recipients of ABSTUDY Living Allowance who are aged 60 or older are also able to access this higher basic rate and Pharmaceutical Allowance and recipients of Austudy who are aged 60 years or older and who have been in continuous receipt of income support for nine months or more are able to receive Pharmaceutical Allowance.

The proportion of mature aged Newstart Allowance recipients who have been in receipt of income support for two years or more has decreased slightly since *Welfare to Work*, from 53 per cent in September 2006 to 51 per cent in June 2012, but has increased more significantly from 45 per cent in June 2002.

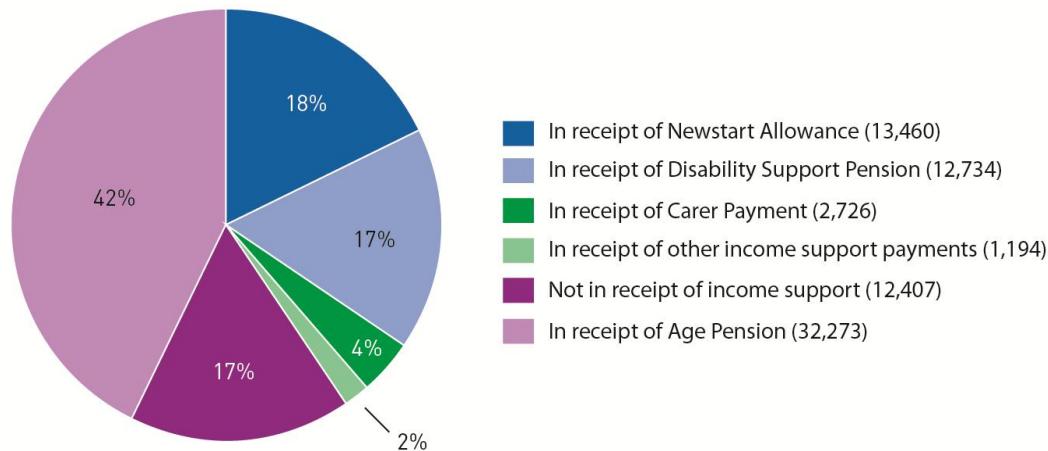
**Figure 31: Mature Aged Newstart Allowance Recipients by Income Support Duration (aged 55 or older)**



Source: Centrelink administrative data - DEEWR Bluebook dataset.

Taking a snapshot of the Newstart Allowance population as at 1 July 2007, it is possible to see how the circumstances of individuals in different age groups have changed in the last five years. This analysis shows that 83 per cent of individuals who were aged 55 to 64 years and receiving Newstart Allowance in July 2007 are in receipt of income support five years later in 2012, with 67 per cent having remained in continuous receipt of income support during this period.

**Figure 32: All people aged 55-64 who were in receipt of Newstart Allowance on 1 July 2007 and where they are now (June 2012)**



*Source: Centrelink administrative data - DEEWR Research and Evaluation Database (RED).*

This result may not be unexpected as 43 per cent of this cohort is in receipt of Age Pension in 2012. Excluding those who are now in receipt of Age Pension, approximately 30 per cent are no longer in receipt any pension or allowance, while 30 per cent are now in receipt of Disability Support Pension and 32 per cent are in receipt of Newstart Allowance, which is similar to the outcomes for individuals who were aged 45 to 54 years in July 2007 (33 per cent no longer in receipt of payment, 28 per cent receiving Disability Support Pension and 31 per cent receiving Newstart Allowance in 2012).

This reveals, however, the significant percentage of older recipients, including those in the 45-54 year bracket, who remain on payment over a long period of time, and who often transfer to the higher Disability Support Pension. This is in line with the relatively high proportion of mature aged recipients who are assessed as having a partial capacity to work and the sizeable migration to Disability Support Pension may be indicative of deteriorating health or increasing levels of disability.

The proportion of mature aged Newstart Allowance recipients with employment income has increased slightly from 17 per cent (12,700) in September 2006 to 20 per cent (19,400) in June 2012. Although mature aged Newstart Allowance recipients are less likely to be earning than principal carer parents (31 per cent), a larger proportion have employment income than the total Newstart Allowance population (18 per cent). Of those who do have employment income, approximately 41 per cent (7900) of mature aged Newstart Allowance recipients had fortnightly earnings of less than \$450, approximately 51 per cent (10,000) had fortnightly earnings of between \$450 and \$1000, and the remaining 8 per cent (1500) had fortnightly earnings of more than \$1000.

Under *Welfare to Work*, Newstart Allowance recipients aged 50 to 64 years were required to register with an employment service provider and satisfy the same job search requirements as younger recipients. Although Newstart Allowance recipients aged 55 years or older do not have part time participation requirements (unlike principal carer parents and people with a partial capacity to work), they are able to satisfy the activity test if they

undertake at least 30 hours per fortnight of approved voluntary work, paid work (including self employment) or a combination of the two. Recipients who are satisfying their participation requirements in this way must remain connected with an employment services provider unless they are also a principal carer parent or have a partial capacity to work.

In the 12 months to March 2012, 38.1 per cent of mature aged Newstart Allowance recipients were employed around three months later, following a period of assistance. Of those employed, around two-thirds (or 25.1 per cent overall) were employed part time. Employment outcomes for mature aged Newstart Allowance recipients are lower than the general job seeker population.

**Table 14: Three month employment outcomes (Mature Aged) – March 2012**

	Employed			Unemployed	Not in the labour force
	Full-time	Part-time	Total		
Newstart Allowance	20.7%	27.3%	48.0%	36.0%	16.0%
Mature aged	13.0%	25.1%	38.1%	35.5%	26.4%

*Note: The income support types refer to the job seekers' income support type at the commencement of assistance.*

Of all mature aged job seekers on Newstart Allowance who were employed three months after their job placement in the year ending December 2011, 29.4 per cent were working as labourers.

**Table 15: Occupations of those employed three months after a job placement – March 2012**

Profession	Mature aged	Newstart Allowance
Managers	n.p.	1.3%
Professionals	n.p.	8.2%
Technicians	10.9%	9.9%
Community workers	11.7%	15.0%
Clerical workers	12.4%	11.9%
Sales	11.5%	11.6%
Machinery workers	14.2%	12.0%
Labourers	29.4%	30.0%

*Not published (n.p.) indicates that sufficient data were not available to produce a reliable estimate for the particular group of job seekers*

### **Partner Allowance and Widow Allowance**

In June 2012, Widow Allowance and Partner Allowance accounted for eight per cent of allowance recipients aged 50 to 59 years and 36 per cent of those aged 60 to 64 years. Due to the age restrictions introduced in 2003 for Partner Allowance and in 2005 for Widow Allowance, all recipients of these allowances have been aged 55 years or older since July 2010.

Recipients of Partner Allowance and Widow Allowance have minimal participation requirements and must have no recent workforce experience, meaning that they have not worked at least 20 hours per week for a period of 13 weeks or more in the last 12 months. Recipients of Partner Allowance and individuals who claimed Widow

Allowance before 20 September 2002 are invited, but not required, to attend participation interviews and develop an EPP. Individuals who claimed Widow Allowance from 20 September 2003 are required to attend a compulsory annual participation planning interview with the DHS and are assisted to develop an EPP to help them increase their economic and social participation. Individuals who claimed Widow Allowance between 20 September 2002 and 20 September 2003 were given the opportunity to participate in voluntary participation planning.

This means that in June 2012 there were almost 14,000 Partner Allowance recipients (94 per cent of whom were women) and 29,000 Widow Allowance recipients (all of whom were women) of working age with little or no requirement to look for paid work or to undertake activities that would assist them to find work.

As would be expected with a payment that has been closed to new entrants since September 2003, the number of Partner Allowance recipients has decreased significantly and, since September 2005, all recipients have been in receipt of income for more than two years.

Unlike Partner Allowance, Widow Allowance is still open to new entrants who were born on or before 1 July 1955. As the minimum qualification age thereby gradually approaches Age Pension age, the number of people receiving Widow Allowance is declining.

Less than 10 per cent of Partner Allowance and Widow Allowance recipients have fortnightly earnings, and 63 per cent of those who do earn have fortnightly employment income of less than \$450 compared to 47 per cent of all Newstart Allowance recipients and 41 per cent of mature aged Newstart Allowance recipients. This might be expected as qualification for both Partner Allowance and Widow Allowance is restricted to those with no recent workforce experience and recipients have minimal, if any, participation requirements.

The recipients of Partner Allowance and Widow Allowance have a very long duration on payment, however, many recipients are not formally required to participate (i.e. there are no sanctions on not doing so). In this way the payments operate essentially as pensions, however, they do not provide the same safety net that pensions do. Alternatively, they do not particularly operate as allowances as there is little or no accompanying participation compliance framework, as there is with Newstart Allowance, to encourage recipients to seek employment. Recipients of Partner Allowance and Widow Allowance receive a rate of payment that is calibrated for a transitional phase with the end goal of returning to the workforce, though they may be unlikely to return to the workforce in the foreseeable future.

## 4e. Standard of living of allowance recipients

There has been significant community discussion about financial disadvantage among allowance payment recipients and the impact this has on their ability to maintain an adequate standard of living. In particular, community concern has focused around whether rates of payment appropriately reflect recent increases in the cost of certain basic necessities, such as housing and utilities, leading to greater financial hardship among recipients.

Assessing living standards is highly complex and there is no agreed way to accurately quantify and compare living standards between individuals and households. The concept of 'adequacy' is problematic in that it relies on subjective judgements on an appropriate living standard and there is no conclusive measure of adequacy. It is also inappropriate to consider allowance payment rates in isolation as they are one component of a broader package of assistance that is targeted to the needs of the recipients.

This following discussion outlines the broader assistance provided to individuals and families by presenting different cameos based on the circumstances of different individuals and families. This section also explores

considerations related to the concept of ‘adequacy’, by discussing some issues that may provide insight into the living standards of allowance payment recipients. This includes changes in the costs of living, relative financial disadvantage, financial stress, and specific concerns around housing affordability.

### **Package of assistance for Newstart Allowance recipients**

The total package of assistance available to Newstart Allowance recipients is broader than simply the basic rate of payment. For many recipients it includes CRA, family assistance payments such as Family Tax Benefit, and access to concessions, and other supplements. Individuals in different circumstances will be able to access a different combination of payments and services which are targeted to their needs.

The following cameos (see Figures 33-35) compare the amount of transfer payment assistance provided to five different household types:

- a couple who are both in receipt of Newstart Allowance, with two children aged 9 and 11 years, living in a private rental property
- a couple who are both in receipt of Newstart Allowance, living in a private rental property
- a single parent in receipt of Newstart Allowance, with two children aged 9 and 11 years, living in a private rental property
- a single mature-aged recipient of Newstart Allowance, who is 60 years or older and has been in continuous receipt of payment for over nine months, who owns their own home
- a single person on Newstart Allowance who is renting.

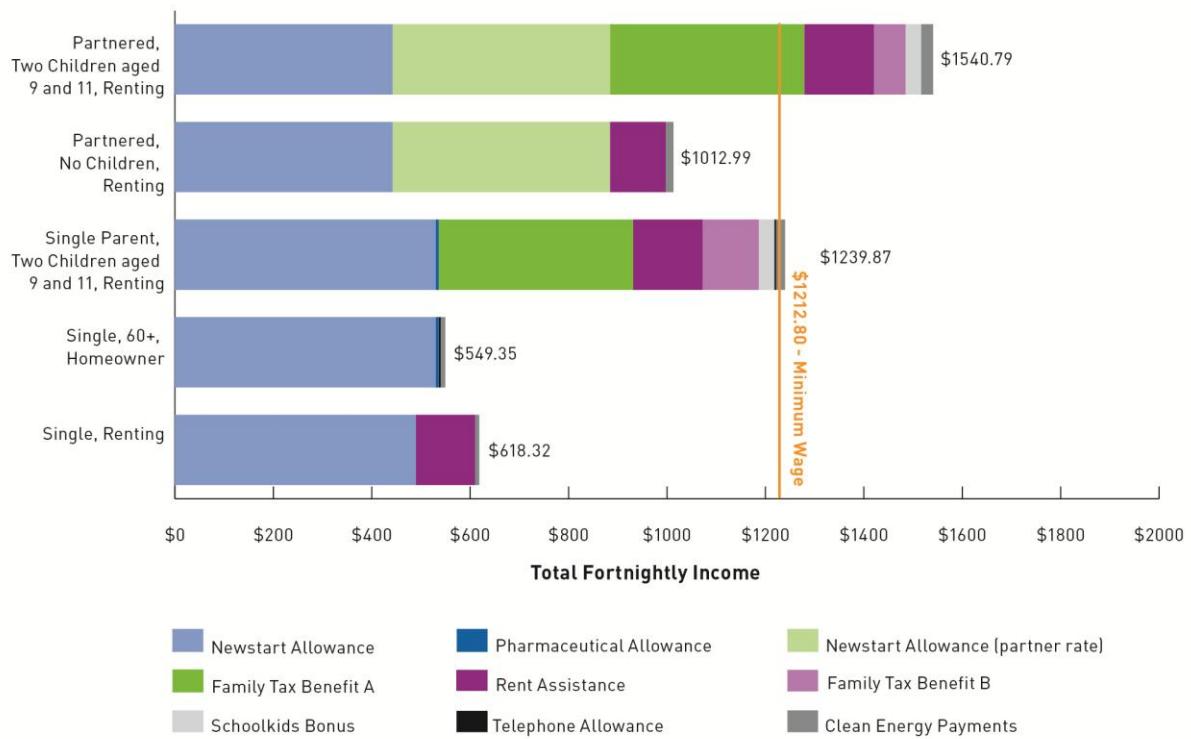
Figure 33 compares household types where no-one earns any income, Figure 34 compares households where one adult member of the household earns \$450 of income per fortnight, and Figure 35 compares households where one adult member earns \$900 per fortnight. The cameo for a single parent is based on the current income test for Newstart Allowance and not on the more generous income test to be introduced from 1 January 2013 (under which a parent earning \$450 per fortnight would retain \$58.80 more of their Newstart Allowance and a parent earning \$900 per fortnight would retain \$148.80 more of their Newstart Allowance based on current rates). Further detail of these cameos is provided at Appendix H.

The cameos demonstrate that the greatest amount of transfer payment assistance is provided to households with dependent children<sup>13</sup>. While partly to offset the higher costs experienced by households with dependent children, this weighting reflects the priority given by successive Governments to ensuring that all children have a basic acceptable standard of living. Family Tax Benefit plays a significant role in achieving this in that the income test for Family Tax Benefit A commences at an income level in excess of the threshold point where all individual working age income support payments cease.

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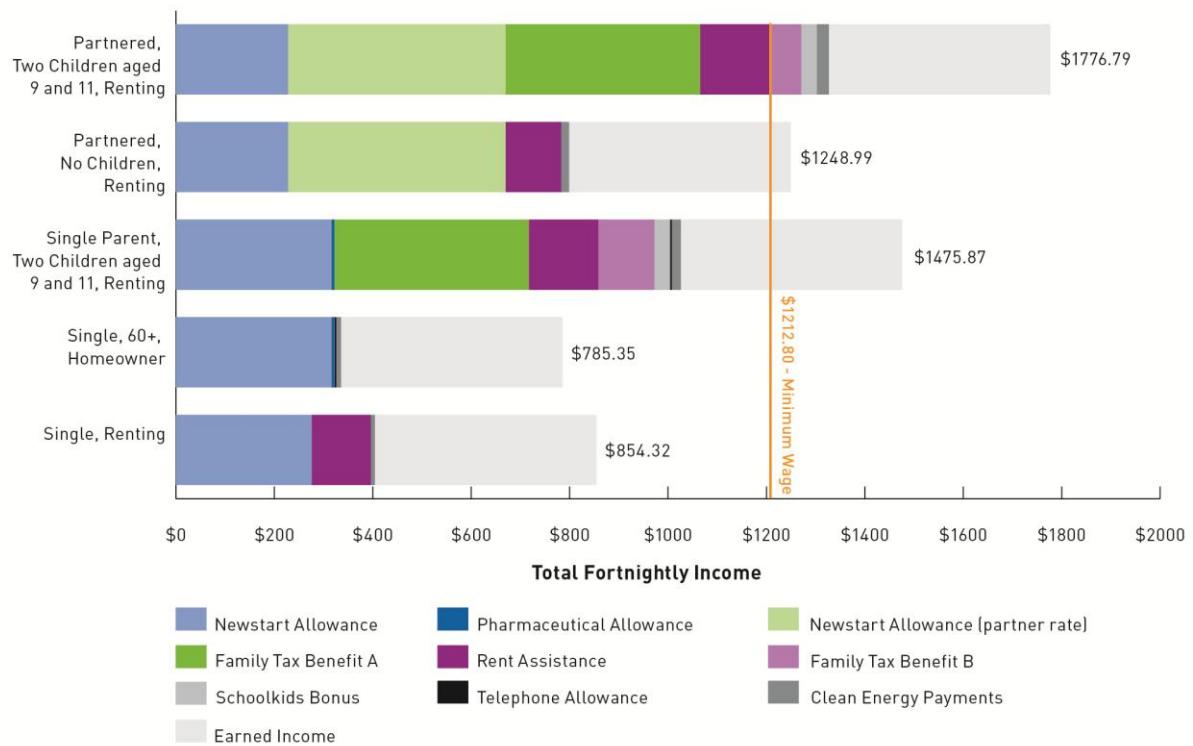
<sup>13</sup> Due to the variability of child care service arrangements, Child Care Benefit has not been included in the total package of assistance for families.

Figure 33: Total package of assistance for different Newstart Allowance households (per fortnight) with no earnings



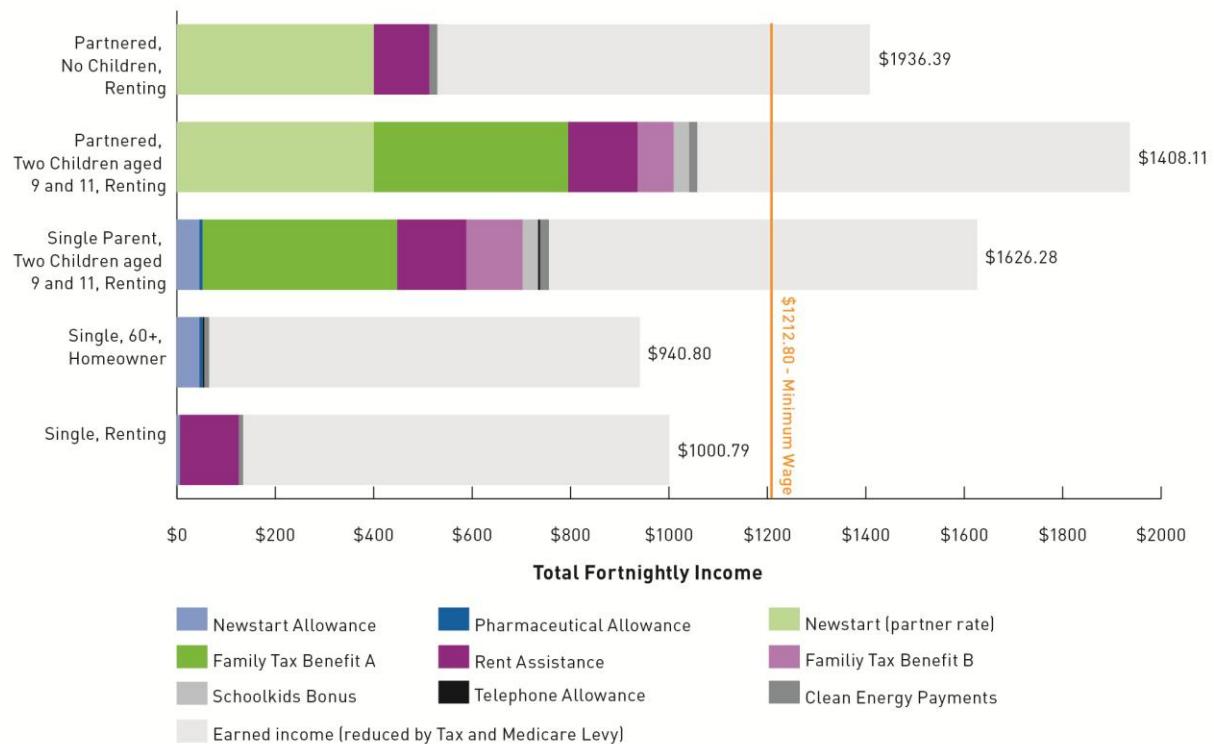
Source: DEEWR analysis based on rates at 1 July 2012.

Figure 34: Total package of assistance for different Newstart Allowance households (per fortnight) with \$450 earnings



Source: DEEWR analysis based on rates at 1 July 2012.

Figure 35: Total package of assistance for different Newstart Allowance households (per fortnight) with \$900 earnings



Source: DEEWR analysis based on rates at 1 July 2012.

Ensuring that people have enough income to maintain a basic acceptable standard of living means targeting different levels of assistance to different household types. Households with dependent children face higher costs than those without children, and a single person living alone cannot achieve the same economies of scale as a couple household, a sharer household or a family with children might. A commonly cited approach to determining the amount of income that different households require to attain the same living standard is the OECD Modified Equivalence Scale. The scale is calculated by adding together a factor of 1 for the first adult and a factor of 0.5 for each subsequent person aged 14 and over and 0.3 for each child under 14 for a particular household. Once this sum has been calculated, a household's disposable income can then be divided by the scale, providing an equivalent to a single person's income, facilitating comparison between different household types. Although these equivalences are not used to determine the rates of payment, when applied to the scenarios above they demonstrate further the greater weighting given to households with dependent children.

Allowances and pensions have different rates of payment for single and partnered recipients reflecting the economies of scale that result from sharing living costs with another person. The above OECD modified equivalences suggests that an appropriate relativity for the single rate of allowances would be approximately two-thirds of the combined couple rate.

Following the Harmer Review, the Government settled on a relativity of around two-thirds to ensure that single pensioners achieved a similar standard of living to partnered pensioners. Unlike pensions, where the single rate is equivalent to 66.33 per cent of the combined couple rate, there is no set relativity between the single and combined couple rates of Newstart Allowance, although it is currently at around 55 per cent and will remain at that level in the absence of further policy change.

Community concerns have been expressed that the rate of Newstart Allowance does not adequately account for the costs of being single, with calls for an increase in the single rate of Newstart Allowance of \$50 per week derived from this two-thirds relativity. However, it should be noted that this relativity is not in any way indicative of the adequacy of the payments themselves, only of the ability of different household types to achieve the same relative standard of living. It should also be noted that this relativity does not take into account the ability of single people to share their accommodation and some of their living costs as was discussed in both the Harmer Pension Review (FaHCSIA 2009, p43) and the Henry Review (Rec 83).

### **Financial disadvantage and stress**

People receiving allowance payments face greater financial disadvantage on average than the general population. According to the 2009-10 Household Expenditure Survey (ABS 2011b), around 80 per cent of people living in households receiving unemployment, study and family support payments, were classified as living in low economic resource households (in the bottom two quintiles of both income and wealth). These households were considerably less likely to have someone who is employed, have less disposable income after basic necessities, and have fewer assets and accumulated wealth than the general population. Low economic resource households are particularly vulnerable to financial hardship because they have limited or no access to accumulated wealth to draw upon in times of need. Unemployment is a key risk factor associated with financial disadvantage. Other factors such as life cycle stage, redundancy, sudden job loss, age and household type also have an impact on the likelihood that someone may experience financial hardship (ABS 2007; Marks 2005).

Surveys of financial stress provide some indication as to whether an individual is able to manage their living costs without hardship. ‘Financial stress’ refers to the difficulty in meeting financial commitments because of a shortage of money. Surveys designed to examine financial stress pose questions about whether a person has experienced one or more ‘indicator’ of financial stress because they did not have enough money, such as the inability to pay bills on time or seeking financial help from others.

Analysis by the ABS (2011b) shows that households who rely on government pensions and other benefits as their main source of income experience higher levels of financial stress than the general population. Around forty-eight per cent of these households reported experiencing three or more indicators of financial stress in the previous twelve months, which was more than double the rate of financial stress for all households (22.1 per cent). For people receiving allowance payments such as Newstart Allowance, Youth Allowance, Austudy and ABSTUDY, the rate of reported financial stress was higher, at around 79 per cent.

The Household, Income and Labour Dynamics in Australia (HILDA) Survey also examines financial stress among its respondents. Respondents are asked to recall whether since the beginning of the year they had experienced any of the following due to a shortage of money:

- could not pay electricity, gas or telephone bills on time
- could not pay the mortgage or rent on time
- pawned or sold something
- went without meals
- was unable to heat the home
- asked for financial help from family and friends
- asked for help from welfare/ community organisations.

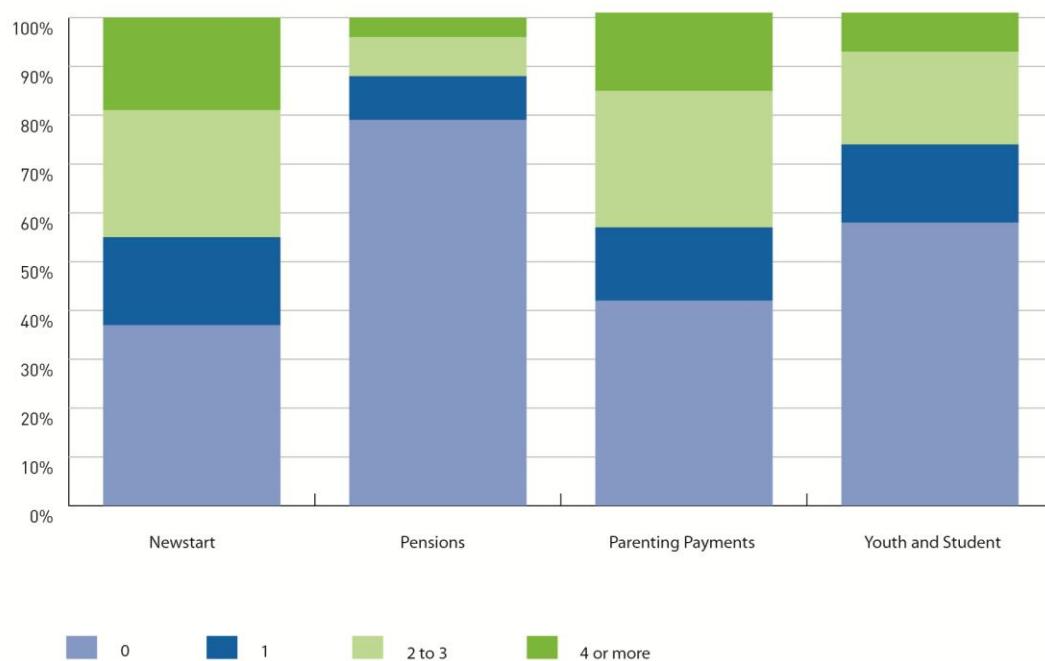
The results of the 2009 HILDA survey suggest that financial stress is not uncommon among allowance payment recipients, although it is not experienced by everyone. For example, of the 236 respondents who said they were receiving Newstart Allowance and completed the financial stress questionnaire, around:

- 37 per cent reported no incident of financial stress.
- 18 per cent said they had experienced one.
- 25 per cent said they had experienced two or three.
- 18 per cent said they had experienced four or more incidents of financial stress.

In comparison, only around 18 per cent of people who did not indicate they were receiving a government payment said they experienced at least one indicator of financial stress, suggesting that financial stress was over 3 times more prevalent among Newstart Allowance recipients.

Figure 36 shows the proportions of recipients experiencing financial stress by number of reported incidents and by payment type. It shows that people receiving Newstart Allowance, parenting payments (single or partnered), and youth and student payments (youth allowance, Austudy or ABSTUDY) reported higher levels of financial stress compared to people on pensions.

**Figure 36: Proportion of respondents by number of indicators of financial stress reported, by payment type**



Source: 2009 HILDA survey

Allowance payment recipients who are on payment longer term may also be more likely to experience persistent financial stress compared to other groups. An analysis of HILDA survey results from 2001 to 2010 shows that around 39 per cent of Newstart Allowance recipients reported financial stress in at least six out of the ten years, compared to only around 12 per cent of people in receipt of pensions and 12 per cent of people who did not report receiving any benefits.

Caution is required when using financial stress indicators to determine if a person has adequate income or whether a person is “poor”. Some people on low incomes do not report any financial stress, while others with moderate to high incomes report problems meeting expenses. New Newstart Allowance recipients could also be

expected to have difficulties adjusting to lower incomes following a job loss. Certain factors not directly related to income, such as consumption patterns, debt levels, budgeting and money management skills, or certain life events (e.g. loss of employment or death of a spouse) may also contribute to a person's likelihood of experiencing financial stress<sup>14</sup>.

### **Allowance recipients seeking financial assistance and flexible payment arrangements**

Financial hardship is relatively common among people who rely on income support payments as their main source of income. DHS administrative data indicates that around 100,000 referrals are made to Centrelink Service Centre social workers each year are for reasons of financial hardship, the majority of whom are social security payment recipients.

In 2011-12, there were 101,660 referrals to Centrelink Service Centre social workers for reasons of financial hardship. Of these, 24,642 referrals were made for people receiving Newstart Allowance, making them the highest users of Centrelink social work services for this referral reason. The next most frequent payment categories referred to social workers because of financial hardship are:

- Disability Support Pension – 14,884
- Parenting Payment (Single) – 15,245
- Youth Allowance – 14,563

Centrelink social workers also make referrals out to community services for emergency relief, material aid or financial counselling/support services. In 2011-12, 32,907 referrals by Centrelink social workers were made to income support recipients for these reasons. The greatest volume of referrals out for this purpose were among recipients of Newstart Allowance (11,402 referrals), followed by Disability Support Pension (5915), and Parenting Payment (Single) (4795).

An urgent payment is an early delivery of a recipient's entitlement, which is made because the recipient is in severe financial hardship as a result of exceptional and unforeseen circumstances. Urgent payments result in a lower subsequent payment on the recipient's usual payment delivery day. In 2011-12, 436,745 urgent payments were granted. Newstart Allowance recipients are the main customer group that access urgent payments. In 2011-12, nearly half of urgent payments (210,097 or around 48 per cent) were paid to Newstart Allowance recipients.

In recognition that people who rely on social security payments may experience difficulties managing on low incomes, more flexible payment arrangements are available. Weekly payments may be provided to recipients and are intended to alleviate the hardships faced by the most vulnerable people. Providing income support on a weekly basis does not change entitlements but helps people to stabilise their circumstances, meet their expenses more readily and reduce their risk of financial crises and homelessness. The Australian Government removed the administrative cap on access to weekly payments as part of the 2012-13 Budget. In 2011-12, 390,580 fortnightly entitlement periods were paid by weekly payment. Of these:

- 197,907 were paid to people receiving Disability Support Pension
- 109,059 were paid to people receiving Newstart Allowance
- 63,914 were paid to people receiving Youth Allowance, Austudy and ABSTUDY
- 5904 were paid to people receiving Parenting Payment (Single).

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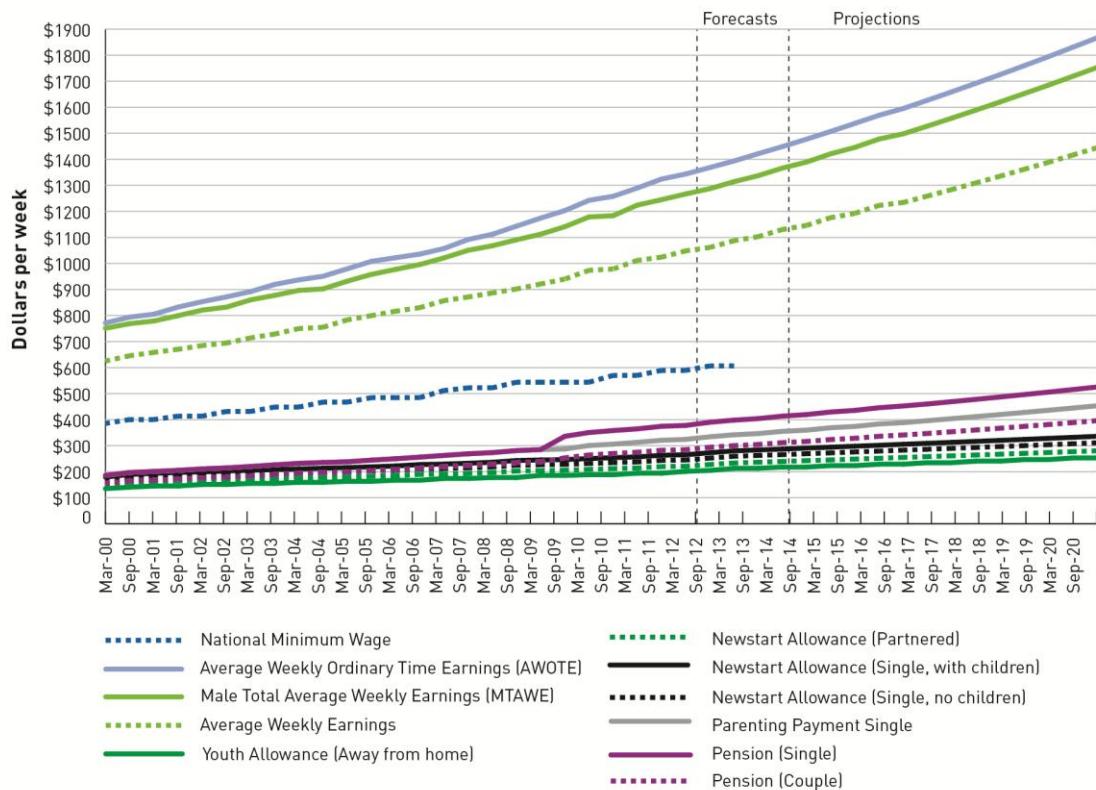
<sup>14</sup> For further discussion on the limitations of financial stress indicators see Wilkins & Warren 2012.

Income support payment recipients may also access advance payments to assist with managing their finances. These payments are advances on a person's social security entitlement. Advance payments are interest free and may assist people to avoid building up higher credit card bills or seeking small loans from high interest providers in times of crisis, however, like any loan, repayment inevitably reduces a recipients' future entitlement. A small proportion of advance payments are made for people in cases of severe financial hardship. In 2011-12, 292,728 advance payments were made to Newstart Allowance recipients.

### Relative standard of living

As a transitional payment that is geared towards preparing recipients for work and self-provision, as well as maintaining the incentive for them to do so, Newstart Allowance is not intended to provide the same standard of living as pensions or wages. The relativities between allowances and pensions, and between allowances and wages, are an important aspect of the design of the allowance payment system. Indexing the rates of Newstart Allowance and other allowances by movements in CPI maintains their real value while providing incentives and requirements to seek work but the rate of indexation for Newstart Allowance differs from the approach taken with pensions which are benchmarked to MTAWE.

**Figure 37: Movement in payment rates and average weekly earnings, AWOTE, MTAWE and National Minimum Wage projected to 2020**



Source: ABS 2012; FaHCSIA 2012. Treasury forecasts and projections. Projections for the National Minimum Wage are not available as wage setting decisions are made independently by Fair Work Australia.

The relativity between Newstart Allowance and the National Minimum Wage has remained reasonably stable since 2000. Over this time, however, reforms to the tax system, such as the recent increase to the tax-free threshold, have reduced the personal income tax burden on low income earners which has thereby increased the financial incentive to take up low paid work in place of Newstart Allowance.

**Table 16: Newstart Allowance (single rate) as a percentage of pensions and wages**

	Pension (single rate)	Parenting Payment (Single)	Average Weekly Earnings	Male Total Average Weekly Earnings (MTAWE)	Average Weekly Ordinary Time Earnings (AWOTE)	National Minimum Wage
March 2000	89%	89%	27%	22%	21%	43%
March 2012	65%	76%	23%	19%	18%	42%
September 2020 (projection)	59%	69%	22%	18%	17%	Not available

*Note: Projections for the National Minimum Wage are not available as wage setting decisions are made independently by Fair Work Australia.*

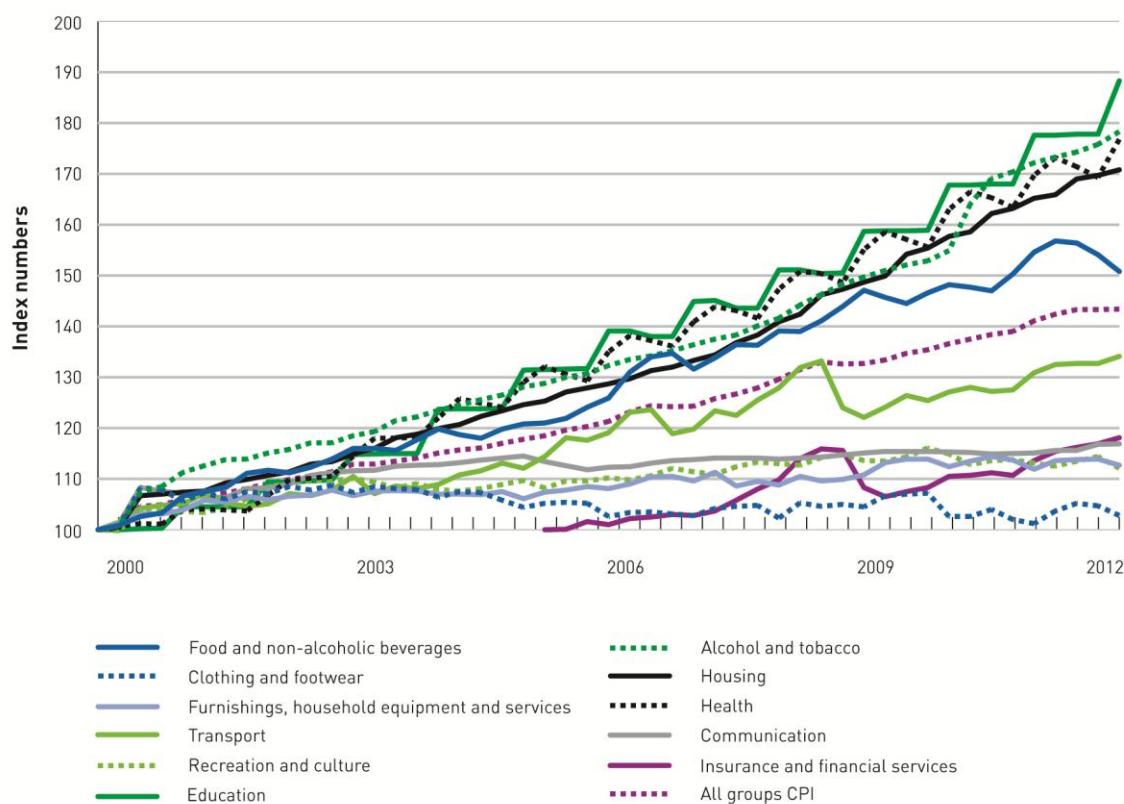
### **Cost of living and the Consumer Price Index (CPI)**

The CPI can be used as a proxy for changes in the cost of living for the broad household sector and is the official measure of inflation in Australia. The simplest way of understanding CPI is to imagine a basket of goods and services of the kind typically acquired by Australian households. CPI is a measure of the price change in the cost of the basket as the prices of each item changes over time. The total basket is divided into 11 major commodity groups. These are:

- food and non-alcoholic beverages
- alcohol and tobacco
- clothing and footwear
- housing
- furnishings, household equipment and services
- health
- transport
- communication
- recreation and culture
- education
- insurance and financial services

While CPI measures overall inflation, the prices of individual commodity groups may increase at a faster or slower rate than is reflected by overall CPI. Figure 38 below shows the changes for each commodity group against CPI between March 2000 and March 2012. Since 2000, the costs of education, alcohol and tobacco, health and housing have increased at the highest rates relative to CPI, while the costs of clothing and footwear, furnishings, household equipment and services, and recreation and culture have recorded the lowest rates of growth over same period.

**Figure 38: Index numbers for the 11 CPI expenditure groups, March 2000 – March 2012**



Source: ABS 2012a.

Inflation has remained at relatively stable and moderate rates in Australia, increasing at an annual compound average rate of around 3.0 per cent since 2000<sup>15</sup>. Analysis by the National Centre for Social and Economic Modelling (NATSEM 2012) shows that average household disposable incomes have outstripped inflation for the last two decades, suggesting that for the broad Australian population overall living standards have improved despite inflation.

The disconnection between measured inflation and community perceptions of inflation have been examined in a number of ways. The Harmer Pension Review (FaHCSIA 2009) notes that price rises are noticed more than price stability and that the higher prices of more frequently consumed goods may be noticed more than the price rises of less regularly purchased or discretionary goods. Nonetheless, there is evidence that consumption patterns faced by income support recipients may differ from the broader community.

### ABS Living Cost Indexes

While CPI is an effective tool for measuring price inflation for the household sector as a whole, it is not ideal for assessing the changes in the purchasing power of different households. Changes in the prices of certain

<sup>15</sup> Calculations of the geometric average growth rate based on CPI index numbers of 126.2 in March 2000 and 179.5 in March 2012 (ABS 2012a).

expenditure groups impact on some households more than others, because they are likely to consume a different basket of goods.

By comparison, living cost indexes are designed to reflect changes in the purchasing power of the after-tax incomes of households. The Analytical Living Cost Indexes (ALCIs) have been compiled and published by the ABS since June 2000. They were developed in recognition of the widespread community interest in the extent to which the impact of price change varies across different sub-groups of the Australian population.

The ALCIs are specifically designed to measure changes in living costs for four selected household types:

- employee households (principal source of income from wages and salaries)
- age pensioner households (principal source of income is the age pension or veterans affairs pension)
- other government transfer recipient households (principal source of income is a government pension or benefit other than the age pension or veterans' affairs pension)
- self-funded retiree households (principal source of income is superannuation or property income and where the person is retired).

Different household types experience price changes in different ways because they each typically access a different 'basket of goods and services'. For example, a pensioner household may spend a greater proportion of their incomes on health care costs. As a result, a different weighting is given to each expenditure group for the different household types. Table 17 below shows, in percentage terms, the weightings of different expenditure groups each household type.

**Table 17: Expenditure weights (%) by major commodity group and living cost index household type at March quarter 2012 prices**

Commodity Group	Employee %	Age pensioner %	Other government transfer recipient %	Self-funded retiree %	CPI %
Food and non-alcoholic beverages	16.85	22.39	19.32	17.27	16.84
Alcohol and tobacco	7.36	6.70	9.72	6.66	7.06
Clothing and footwear	4.13	4.88	4.88	4.23	3.98
Housing(c)	13.18	17.14	22.87	11.14	22.30
Furnishings, household equipment and services	9.17	11.09	7.71	11.72	9.10
Health	5.18	8.85	3.11	8.53	5.29
Transport	11.70	9.39	9.69	11.55	11.55
Communication	2.98	3.67	4.18	3.11	3.05
Recreation and culture	12.51	11.48	9.45	21.05	12.56
Education	2.90	0.29	2.36	0.89	3.18
Insurance and financial services(d)	14.04	4.12	6.71	3.85	5.08
<b>All groups</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

(a) Based on 2009-10 Household Expenditure Survey (HES) at June quarter 2011 prices.

(b) Figures may not add up due to rounding.

(c) House purchases are included in the CPI but excluded from the population subgroup indexes.

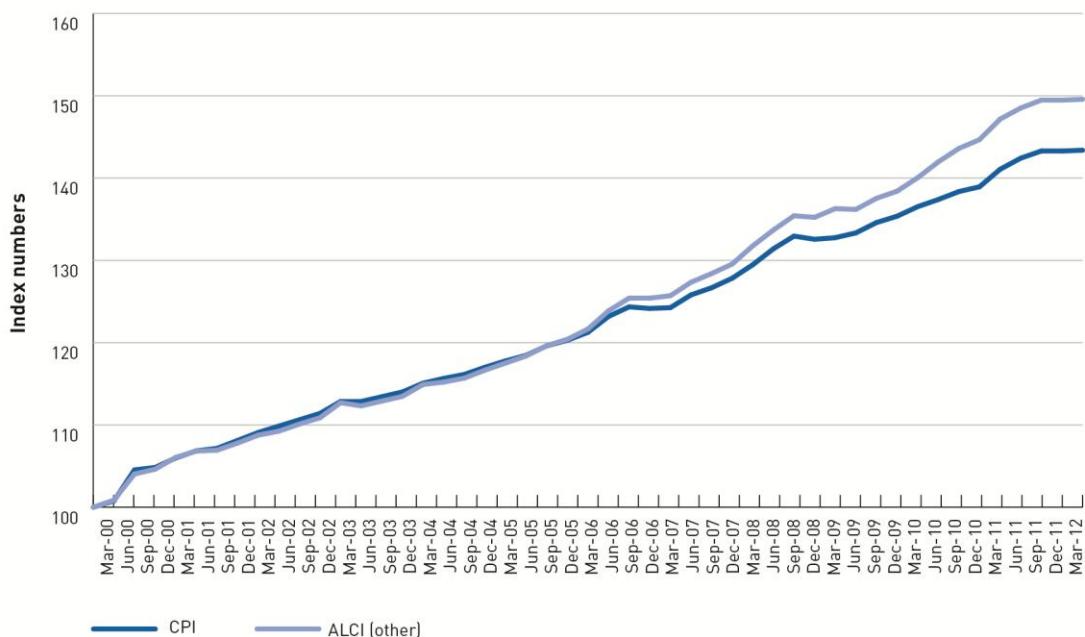
(d) Includes interest charges and general insurance. Interest charges are excluded from the CPI and general insurance is calculated on a different basis.

Source: ABS 2012b.

Households whose main source of income are allowance payments fall into the 'other government transfer recipient' category (referred to as ALCI 'other' from here on), along with recipients of other social security payments for people of working age. These households spend a significant proportion of their incomes on housing costs (22.87 per cent). They also spend more of their incomes on housing compared to employee, age pensioner and self-funded retiree households. ALCI 'other' households spend around 42 per cent of their incomes on the two expenditure categories of housing and food and non-alcoholic beverages. The next most significant expenditure groups are alcohol and tobacco (9.72 per cent), transport (9.69 per cent) and recreation and culture (9.45).

From March 2000 to March 2012, the CPI grew by an annual average compound rate of 3.0 per cent while the Analytical Living Cost Index for households reliant on other income support payments grew by 3.4 per cent<sup>16</sup>, suggesting that allowance recipients may experience price changes differently from other household types. This would indicate that over the past twelve years there has been a reduction in the purchasing power of allowances. These figures should not be taken to mean that ALCI is always higher than CPI; however, Figure 39 indicates that the gap between ALCI (other) and CPI has generally grown over the past 6 years. Figure 39 below shows the movement in CPI and ALCI from March 2000 to March 2012.

**Figure 39: Movements in Consumer Price Index and Analytical Living Cost Index (other) March 2000 - March 2012 (Rebased to 100 in March 2000)**



Source: ABS 2012a; ABS 2012b with DEEWR analysis.

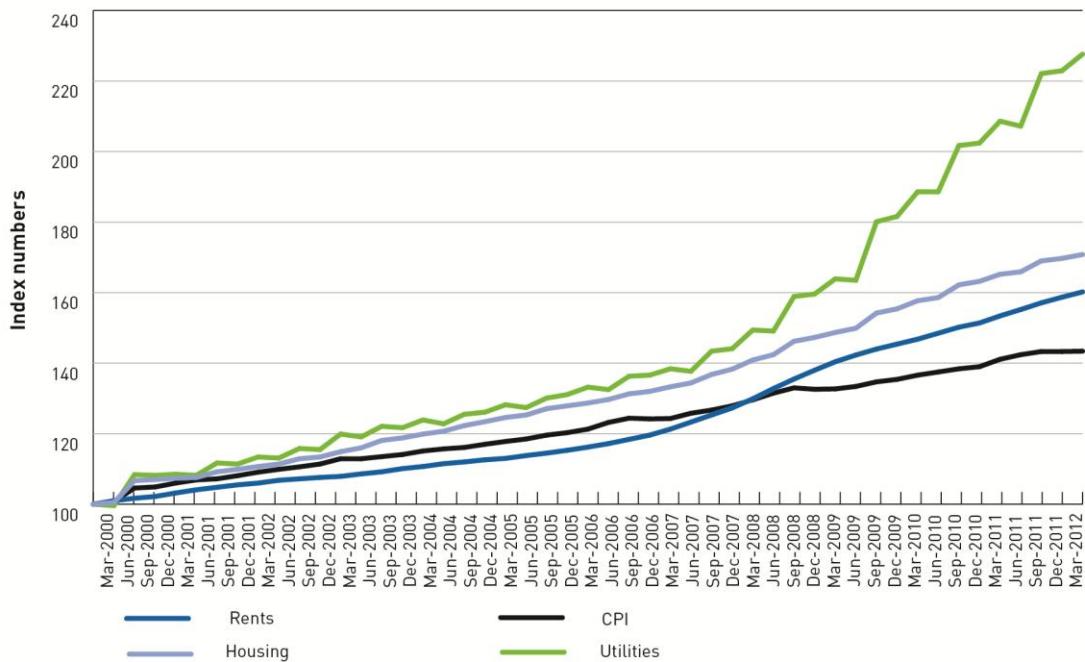
Housing costs are a frequently cited pressure on an individual's living standards. Caution must be exercised in examining movements in ALCI and CPI because of their different treatment of housing expenses. While both series count rent payments as part of the 'Housing' component, CPI excludes mortgage interest payments. ALCI includes mortgage interest as part of "Insurance and Financial Services". Net housing purchases (home purchase costs as well as renovations and extensions) are also included for CPI as 'housing', but ALCI does not count these costs.

The housing expenditure group is made up of sub-groups of rent, new dwelling purchase by owner occupiers, other housing (maintenance and repair, property rates), and utilities (water and sewage, electricity and gas). Figure 40 shows the relative price growth in the housing expenditure group, and the subgroups of rents and

<sup>16</sup> Calculations of the geometric average growth rate based on CPI index numbers of 126.2 in March 2000 and 179.5 in March 2012 (ABS 2012a) and ALCI (other) index numbers of 103.9 in March 2000 and 155.4 in March 2012 (ABS 2012b).

utilities against CPI from March 2000 to March 2012. It shows that the prices of utilities increased rapidly over the period. Within the utilities subgroup, water and sewage prices rose by 122 per cent, electricity by 135 per cent, and gas and other household fuels by 115 per cent, compared to a 43 per cent increase in all prices measured by CPI. Rent prices also increased at a greater rate than overall CPI.

**Figure 40: Growth of Housing prices sub-groups, 2000 to 2012 (rebased to 100 in March 2000)**



Source: ABS 2012a.

As housing represents a significant basic living cost for allowance and other government payment recipients, the remainder of this discussion focuses on housing affordability issues.

### Housing affordability

Housing is one commodity area where prices have grown faster than overall CPI and average earnings (NATSEM 2012). While housing costs are increasing for the broad Australian population, people on low incomes and people who rely on social security payments are impacted most as they tend to spend higher proportions of their money on housing costs and have less discretionary income.

Housing affordability is generally measured using a ratio of housing costs to income. While many households with above-average incomes can afford to spend more than 30 per cent of their income in meeting their housing costs, households in the lower half of the income distribution are likely to have insufficient resources available for their non-housing needs if they spend more than 30 per cent of their income on housing. Therefore, the proportion of lower income households (in the bottom 40 per cent of the income distribution) paying in excess of 30 per cent of their income for housing is in widespread use as an affordability indicator. Such households are defined as being in 'housing stress'.

Recent reports by the National Housing Supply Council (NHSC 2012) and the Council of Australian Governments (COAG) Reform Council (2012) highlighted problems in housing affordability and the significant impact on low income households. The NHSC observed that:

- In 2009-10, around 48 per cent of lower income home owners (those with gross incomes at or below the 40th percentile) were in housing stress, spending more than 30 per cent of their incomes on mortgage costs.
- There was a shortage of affordable and available rental properties for lower income renters, estimated at around 539,000 in June 2011.

The COAG Reform Council released its third report on progress under National Affordable Housing Agreement (NAHA) in June 2012. The objective of the NAHA is that ‘Australians have access to affordable, safe and sustainable housing’. The findings of the report show that nationally, rental affordability has declined for low income households, most particularly for people in the lowest decile income range. The rate of rental stress among low income households increased from 37.2 per cent in 2007-08 to 41.7 per cent in 2009-10, with higher levels of rental stress for households in the lowest decile income range. Home purchase affordability for low and moderate income households declined in all states and territories between 2009-10 and 2010-11.

It is important to note the regional differences in housing affordability. Home purchase and rental prices have increased most in Australia’s major cities where population growth is strongest and demand is high. There are also notable differences in housing affordability between states and territories. For example, according to the COAG Reform Council (2012), Queensland has the lowest proportion of affordable homes available for purchase for both low and moderate income households, while the Australian Capital Territory has the highest. New South Wales has higher rates of rental stress among low income households than the national average, while lower than average proportions are found in Western Australia, South Australia, Tasmania and the Australian Capital Territory.

Overall, government payment recipients have a similar housing profile as the rest of the Australian population, with home ownership being the dominant tenure. According to the 2009-10 Household Expenditure Survey (ABS 2011b), the distribution of housing types for households whose main source of income is pensions and government benefits is:

- home owners (without a mortgage) - 43.1 per cent
- private renters – 25.8 per cent
- Public housing – 13 per cent
- Home purchasers – 13.3 per cent

However, important differences emerge in tenure distribution once when households reliant on pensions are excluded, and particularly age pensioners, who tend to have achieved home ownership. For example, according to the 2009-10 Household Expenditure Survey (ABS 2011b), households that rely mostly on income from Newstart Allowance, Austudy, ABSTUDY or Youth Allowance have the following housing profile:

- home owners (without a mortgage) – 17.4 per cent
- private renters – 43.7 per cent
- public housing – 16.9 per cent
- home purchasers – 16.4 per cent

The 2009-10 Household Expenditure Survey (ABS 2011b) also showed that private rental was also prevalent among Parenting Payment and other family support payment recipients with around 46.4 per cent of households reliant on these payments represented in this tenure type. The predominance of private rental among allowance payment recipients means they are particularly vulnerable to changes in prices in the private rental market.

To address housing affordability, Australian Government has been working with the States and Territories on exploring supply constraints in the housing market. COAG is currently considering the report of the Housing Supply and Affordability Reform working Group which carried out an examination of zoning and planning approval processes, infrastructure charges, environmental regulations and opportunities to identify currently ‘underutilised’ land.

The Australian Government also provides a range of housing initiatives and programs to assist low to middle income Australians to access affordable housing, including the:

- **Social Housing Initiative** – introduced as part of the Government’s economic stimulus measures to support the construction industry and address housing need. The Social Housing Initiative is constructing around 19,600 new social housing dwellings and repairing existing dwellings.
- **National Affordable Housing Agreement** – the overarching framework which sets out Commonwealth, state/territory and local government responsibilities and outcomes relating to improving housing affordability, reducing homelessness and reducing Indigenous housing disadvantage.
- **National Partnership Agreement on Social Housing** – this has recently been completed and involved the construction of over 1,900 social housing dwellings and redevelopment of existing dwellings.
- **National Partnership Agreement on Homelessness** – new and better integrated accommodation and support services to people for people who are experiencing or are at risk of homelessness.
- **National Partnership Agreement on Remote Indigenous Housing** – addresses overcrowding, homelessness, poor housing conditions and housing shortages through the construction and redevelopment of social housing in remote communities.
- **National Rental Affordability Scheme** — around 50,000 new affordable rental homes that will be rented at 20 per cent below market rates.
- **Housing Affordability Fund** — this reduces housing costs through addressing barriers to increase the supply of affordable housing.
- **Building Better Regional Cities Program** — investing in local infrastructure projects that support an increase in the number of homes for sale and rent that are affordable for working families.

### **Commonwealth Rent Assistance (CRA)**

Expenditure on Commonwealth Rent Assistance (CRA) was \$3.1 billion in 2010-11. The projected expenditure for 2011-12 is \$3.3 billion. More than one million renters in the private rental market and community housing across Australia are currently receiving CRA. At June 2011, the following numbers of individuals and families<sup>17</sup> receiving a social security payment or more than the base rate of Family Tax Benefit Part A were also receiving CRA:

- single, no children – 445 061
- single, no children, sharer – 161 522
- couple, no children – 100 313
- sole parent with children – 243 611
- couple with children – 184 384

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<sup>17</sup> One member of a couple is treated as the reference person for the income unit, based on the type of payment they receive. The general order of priority is Pensions, Allowances, Family Tax Benefit (FTB). An income unit will be reported as receiving Parenting Payment (partnered) only if neither member of the couple receives another social security payment. They will only be reported as receiving FTB Part A if neither receives a social security payment.

CRA thresholds and maximum rates are indexed in March and September each year to movements in CPI. CRA is paid at a rate of 75 cents for every dollar above the rent threshold until a maximum rate is reached. Customers are expected to pay the amount of rent below the threshold. There is no additional CRA once the maximum rate has been reached.

CRA rates are based on a customer's family situation and the amount of rent they pay. For singles receiving Newstart Allowance without children, the maximum rate is lower if the accommodation is shared.<sup>18</sup> The maximum rate of CRA for single sharers is set at two-thirds the maximum rate for singles living alone. It acknowledges that single people who share accommodation often have the opportunity to benefit from economies of scale that are not available to those who live on their own, i.e. through sharing expenses and pooling resources. CRA rates are shown in Table 18.

**Table 18: Rent Assistance payment rates and thresholds (20 March 2012 to 19 September 2012)**

	<b>Maximum Fortnightly Rent Assistance</b>	<b>Minimum Fortnightly Rent to get Rent Assistance</b>	<b>Minimum Fortnightly Rent to get Maximum Rent Assistance</b>
Single, no children	\$120.20	\$106.80	\$267.07
Single, no children, sharer	\$80.13	\$106.80	\$213.64
Couple, no children	\$113.20	\$173.80	\$324.73
Partnered, illness separated, no children	\$120.20	\$106.80	\$267.07
Partnered, temporarily separated, no children	\$113.20	\$106.80	\$257.73
Single 1 or 2 children	\$140.98	\$140.56	\$328.53
Single 3 or more children	\$159.46	\$140.56	\$353.17
Couple 1 or 2 children	\$140.98	\$208.04	\$396.01
Couple 3 or more children	\$159.46	\$208.04	\$420.65

In line with overall trends in the rental market, the proportions of individuals and families receiving the maximum rate of CRA has increased from 56.8 per cent in 2002, to 74.5 per cent in 2011. The average fortnightly rent paid by individuals and families receiving CRA increased from \$253 to \$410 over the same period.

### Rental stress among CRA recipients

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<sup>18</sup> Some people are exempt from sharer's rate. These include boarders and lodgers; singles living in a caravan, boat or a mobile home on their own, even if they are sharing a major area of accommodation in a caravan park or marina; and people who live in exempt accommodation. Disability Support Pension and Carer Payment recipients who share accommodation are also exempt from sharer's rate.

Rental stress is defined as paying more than 30 per cent of income in rent. At June 2011, 68.3 per cent of individuals and families receiving CRA would have paid more than 30 per cent of their gross income on rent if CRA were not provided (Productivity Commission 2012). After CRA, the proportion of individuals and families in rental stress drops to around 40 per cent.

Table 19 below shows the incidence of rental stress among all individuals and families and those receiving Newstart Allowance receiving CRA between 2002 and 2011. Recipients of Newstart Allowance experienced an increase in the rate of rental stress since 2002 of 15 percentage points compared with 5 percentage points for all individuals and families receiving CRA.

**Table 19: Rental stress after Commonwealth Rent Assistance (CRA) by selected Primary Payment Type, June 2002-2011**

Primary Payment type(1)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Newstart Allowance	47	50	50	53	54	53	54	59	62	62
Total individuals and families(2)	35	36	35	35	35	34	36	41	42	40

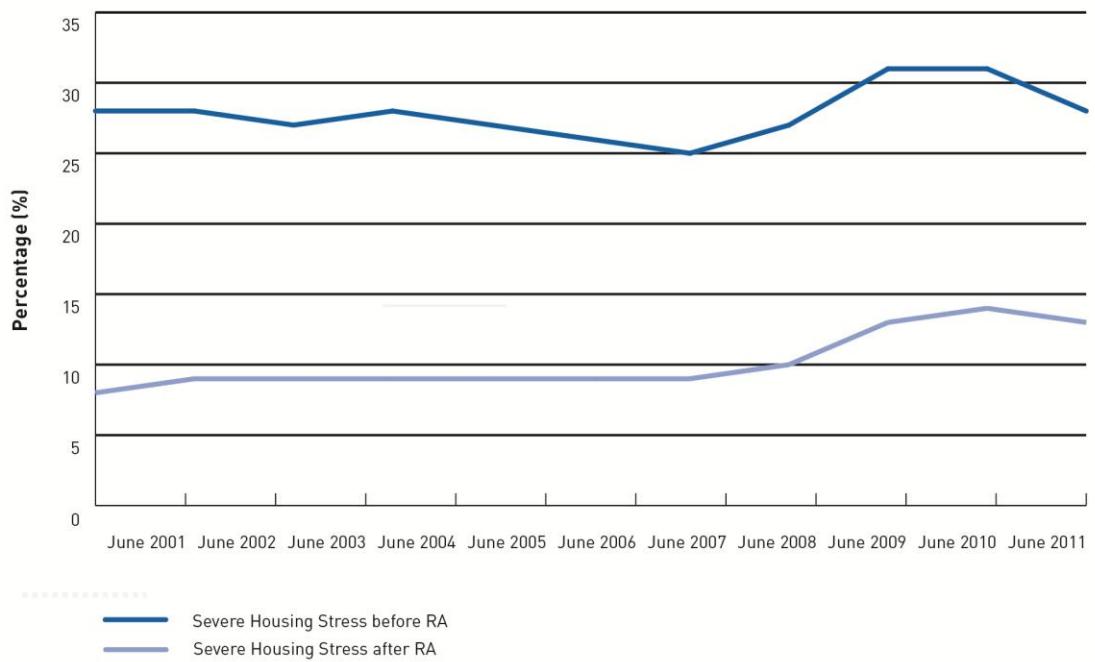
(1)One member of a couple is treated as the reference person for the income unit, based on the type of payment they receive. The general order of priority is Pensions, Allowances, Family Tax Benefit (FTB).

(2) A break in the series exists at June 2011. This is due to the pension supplement being included in total income for the first time for the calculation of rental stress.

Source: Productivity Commission 2012 (various years) and FaHCSIA unpublished data 2002-2011.

Severe rental stress is defined as paying more than 50 per cent of income in rent. The prevalence of severe rental stress has increased overall among CRA recipients since June 2007, reflecting the increases in the average rents paid (note that there was a decline in 2010-11, see Figure 41). At June 2011, the proportion of individuals and families receiving CRA who would have paid more than 50 per cent of their gross income on rent if CRA were not provided was 28 per cent. After CRA is included, the proportion was 13 per cent.

Figure 41: Severe rental stress among CRA recipients, June 2001 to June 2011(1)



Source: Productivity Commission 2012 (various years). A small number of income units are excluded from housing stress calculations due to missing or invalid information.

Table 20 below shows that severe rental stress was greater for Newstart Allowance recipients than for all individuals and families receiving CRA at June 2011. For individuals and families where Newstart Allowance is the primary government payment received, 54.5 per cent would have paid more than 50 per cent of their incomes on rent if CRA were not provided. After CRA, the proportion was 26.8 per cent. It is evident that the rate of severe rental stress among these households is approximately double that of all individuals and families receiving CRA.

Table 20: Severe rental stress by primary payment type, June 2011

Primary Payment	Proportion paying over 50% of income in rent		Total Number of income units
	With RA (%)	Without RA (%)	
Newstart Allowance	26.8	54.5	204,814
All individuals & families	13.0	28.2	1,138,000

Source: Productivity Commission 2012 (various years) and FaHCSIA unpublished data 2002-2011. One member of a couple is treated as the reference person for the income unit, based on the type of payment they receive. The general order of priority is Pensions, Allowances, Family Tax Benefit (FTB).

The prevalence of rental stress among CRA recipients also varies depending on income unit type. Table 21 shows the average rents and average CRA paid to different income unit types, as well as the incidence of rental stress and severe rental stress. Single sharers and single people living alone, who do not have dependent children, experience the highest rates of rental stress and severe rental stress after receiving CRA. For single parents and couples with children, the incidence of rental and severe rental stress are lower, which may reflect the more generous family assistance payments provided to families with dependent children, noting that people receiving Family Tax Benefit Part A may receive CRA without receiving a primary income support payment.

Table 21: Severe rental stress by household type, June 2011

Income unit type <sup>(1)</sup>	Individuals and families	Percentage of total individuals and families	Average Fortnightly Rent	Average Fortnightly CRA	Proportion paying over 30% of income in rent <sup>(2)</sup>		Proportion paying over 50% of income in rent <sup>(2)</sup>	
					Without CRA	With CRA	Without CRA	With CRA
Single, no children, sharer	161,522	14.20%	\$274	\$72	86.10%	61.70%	50.30%	22.90%
Other single, no children	445,061	39.10%	\$325	\$101	77.70%	40.80%	34.30%	15.50%
Couple, no children	100,313	8.80%	\$440	\$96	57.20%	36.80%	20.00%	11.70%
Sole parent, 1 or 2 children	202,178	17.80%	\$482	\$111	63.70%	37.60%	19.60%	7.80%
Sole parent, 3 or more children	41,433	3.60%	\$545	\$131	59.90%	31.90%	10.40%	3.40%
Couple, 1 or 2 children	127,978	11.20%	\$594	\$104	48.00%	30.20%	15.10%	8.60%
Couple, 3 or more children	56,406	5.00%	\$625	\$121	34.70%	17.90%	7.10%	3.20%
Other not elsewhere included(3)	3,109	0.30%	\$506	\$115	40.30%	29.00%	20.10%	15.90%
All individuals & families	1,138,000	100.00%	\$410	\$101	68.30%	40.10%	28.20%	13.00%

(1) An income unit comprises a single person (with or without dependent children) or a couple (with or without dependent children). Single social security recipients living together in the same household are regarded as separate.

(2) A small number of income units are excluded where housing affordability was not able to be calculated.

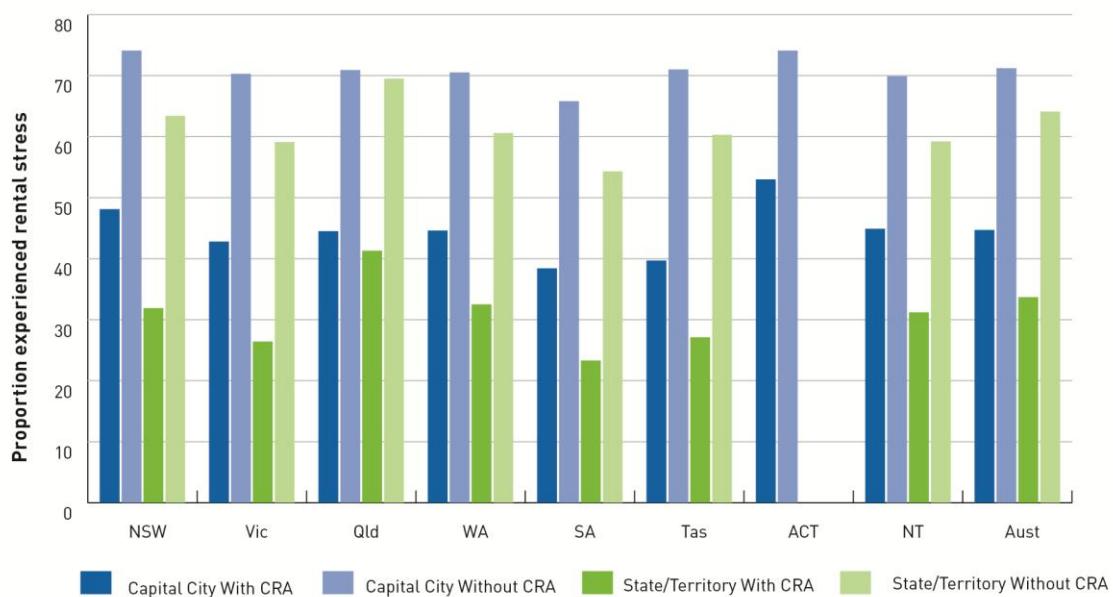
(3) Includes couples who are temporary or illness separated.

Source: Commonwealth Housing Dataset 3 June 2011 and FaHCSIA unpublished data.

There are important regional differences in the prevalence of rental stress among CRA recipients. The costs of private rents in major cities tend to be higher than in non-metropolitan areas. Figure 42 shows the prevalence of rental stress among CRA recipients at the 30 per cent of income benchmark, with and without CRA. It shows that in 2011, the proportions of CRA recipients in rental stress was higher in each capital city than for the rest of each state and territory.

After CRA is included, the incidence of rental stress drops both within and outside state and territory capitals. For example, in Sydney where private rental prices are among highest in the nation, the proportion of income units in rental stress was 74.1 per cent before receiving CRA. After CRA, it was 48.1 per cent. Outside of Sydney, the proportion of income units in rental stress was 63.4 per cent. After CRA, it was 31.9 per cent.

**Figure 42: Incidence of rental stress at 30 per cent of income, by capital city and State/Territory, June 2011**



Source: Productivity Commission 2012.

## 4f. Summary of key data and evidence

- The nature of the Newstart Allowance population continues to change over time.
- Analysis of 2002–2012 income support ‘flow’ data shows that the general trend remains that around 60 per cent of Newstart Allowance recipients transition off of income support within a 12 month period. This indicates that Newstart Allowance (together with supplementary payments for recipients) continues to serve its primary purpose of providing transitional support and working together within the broader package of participation initiatives and services to assist the transition to work.
- If this trend is applied to total number of 606,489<sup>19</sup> new recipients of Newstart Allowance in 2011-12:
  - around 350,000 of these recipients could be anticipated to have a future income support duration of less than one year; and
  - around 250,000 of these recipients could be anticipated to have a future income support duration of one year or longer.
- Looking at the current population of 549,773 Newstart Allowance recipients at 29 June 2012, the following population groups stand out as having longer durations on income support:

<sup>19</sup> Source: Centrelink Administrative Data – DEEWR Research and Evaluation Database (RED).

- People with a partial capacity to work currently make up around 18 per cent (99,884) of Newstart Allowance recipients and have an average duration on income support of almost five years (257.7 weeks).
  - Mature aged recipients (aged 55 or older) currently make up around 18 per cent (98,050) of Newstart Allowance recipients and have an average duration on income support of around four years (208.5 weeks).
  - Principal carer parents currently make up around eight per cent (44,194) of Newstart Allowance recipients. They have often been on other income support payments (Parenting Payment) before transferring to Newstart Allowance. Principal carer parents receiving Newstart Allowance have an average income support duration of more than four years (217.8 weeks) and their overall duration on income support is included in Newstart Allowance data.
- This analysis of the volume and duration of particular groups on Newstart Allowance reflects changes arising from reforms which have sought to ensure that Newstart Allowance continues to be the primary working age payment for those with a capacity to work, designed to support them towards work participation. A significant proportion of current recipients transfer onto Newstart Allowance from other payments as a direct consequence of these recent reforms and the income support duration data for Newstart Allowance recipients will include their total time on previous income support payments, not just their duration on Newstart Allowance.
- The data also shows the impact of reforms to tighten the Disability Support Pension qualification rules that resulted in more people with partial capacity to work (15 to 29 hours a week) being on Newstart Allowance because they do not qualify for Disability Support Pension. This will impact on the duration on payment to the extent that a partial capacity to work may apply for an extended period for these recipients.
- Noting the primarily transitional nature of the Newstart Allowance, this analysis highlights the importance of complementary reforms to the total package of support for allowance recipients. For those who have been on income support for extended periods when coming onto Newstart Allowance or those who are coming onto payments for the first time but with a more limited capacity to work, additional assistance such as employment services support and supplementary payments to assist with aspects such as childcare will be central to a successful transition to work.
- For single principal carers for instance, the package of support may include access to career advice, vocationally oriented training and Jobs, Education and Training (JET) Child Care Fee Assistance to assist with childcare costs. For eligible recipients with a partial capacity to work, Disability Employment Services are available to provide support and assistance to help recipients look for, find and keep a job.
- Newstart Allowance recipients who are partnered, have dependent children and are eligible for supplementary benefits and Family Tax Benefit can receive a total income support package that is above the National Minimum Wage. Those who are single typically receive less supplementation and are ineligible for Family Tax Benefit - irrespective of whether they can earn employment income or not the total amount they receive is generally less than those who are partnered with children.
- For single sharers and single people living alone on income support, housing cost pressures appear to be the greatest financial stressor.

# APPENDIX A Overview of allowance payments other than Newstart Allowance

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All rates and income test cut-off points are given as at 1 July 2012.

## Youth Allowance (other)

Youth Allowance (other) is the primary income support payment for young people aged 16 to 21 years (inclusive) who are seeking or preparing for paid employment. If a person does not have a Year 12 Certificate or equivalent qualification (Certificate Level II or above), they are required to undertake study or training in order to qualify for Youth Allowance. Certain 15 year olds, including those who are homeless, may also receive assistance.

Youth Allowance is subject to both parental means testing for recipients who are not independent, including income testing and asset testing, and a personal income test. Parental income or family actual means above a threshold of \$46 355 in 2012 reduces the amount of Youth Allowance a person can receive.

The Youth Allowance (other) income test is relatively generous compared to other allowance payments. A job seeker on Youth Allowance can earn up to \$143 per fortnight before tax before their payment is affected. Income over \$143 and up to \$250 reduces payment by 50 cents in the dollar, and income over \$250 per fortnight reduces a recipient's payment by 60 cents in the dollar.

Table 22: Youth Allowance (other) payment rates and income test cut-off points

Family situation	Maximum payment per fortnight	Maximum earnings per fortnight before nil rate
Single, no children: aged under 18, at home	\$220.40	\$258.17
Single, no children: aged under 18, away from home	\$402.70	\$832.00
Single, no children: aged 18 and over, away from home	\$402.70	\$535.00
Single, no children: aged 18 and over, at home	\$265.00	\$602.50
Single, with children	\$527.50	\$1,040.00
Partnered, no children	\$402.70	\$832.00
Partnered, with children	\$442.10	\$897.67
Single job seeker, principal carer of a dependent child (granted an exemption for foster caring/relative (non-parent) caring under a court order/home schooling/distance education/large family)	\$648.50	\$1174.17

Partner income which exceeds the cut-out reduces payment by 60 cents in the dollar. Youth Allowance (other) recipients can also accrue up to 3,500 working credits to offset future employment income.

## **Widow Allowance**

Widow Allowance is available to women who were born on or before 1 July 1955; are not a member of a couple; have become widowed, divorced, or separated (including separated de facto) since turning 40 years of age; have no recent workforce experience and satisfy one of the qualifying residency rules for Widow Allowance.

Widow Allowance is not an activity tested payment and therefore recipients are not required to look for work or undertake training. It is subject to the same income and assets test as Newstart Allowance.

**Table 23: Widow Allowance payment rates and income test cut-off points**

<b>Family situation</b>	<b>Maximum payment per fortnight</b>	<b>Maximum earnings per fortnight before nil rate</b>
<b>Single, no children</b>	\$489.70	\$909.50
<b>Single, with dependent children</b>	\$529.80	\$976.34
<b>Single, aged 60 or over, after 9 months</b>	\$529.80	\$986.67

## **Partner Allowance**

Partner Allowance provides income support for older partners of income support recipients who face barriers to finding employment because of their previous limited participation in the workforce. Partner Allowance is payable to people born on or before 1 July 1955, who are members of a couple and whose partner was on a qualifying pension or allowance at the time of claim. Partner Allowance has been closed to new entrants since 20 September 2003.

Partner Allowance is not an activity tested payment and therefore recipients are not required to look for work or undertake training. It is subject to the same income and assets test as Newstart Allowance. Partner income which exceeds the cut-out reduces payment by 60 cents in the dollar.

**Table 24: Partner Allowance payment rates and income test cut-off points**

<b>Family situation</b>	<b>Maximum payment per fortnight</b>	<b>Maximum earnings per fortnight before nil rate</b>
<b>Partnered</b>	\$442.00	\$830.00

## **Sickness Allowance**

Sickness Allowance is a payment made to people who are temporarily unable to undertake their usual work or study due to illness or injury, and have a job to return to or intend to resume studying when able to do so. Recipients must be aged 22 years or over but under Age Pension age, and are required to supply a medical certificate from a qualified medical practitioner.

Payment of Sickness Allowance is restricted to the maximum allowance period which is the period decided by a delegate that a recipient is incapacitated for work. Generally, this period is the lesser of the period specified by the

treating doctor on the medical certificate or 13 weeks, or the duration of a vocational rehabilitation program as long as the total period on Sickness Allowance does not exceed 208 weeks.

Sickness Allowance is subject to the same income and assets test as Newstart Allowance. Partner income which exceeds the cut-out reduces payment by 60 cents in the dollar.

**Table 25: Sickness Allowance payment rates and income test cut-off points**

Family situation	Maximum payment per fortnight	Maximum earnings per fortnight before nil rate
Single, no children	\$489.70	\$909.50
Single, with dependent children	\$529.80	\$976.34
Partnered	\$442.00	\$830.00

### **Parenting Payment**

Parenting Payment is the main income support payment for parents with principal care of a young child. Many elements of Parenting Payment (Partnered) and Parenting Payment (Single) are common between the payments, such as the participation regime and 'grandfathering' arrangements, however, the payments also differ in significant ways.

#### *Welfare to Work 'Grandfathering'*

From 1 July 2006 new recipients applying for Parenting Payment were required to have principal care of a qualifying child aged less than six years for partnered recipients, and less than eight years for single recipients. Parents who had been in receipt of payment prior to 1 July 2006 were 'grandfathered' on their pre-2006 conditions and were allowed to remain on payment until their youngest child turned 16 as long as they continued to meet all other eligibility criteria.

As part of the 2012/13 Budget, the Government announced the removal of grandfathering conditions from 1 January 2013; the legislation affecting this change is currently before the Senate.

#### *Participation Obligation*

Principal carer parents on Parenting Payment usually have part time participation requirements of 30 hours per fortnight once their youngest child turns six years. For recipients who were 'grandfathered' under *Welfare to Work*, participation obligations commence from when their youngest child turns 7 years. All parents must meet their participation requirements to continue to receive payment unless they have been granted an exemption. Principal carers with a youngest child under six do not have compulsory participation requirements.

Parents can meet their participation requirements in several ways, including by looking for part time work of at least 15 hours per week or by undertaking part time employment, study or voluntary work (in some circumstances) for 30 hours per fortnight. If a recipient is undertaking paid employment but their hours of work are insufficient to fully satisfy their participation requirements, they may be required to look for or undertake additional work.

### *Parenting Payment (Partnered)*

Parenting Payment (Partnered) is a payment made to partnered parents who have at least one child aged less than six years of age (or 16 years of age if ‘grandfathered’) who is wholly or substantially in the person’s care. Parenting Payment (Partnered) is only available to one member of a couple and is subject to the same income and assets test as Newstart Allowance. Partner income which exceeds the cut-out reduces payment by 60 cents in the dollar.

### *Parenting Payment (Single)*

Parenting Payment (Single) is the main income support payment for single parents who have principal care of a young child less than eight years of age (or 16 years of age if ‘grandfathered’). Parenting Payment (Single) is only available to one parent of a child.

The income test for Parenting Payment (Single) is unique. The income free area is currently \$176.60 plus \$24.60 for each additional child. Income over this amount reduces a recipient’s payment by 40 cents in the dollar. This means that for a single parent with one child on Parenting Payment (Single), their payment will cut-out once their income reaches \$1797.85 per fortnight. This threshold is higher where the parent has more than one child and slightly higher if the parent also receives Pharmaceutical Allowance.

**Table 26: Parenting Payment payment rates and income test cut-off points**

Family situation	Maximum payment per fortnight	Maximum earnings per fortnight before nil rate
Single (including Pension Supplement)	\$648.50	\$1797.85 or higher
Partnered	\$442.00	\$830.00

### **Student Payments**

Youth Allowance for students and apprentices and Austudy assist full time students who face financial difficulties in undertaking studies.

For younger students (up to and including 21 years of age), the payment of Youth Allowance hinges on the concept of shared responsibility between the young person, the parent/s and the Government. Because of this, parental means testing is a key feature of Youth Allowance.

Payment rates for both Youth Allowance and Austudy acknowledge that full time students have the opportunity to work part time during while studying and potentially full time during holiday periods. Generous income testing arrangements allow students to earn significant income while retaining their entitlement and concessions. These arrangements include a personal income threshold or ‘free area’ of \$400 per fortnight and the ability to ‘bank’ up to \$10,000 of any unused free area, to be applied against future earnings.

Consistent with these design principles, maximum basic rates of Youth Allowance for recipients under 22 years of age are generally lower than they are for Newstart Allowance. Austudy rates are also lower than Newstart Allowance rates.

### *Student Start-up and Relocation Scholarships*

Youth Allowance and Austudy recipients studying in higher education also have access to the Student Start-up Scholarship and Relocation Scholarship, both of which are provided as an entitlement to eligible recipients of student income support (not budget limited).

The annual rate of the Student Start-up Scholarship in 2012 is \$2050 (paid in two instalments of \$1025) and this amount is indexed on 1 January each year.

Relocation Scholarships are available to dependent students in higher education receiving Youth Allowance who need to move away from home to study. From 1 January 2012, eligible students from inner regional, outer regional, remote and very remote Australia are able to receive \$4000 in the first year they live away from home to study, \$2000 in each of the second and third years and \$1000 in subsequent years of study. For eligible students from major cities, the 2012 values are \$4000 in the first year they live away from home to study and \$1000 in subsequent years of study. These amounts are indexed on 1 January each year.

Consistent with the previous policy for Commonwealth Scholarships, students undertaking VET courses, are not eligible for the Student Start-up and Relocation Scholarships.

**Table 27 Youth Allowance (Students and Australian Apprentices)**

<b>Family situation</b>	<b>Maximum payment per fortnight</b>	<b>Maximum earnings per fortnight before nil rate</b>
Single, no children under 18, at home	\$220.40	\$616.67
Single, no children under 18, away from home	\$402.70	\$920.50
Single, no children over 18, at home	\$265.00	\$691.00
Single, no children over 18, away from home	\$402.70	\$920.50
Single, with children	\$527.50	\$1128.50
Partnered, no children	\$402.70	\$920.50
Partnered, with children	\$442.10	\$986.17
- Special rate for long term income support recipients who are aged 21 years or more commencing full time study or an Australian Apprenticeship or migrants studying English: - Single, living at home - Single, living away from home - Partnered, no children	\$325.30 \$489.10 \$442.10	\$791.50 \$1064.50 \$986.17

## **ABSTUDY**

ABSTUDY provides a means-tested living allowance and other supplementary benefits to eligible secondary and tertiary students. Primary students living at home and aged 14 years or more on 1 January in the year of study may also be eligible for assistance. The purpose of the ABSTUDY scheme is to address the particular educational disadvantages faced by Aboriginal and Torres Strait Islander people by improving educational outcomes to a level commensurate with the Australian population in general. ABSTUDY policy aims to encourage eligible Indigenous students to take full advantage of available educational opportunities and improve their employment opportunities.

There are seven Awards available under the ABSTUDY scheme. The eligibility of a student or Australian Apprentice for a particular Award will depend upon their study, training and personal circumstances. While a student or Australian Apprentice may be eligible for an ABSTUDY Award, they are not automatically entitled to all benefits and allowances payable under the Award. Each benefit and allowance has specific qualification criteria and limits upon the assistance payable.

ABSTUDY Living Allowance (payable under three of the seven awards) is for assistance in meeting the day-to-day living costs of the student or Australian Apprentice. Only one Award is payable in respect of a course of study, an apprenticeship, traineeship or trainee apprenticeship. Further information on ABSTUDY Awards is available at: <http://www.deewr.gov.au/Indigenous/Schooling/Programs/ABSTUDY/2012/Primaryeligibility/Pages/PrimaryEligibilityCriteriaForAbstudy.aspx>

### **Special Benefit**

Special Benefit is a payment to assist eligible people in severe financial hardship who do not have any other means of support. To receive Special Benefit it must be established that the person is not eligible for any other pension or allowance. The rate of Special Benefit is discretionary, but cannot exceed the rate of Newstart Allowance, Youth Allowance or Austudy that would be payable to the person if they were qualified.

Recipients are subject to either the Special Benefit Activity Test or the Special Benefit Nominated Visa Holder Activity test, unless they are:

- of work force age who are permanently incapacitated and would meet all the requirements for Disability Support Pension (including medical) except for residence requirements.
- not of work force age including those below minimum age for Youth Allowance (15 years if independent, 16 years if not independent) and who have reached age pension age, OR
- of work force age who have caring responsibilities who would meet all the requirements for Carer Payment and/or Carer Allowance (including medical) except for residence.

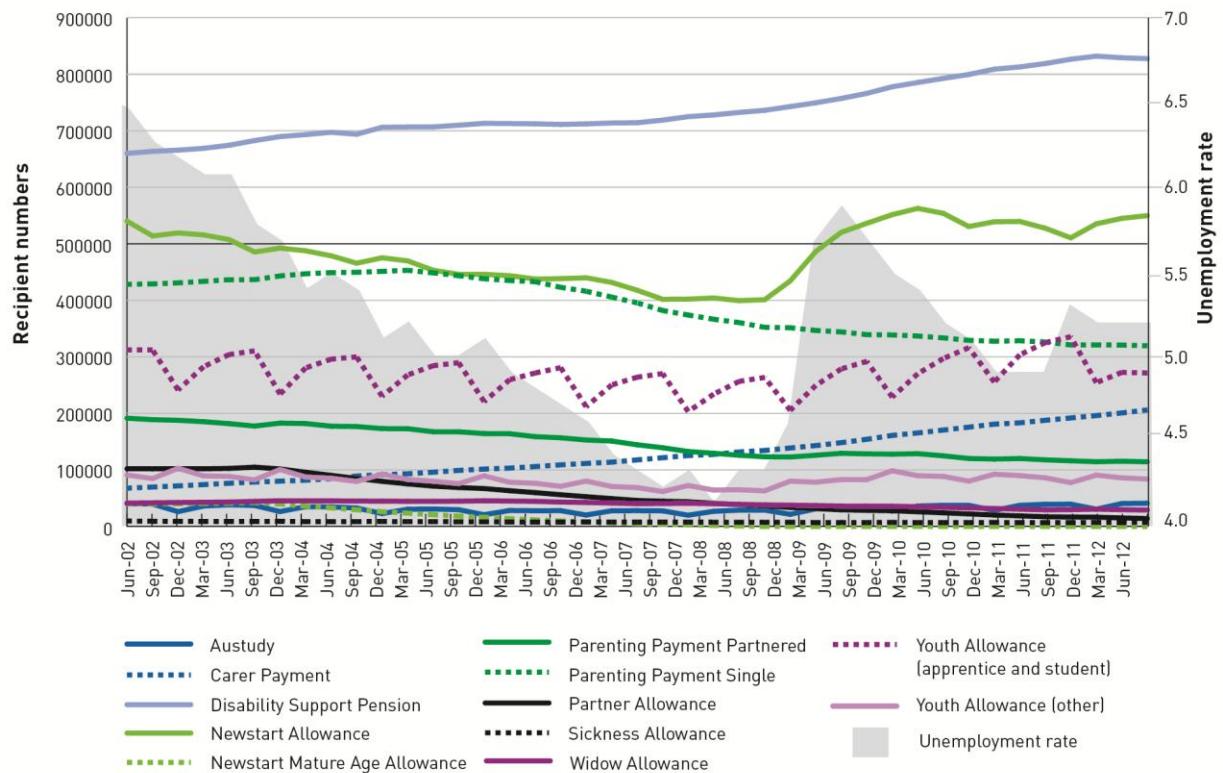
A direct deduction income test applies to Special Benefit. This means that all gross personal income, whether earned or unearned, reduces the Special Benefit rate by that amount. There is no allowable income free area and no taper.

The treatment of partner income on a Special Benefit recipient's payment varies depending on whether the partner is a pensioner, in receipt of a benefit, or not in receipt of an income support payment. Payment to the partner of a Special Benefit recipient is assessed as if the Special Benefit recipient received any other benefit or allowance (except if they are receiving Partner Allowance, where a direct deduction income test applies to both).

## APPENDIX B Allowance and pension populations 2002-2012

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Figure 43: Payment population time series - Income Support recipients by payment type



Source: Centrelink administrative data - DEEWR Bluebook dataset; ABS 2012c, trend data.

## **APPENDIX C Supplements and Concessions**

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### **Carer Allowance**

Carer Allowance is available to people who provide daily care and attention in a private home to a child or adult with disability or medical condition. It is a non income and assets tested payment to assist carers with some of the additional costs that caring for a person may incur. The rate of payment is \$114.00 a fortnight. Carer Allowance recipients may also be eligible for the \$600 Carer Supplement, and for carers of children aged under 16 years, the \$1,000 Child Disability Assistance Payment. These payments are paid in July each year.

### **Pharmaceutical Allowance**

Pharmaceutical Allowance is paid to certain income support recipients to help with the cost of prescription medicines. The rate of payment is \$6.20 per fortnight for a single and \$3.10 per fortnight for each eligible member of a couple. Pharmaceutical Allowance was rolled into the Pension Supplement for pensioners and other eligible recipients from September 2009.

### **Utilities Allowance**

Utilities Allowance is a quarterly payment to assist certain income support recipients with utilities bills, such as gas and electricity. Utilities Allowance is paid to recipients of Widow Allowance and Partner Allowance who are under the qualifying age for Age Pension, and to Disability Support Pension recipients under 21 years of age without children. The rate of payment for a single person is \$560.80 per year, and \$280.40 per year for each eligible member of a couple. Utilities Allowance was rolled into the Pension Supplement for pensioners and other eligible recipients from September 2009.

### **Telephone Allowance**

Telephone Allowance is a quarterly payment to assist certain recipients with the cost of maintaining a telephone service. To be eligible for Telephone Allowance, a recipient must have a telephone line or mobile phone number connected in their or their partner's name. The rate of payment is \$100.80 per year for a single person and \$50.40 per year for each eligible member of a couple. Telephone Allowance was rolled into the Pension Supplement for pensioners and other eligible recipients from September 2009.

### **Pensioner Education Supplement (PES)**

Certain recipients who undertake qualifying study may be eligible for the Pensioner Education Supplement to assist with the ongoing costs of study. A recipient may be eligible if they are undertaking an approved course of education and in receipt of the Parenting Payment (Single) and Widow Allowance. Recipients of Parenting Payment (Partnered), Newstart Allowance or Youth Allowance (other) may receive it in very limited circumstances. Certain pensioners may also be eligible to receive the supplement.

The rate of payment is \$62.40 per fortnight for approved students undertaking at least a 50 per cent study load (or a 25 per cent study load for approved students who are receiving Disability Support Pension or Invalidity Service Pension, or a War Widow Pension recipient receiving an invalidity income support supplement). A part rate of \$31.20 per fortnight may be available to other students who are undertaking at least a 25 per cent study load.

## **Education Entry Payment**

Recipients of certain social security payments may qualify for an Education Entry Payment if they are enrolled in an approved course of education or if a Pensioner Education Supplement is payable to them. In order to be eligible, allowees must have received income support for at least 12 months.

Qualifying allowances for receipt of an Education Entry Payment are Newstart Allowance, Partner Allowance, Widow Allowance, Parenting Payment (Single), and Parenting Payment (Partnered). Many of the qualification rules are quite complex and specific to the type of allowance being received. The rate of payment is \$208 per year in a lump sum.

## **Language, Literacy and Numeracy Supplement**

The Language, Literacy and Numeracy Supplement assists people on eligible income support payments with the additional costs associated with participation in the Language, Literacy and Numeracy Program. It is paid upon a person's commencement and is not income and assets tested.

All allowance payments are qualifying payments for receipt of this supplement. The rate of payment is \$20.80 per fortnight.

## **Approved Program of Work Supplement**

Approved Program of Work Supplement is a fortnightly payment to assist with the cost of participating in an approved program of work, such as Work for the Dole (including Full-Time Work for the Dole and Drought Force), Green Corps and Community Development Employment Projects activities. The rate of payment is \$20.80 per fortnight.

## **Community Development Employment Project Participant Supplement**

Community Development Employment Project (CDEP) Participant Supplement is a fortnightly supplement payment to assist with the cost of participating in a CDEP. The rate of payment is \$20.80 per fortnight.

## **Mobility Allowance**

Mobility Allowance is a targeted supplemental allowance paid to a person with a disability aged 16 years or over who cannot use public transport without substantial assistance and is required to travel to and from their home in order to undertake work (including volunteer work), training or job seeking. There are two rates of Mobility Allowance, the higher rate and the standard rate.

In order to qualify for Mobility Allowance, a person must be undertaking an approved activity, such as employment, vocational training or voluntary work of at least 32 hours every 4 weeks, or job search under an agreement with an employment service provider, and be required to travel to and from their home for the purpose of undertaking that activity.

To qualify for the higher rate of Mobility Allowance a person must be receiving Disability Support Pension, Newstart Allowance, Youth Allowance (other) or Parenting Payment and working 15 hours or more per week in the open labour market at or above the relevant minimum wage or for wages set in accordance with the Supported Wage System, or looking, or preparing for, such work under an agreement with an employment services provider.

The standard rate of payment is \$86.00 per fortnight, while the higher rate is \$120.40 per fortnight.

## **Concession Cards**

All recipients of Newstart Allowance, Partner Allowance, Sickness Allowance, Widow Allowance, Parenting Payment (Partnered) and Youth Allowance (other) are automatically issued with a Health Care Card (HCC) unless they are qualified for a Pensioner Concession Card (PCC). The following allowance recipients may be qualified for a PCC:

- Recipients of Newstart Allowance and Youth Allowance (other) assessed as having a partial capacity to work or who are a single principal carer of a dependent child, and recipients of Parenting Payment (Partnered) assessed as having a partial capacity to work.
- Recipients of Newstart Allowance, Partner Allowance, Sickness Allowance, Widow Allowance, Parenting Payment (Partnered) who are aged 60 or older and have been in continuous receipt of payment for 9 months or more.
- All recipients of Parenting Payment (Single).

The following Commonwealth concessions are available to holders of a PCC or HCC:

- Extended Medicare Safety Net, which pays 80 per cent of a person's out-of-pocket costs for out-of-hospital services for the remainder of the calendar year once a threshold of \$598.80 (in 2012) is reached. There is a benefit cap on some items.
- Pharmaceutical Benefits Scheme (PBS) medicines available at a concessional rate (\$5.80 instead of \$35.40 in 2012), and usually free above the PBS Safety Net (\$348 in 2012).
- Bulk-billed GP appointments (at the discretion of the doctor).
- Hearing Services Voucher, providing free hearing assessments and hearing rehabilitation (including the supply and fitting of free hearing aids and low-cost maintenance). (Holders of a PCC and Sickness Allowance recipients only)
- A 50 per cent discount on mail redirection services provided by Australia Post. (Holders of a PCC and Sickness Allowance recipients only)

Many other concessions are provided by State and Territory governments, local governments and private businesses. These may include concessions on health care, rates and utilities bills, school fees, public transport and other services.

## **Commonwealth Rent Assistance**

Rent Assistance is a supplementary payment added on to the pension, allowance or benefit of income support recipients and low-income families in the private rental market. Families with dependent children will usually receive Rent Assistance with their Family Tax Benefit. It is paid fortnightly with the recipient's main payment and is subject to the income test for their main payment.

The person must be paying rent above a specified minimum threshold amount. Rent Assistance is paid at the rate of 75 cents for each dollar of rent paid above the rent threshold, subject to a specified maximum rate. For single people without children, the maximum rate also varies according to whether or not accommodation is shared with others.

# **APPENDIX D Employment Servicing**

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## **Job Services Australia**

Job Services Australia (JSA) is the Australian Government's national employment services system. It provides job seekers with flexible and tailored support to better assist them to obtain sustainable employment. JSA focuses on the needs of the most disadvantaged Australian job seekers and assists them to achieve greater social inclusion. JSA boosts employment participation and productive capacity by better meeting the needs of employers.

JSA services comprise:

- Stream Services, including Work Experience
- Harvest Labour Services (HLS)
- New Enterprise Incentive Scheme (NEIS), and
- National Harvest Labour Information Service (NHLIS).

In most cases job seekers connect with JSA providers following a referral by the Department of Human Services (DHS). A job seeker's relative level of disadvantage in the labour market will be assessed by the Job Seeker Classification Instrument (JSCI). The JSCI may also indicate that a job seeker had identified multiple or complex barriers to employment that may require further assessment by an Employment Services Assessment (ESAt). Following this assessment the job seeker may be referred to the most appropriate employment services provider. Some job seekers may also be connected with employment services providers following a Job Capacity Assessment (JCA) which is used for Disability Support Pension.

Fully Eligible Participants are eligible for Stream Services, with eligibility for Stream 1, 2 or 3 dependent on the relative level of disadvantage in the labour market assessed through the JSCI. Eligibility for Stream 4 is determined by the identification of complex and/or multiple barriers through an ESAt or JCA.

Fully Eligible Participants, fall into one of the following categories:

- recipients of Newstart Allowance, Youth Allowance (other) and Parenting Payment who are subject to the Activity Test Requirements or participation requirements including parents and people with disability who have part time participation requirements
- recipients of another form of qualifying government income support payment such as Disability Support Pension, Parenting Payment (Partnered or Single) or Carer Payment who are not subject to participation requirements but who volunteer
- young people (those who are aged 15 to 21, not employed for more than 15 hours a week or in full time education and not in receipt of income support)
- vulnerable young people who are full time students (those who are aged 15 to 21 who present in crisis and have at least one serious non-vocational barrier—they are only eligible for Stream 4 services), or
- people not on income support who may be ineligible for most employment services but who choose to participate in Drought Force activities (Drought Force Only participants) can be assisted to do so.

Stream 1 (Limited) job seekers are those job seekers who register with DHS or register directly with a JSA provider who are not Fully Eligible and who are not:

- full time students
- working in paid employment for 15 hours or more per week and not on income support
- overseas visitors on working holiday visas or overseas students studying in Australia, or
- prohibited by law from working in Australia.

Stream 1 (Limited) job seekers are eligible for the services provided within the first three months of Stream 1, including an initial interview, assistance with preparing a résumé, and advice about the local labour market. They may also be eligible for relevant skills training delivered by the Government or the relevant state/territory government. Job seekers who register for the sole purpose of obtaining an apprenticeship or traineeship are also eligible for Stream 1 (Limited) services.

Fully Eligible Participants (Job seekers) are placed into one of four Streams, based on their level of disadvantage. Service is demand driven. Servicing and funding are dependent on the assessed level of disadvantage of the job seeker.

JSA providers will work with job seekers to negotiate an individualised pathway to employment (an Employment Pathway Plan, or EPP). The EPP is tailored to the needs of each job seeker outlining agreed activities to be undertaken to assist the job seeker become work ready and gain sustainable employment. The EPP must contain activities which will satisfy the job seeker's participation requirements under Social Security Law and that are specifically tailored to address the job seekers' level of disadvantage, individual needs and known barriers to employment.

The EPP will identify the mix of vocational and non-vocational activities as appropriate, that the job seeker is to undertake, with particular focus on developing the skills they need to improve their chances of obtaining ongoing sustainable employment. Depending on the needs of the individual job seeker, the EPP will integrate education, training, non-vocational assistance, work experience, job search requirements and other support. The EPP will be regularly updated and renegotiated with the job seeker.

The Employment Pathway Fund (EPF) is a flexible pool of funding that is available for use by JSA providers to purchase assistance to address vocational and non-vocational barriers and to provide Work Experience Activities. JSA providers receive an EPF credit for each registered Fully Eligible Participants on commencement commensurate with their level of disadvantage. Because JSA providers deliver flexible services personalised to the needs of individual job seekers, not every job seeker will need the same type or amount of assistance through the EPF. There is no overall cap on the cost of assistance that a provider can purchase through the EPF for any single job seeker. It is expected, however, that EPF expenditure on an individual job seeker will be commensurate with their level of disadvantage.

## JOB SEEKER EMPLOYMENT PATHWAY FUND CREDITS

as detailed in the Employment Services Deed 2012-2015

Type of Service	Participant Details	Credit	Credit – Remote ESAs only	When credited
Stream 1	All Fully Eligible Participants	\$11	\$19	At payment of second 13 Weeks Service Fee
Stream 2	All Fully Eligible Participants	\$550	\$935	On Commencement
Stream 3	All Fully Eligible Participants	\$1100	\$1870	On Commencement
Stream 4	All Fully Eligible Participants	\$1100	\$1870	On Commencement
	Additional amount credited for Fully Eligible Participants that Centrelink has indicated require interpreter assistance	\$1000	\$1700	Upon Centrelink notification in DEEWR's IT Systems
	Additional amount credited after 12 months and 1 day of assistance in Stream 4	\$550	\$935	Upon payment of the 5 <sup>th</sup> 13 week Service Fee
Stream 2-4	Early School Leavers - an amount credited in addition to above credits per Stream	\$500	\$850	On Commencement or upon Centrelink notification in DEEWR's IT Systems
Work Experience Phase	All Fully Eligible Participants	\$500	\$850	On Work Experience Commencement
	For all Fully Eligible Participants in the Compulsory Activity Phase	\$1000	\$1700	On completion of the First Compulsory Activity Phase Contact
	Additional amount credited for the participation of a Fully Eligible Participant in a Full-Time Work for the Dole activity, payable once only during a Work Experience Phase as specified in any Guidelines	\$350	\$595	When DEEWR's IT Systems show Full-Time Work For the Dole is being undertaken
Drought Force Only Services	A once only credit made during the Term of this Deed, for each Drought Force Only Participant	\$500	\$500	On Commencement

EPF Credits for 2011/12 Transferred Participants			
	0-6 months in Stream Services	6+ months in Stream Services	
Stream 1	\$10	\$10	
Stream 2	\$390	\$195	
Stream 3	\$775	\$390	
Stream 4	\$775	\$390	
Stream 4 - Extension	\$390	\$390	
	0-6 months	6+ to 12 months	12+ months
Work Experience Phase <sup>1</sup>	\$353	\$176	\$0

Note 1: 2011/12 Transferred Participants in their second and subsequent 12 month periods of the Work Experience Phase will not attract an EPF credit for 2011/12 Transferred Participants. These Fully Eligible Participants will instead be eligible for \$1000 in EPF credits on completion of their First Compulsory Activity Contact'

Note 2: Credits for 2011/12 Transferred Participants in Remote ESAs and the Excised Remote Area are multiplied by 1.7.'

For Streams 1 to 3, job seekers will generally receive 12 months of service before moving into the Work Experience Phase of the Stream and then an additional 12 months of service before moving into the Compulsory Activity Phase, unless they exit earlier or move to a higher stream. Stream 4 job seekers will receive up to 18 months of service in Stream 4 before moving into the Work Experience Phase unless they exit Stream Services earlier. They will then move into the Compulsory Activity Phase after a further 12 months.

A job seeker's JSCI may be updated when the job seeker's circumstances are new or have changed significantly and cannot be addressed in their current Stream.

Providers are expected to actively engage with employers in order to understand their needs and ensure that job seekers receive the assistance that enables them to meet employer demand.

Providers must be able to:

- help all eligible job seekers, regardless of their level of disadvantage, by providing individually tailored assistance to develop pathways into sustainable employment
- work with employers to understand and meet their skills and labour needs, including working with employers to identify job vacancies and match suitable candidates to those vacancies
- connect job seekers to appropriate skills development opportunities
- respond rapidly to changing labour market conditions and policy settings to ensure job seekers are connected to all opportunities, and
- build strong linkages and work collaboratively with other stakeholders, including local community and health services, Registered Training Organisations, state, territory and local government, and other service providers.

## JOB SEEKER SERVICE FEES

as detailed in the Employment Services Deed 2012-2015

<b>(1)</b>	<b>(2)</b>	<b>(3)</b>
<b>Stream and time in Payment Period</b>	<b>Service Fees</b>	<b>Service Fees—Remote ESAs only</b>
• Stream 1		
First 13-weeks Includes the Initial Interview	\$63	\$107
Second 13-weeks	\$94	\$160
Third 13-weeks Includes Skills Assessment and managing Intensive Activities.	\$328	\$558
Fourth 13-weeks	\$96	\$163
Maximum for Stream 1	\$581	\$988
• Stream 2		
First 13-weeks Includes the Initial Interview	\$271	\$461
Second 13-weeks	\$208	\$354
Third 13-weeks	\$202	\$343
Fourth 13-weeks	\$204	\$347
Maximum for Stream 2	\$885	\$1505
Stream 3		
First 13-weeks Includes the Initial Interview	\$332	\$564
Second 13-weeks	\$264	\$449
Third 13-weeks	\$257	\$437
Fourth 13-weeks	\$267	\$454
Maximum for Stream 3	\$1120	\$1904
Stream 4		
First 13-weeks Service Fees for the first two periods include Initial Interview	\$587	\$998

(1) Stream and time in Payment Period	(2) Service Fees	(3) Service Fees—Remote ESAs only
and Skills Assessment		
Second 13-weeks	\$512	\$870
Third 13-weeks	\$409	\$695
Fourth 13-weeks	\$411	\$699
Fifth 13-weeks	\$402	\$683
Sixth 13 weeks	\$415	\$706
Maximum for Stream 4	\$2736	\$4651
Work Experience Phase (excluding Compulsory Activity Phase) <sup>3</sup>		
First 13-weeks <sup>2</sup>	\$456	\$775
Second 13-weeks	\$66	\$112
Third 13-weeks	\$133	\$226
Fourth 13-weeks	\$67	\$114
Compulsory Activity Phase 3		
First 13 weeks	\$133	\$226
Second 13 weeks	\$66	\$112
Third 13 weeks	\$133	\$226
Fourth 13 weeks	\$67	\$114
<b>Note 1:</b> Clause 77.1 quantifies a Stream 1 (Limited) Participant Fee of \$63, or \$107 if the Stream 1 (Limited) Participant is in a Remote ESA.		
<b>Note 2:</b> Includes the amount of \$330 (\$561 for Remote ESAs), payable once only during a Work Experience Phase upon Work Experience Commencement by a Fully Eligible job seeker.		
<b>Note 3:</b> After the fourth 13 Week Period in the Compulsory Activity Phase, Service Fees continue to be paid on a cyclical basis for each alternate 13 Week Period as follows: (a) first additional 13 Week Period \$133 (\$226 for Remote ESAs); (b) second additional 13 Week Period \$67 (\$114 for Remote ESAs); (c) third additional 13 Week Period \$133 (\$226 for Remote ESAs), and so forth until the Fully Eligible Participant Exits.'		

## Drought Force Only Service Fee

Services	Payable	Service Fee
Drought Force Only Services	<ul style="list-style-type: none"> <li>Payable only once per Drought Force Only job seeker, on the Commencement of a Drought Force Only job seeker</li> </ul>	<ul style="list-style-type: none"> <li>\$330</li> </ul>

Outcome Fees, which are weighted to the most disadvantaged, will be paid for assisting most Fully Eligible Participants into sustainable employment or education, as will Placement Fees. Service Fees, Placement Fees and Outcome Fees are fixed and not subject to price competition.

## JOB SEEKER OUTCOME FEES

as detailed in the Employment Services Deed 2012-2015

### Stream 1

Period of Unemployment	Pathway Outcome	Pathway Outcome plus Bonus	Full Outcome	Full Outcome plus Bonus
0 days to 12 months after Commencement in Stream 1	N/A	N/A	N/A	N/A
12 months and one day or more after Commencement in Stream 1	\$277	\$333	\$629	\$755

### Stream 2

Period of Unemployment	Pathway Outcome	Pathway Outcome plus Bonus	Full Outcome	Full Outcome plus Bonus
0 days to 12 months	\$491	\$589	\$743	\$891
12 months and one day or more	\$491	\$589	\$1,032	\$1238

### Stream 3

Period of Unemployment	Pathway Outcome	Pathway Outcome plus Bonus	Full Outcome	Full Outcome plus Bonus
0 days to 12 months	\$491	\$589	\$1,560	\$1872
12 months and one day to 60 months	\$491	\$589	\$2,228	\$2673
60 months and one day more	\$980	\$1176	\$2,940	\$3528

### Stream 4

Period of Unemployment	Pathway Outcome	Pathway Outcome plus Bonus	Full Outcome	Full Outcome plus Bonus
0 days to 12 months	\$980	\$1176	\$1,560	\$1872
12 months and one day to 60 months	\$980	\$1176	\$2,228	\$2673
60 months and one day more	\$980	\$1176	\$2,940	\$3528

#### Additional Fees for Remote ESAs

Education activity	Additional Fee	Fee amount
Remote Education Commencement Outcome	Remote Education Commencement Outcome Fee	\$500
Remote Educational Achievement Outcome	Remote Educational Achievement Outcome Fee	\$1500

#### Access Program Fees

Activity	Access Incentive Fee
Commencement in an Australian Apprenticeship as a result of participation in the Australian Apprenticeships Access Program	\$500

#### JOB SEEKER PLACEMENT FEES

as detailed in the Employment Services Deed 2012-2015

Services	Job Seeker Placement Hours	Job Seeker Placement Fees
Stream 1	Where an Eligible Placement Participant who is also a Partial Capacity to Work Participant completes between 15 to 49 hours of paid work in a Job Seeker Placement within 10 Consecutive Working Days from the Job Seeker Placement Start Date	\$385
	Where an Eligible Placement Participant completes a minimum of 50 hours of paid work in a Job Seeker Placement within 10 Consecutive Working Days from the Job Seeker Placement Start Date	\$440
Stream 2 to 4 or Work Experience Phase, including the Compulsory Activity Phase	Where an Eligible Placement Participant completes between 15 to 49 hours of paid work in a Job Seeker Placement within 10 Consecutive Working Days from the Job Seeker Placement Start Date	\$385
	Where an Eligible Placement Participant completes a minimum of 50 hours of paid work in a Job Seeker Placement within 10 Consecutive Working Days from the Job Seeker Placement Start Date	\$550

## **Harvest Labour Services**

HLS providers are required to gather vacancies from employers of harvest labour and supply the harvest workers necessary from outside the Harvest Area to meet this need necessary from outside the Harvest Area to meet this need deliver HLS in a Harvest Area, organisations must also be contracted to deliver Stream Services in at least a part of that Harvest Area.

## **National Harvest Labour Information Service**

NHLIS is an employment service in addition to Stream Services. The NHLIS coordinates and distributes harvest labour information across Australia.

## **New Enterprise Incentive Scheme**

Up to 6300 eligible job seekers per year who are interested in starting and running small businesses can access assistance through NEIS. The Scheme provides accredited small business training, business advice and mentoring for eligible job seekers, as well as ongoing income support for up to 52 weeks.

## **Wage Connect**

Wage Connect is an initiative to help the very long-term unemployed access sustainable, ongoing employment. It provides job seekers with the opportunity to gain paid work and to transition to greater financial independence. At the same time, employers get help to offset the costs of wages and training for the first six months a person is employed. The subsidy equates to around \$5900 for each job placement, or around \$227 per week over 26 weeks, although may be longer in some circumstances.

## **Connecting People with Jobs**

Connecting People with Jobs is one of a number of government initiatives to encourage labour mobility. Under the initiative, funding of up to \$29.2 million is available to support the relocation of up to 4000 unemployed job seekers for work. The initiative provides practical and flexible assistance to Job Services Australia or Disability Employment Services job seekers who have been unemployed for three months or more to relocate for work and apprenticeships (additional eligibility applies). Funding of up to \$9,000 (depending on whether a job seeker has dependent children and where they are relocating to) can be used to cover a range of relocation related costs including travel expenses, removalists, temporary accommodation, post-placement support and mentoring. Employers taking on relocating job seekers under the initiative may be eligible for a wage subsidy of \$2500.

## **Disability Employment Services**

Disability Employment Services (DES) is the main employment program to assist people with disability. DES providers have a specialist role in assisting people with disability, injury or health condition to secure and maintain sustainable employment and have the flexibility to ensure services are tailored to the individual needs of job seekers. DES is uncapped, meaning that every eligible job seeker can have immediate access to services to help them get and maintain a job. DES offers two distinct employment programs to help people with disability, injury or health condition to find employment:

- *DES – Disability Management Service (DMS)* provides services to job seekers with temporary or permanent disability, injury or health condition who require the assistance of a disability employment service, and who may require flexible ongoing support but are not expected to need regular, long-term support in the workplace, and

- DES – Employment Support Service (ESS) is available to those job seekers with permanent disability and who are assessed as needing regular long-term support in the workplace.

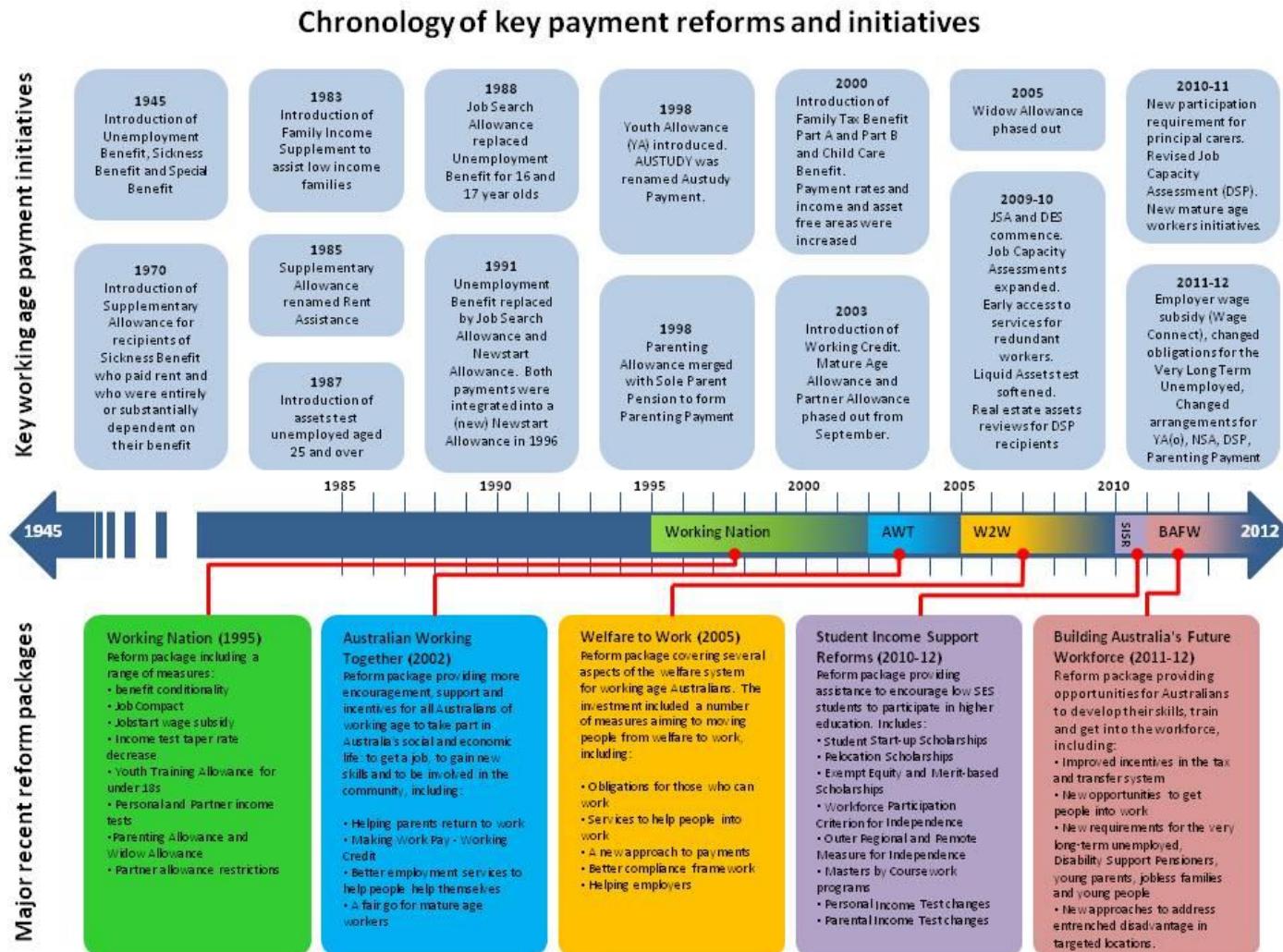
Since its implementation on 1 March 2010, DES providers have successfully placed more than 102,000 job seekers into employment.

The JobAccess service ([www.jobaccess.gov.au](http://www.jobaccess.gov.au)) will also be funded to further promote the benefits of employing people with disability to employers and the community at large. JobAccess offers help and workplace solutions for people with disability and their employers. It includes a comprehensive, easy to use website and a free telephone information and advice service where people can access confidential, expert advice on all disability employment matters.

Furthermore, the Employment Assistance Fund (EAF) helps job seekers with disability, employees and employers by providing financial assistance to purchase a range of work related equipment, modifications and services for people who are about to start a job or who are currently working. The Fund provides assistance which improves access to employment, work productivity and independence of people with disability. Work-related services and modifications available through the EAF include, but are not limited to, assistive technology, electronic and communication equipment, specialist support for employees with learning disability or mental health condition, Auslan interpreting services, Deaf awareness training and other disability awareness training

## APPENDIX E Chronology of key payment reforms and initiatives

Figure 44: Chronology of key payment reforms and initiatives



## APPENDIX F Chronology of payment reform since 1945

Prior to 1945	<p>The first Commonwealth civil pensions were Old-Age Pensions, paid from July 1909. They were followed by payments of Invalid Pension in 1910. War Pensions were introduced in 1914, with Service Pensions for returned servicemen introduced in 1935.</p> <p>Financial assistance to families with children was first introduced in 1912 in the form of Maternity Allowance (abolished in 1978). The Commonwealth commenced paying child endowment, the precursor of the current family payments, in 1941.</p> <p>Widow Pensions were introduced in 1942, with different arrangements for women with dependent children (Class A), widows aged 50 years or older without dependent children (Class B), and younger widows without dependent children (Class C). Note: a further category (Class D) was introduced from 1947 to 1961 for women aged 50 years or older who had dependent children and whose husband had been imprisoned.</p> <p>From 1943 an extra pension was payable to certain pensioners with a dependent spouse or children, the precursor of Wife Pension and Carer Payment.</p>
1945	Introduction of <b>Unemployment Benefit, Sickness Benefit</b> and <b>Special Benefit</b> . These payments included additional amounts for a dependent spouse or children, the precursor of Partner Allowance and Parenting Payment (Partnered).
1951	Introduction of Commonwealth Scholarships for students in tertiary education.
1965	Introduction of <b>Guardian's Allowance</b> for widowers and other unmarried pensioners with one or more children under 16 years of age.
1967	Introduction of Sheltered Employment Allowance for people with disability with special employment in what where known as sheltered workshops.
1970	Introduction of <b>Supplementary Allowance</b> for recipients of Sickness Benefit who paid rent and who were entirely or substantially dependent on their benefit.
1972	<b>Wife Pension</b> replaced the additional amount payable to pensioners with a dependent spouse.
1973	<p>Introduction of <b>Supporting Mother's Benefit</b> for unmarried or separated mothers not eligible for a Widow Pension (Class A).</p> <p>Commonwealth Scholarships for students in tertiary education replaced by Tertiary Education Assistance Scheme.</p>
1977	Supporting Mother's Benefit was replaced by <b>Supporting Parent's Benefit</b> , which was also available to male sole parents.
1983	<p>Introduction of <b>Family Income Supplement</b> to assist low income families with children who were not in receipt of a social security pension or benefit or similar assistance.</p> <p><b>Spouse Carer Pension</b> introduced. It was payable to the husband of a severely handicapped Age or Invalid Pensioner.</p>
1984	Single unemployment beneficiaries with children became eligible for <b>Mothers/Guardians Allowance</b> .
1985	Supplementary Allowance was renamed <b>Rent Assistance</b> .

	Eligibility for Spouse Carer Pension was broadened and renamed <b>Carer Pension</b> .
1986	Rent Assistance was extended to recipients of Unemployment Benefit who had been on benefit for at least six months and were renting privately.  Tertiary Education Assistance Scheme replaced by AUSTUDY.
1987	Family Income Supplement replaced by <b>Family Allowance Supplement</b> .  Introduction of an assets test for Unemployment Benefit recipients aged 25 and over.  Eligibility for Widow Pension (Class B) restricted.
1988	<b>Job Search Allowance</b> replaced Unemployment Benefit for 16 and 17 year olds.
1989	Introduction of the Newstart Allowance program to improve the employment prospects of long-term Unemployment Benefit recipients.  Supporting Parent's Benefit and Widow Pension (Class A) were combined and renamed <b>Sole Parent Pension</b> . Widow Pension (Class C) became <b>Widowed Person's Allowance</b> and was extended to men.
1991	Unemployment Benefit was replaced by two payments, <b>Job Search Allowance</b> for recipients aged under 18 years regardless of payment duration and for older recipients who had been in receipt of payment for less than 12 months, and <b>Newstart Allowance</b> for people who had been in receipt of payment for 12 months or more.  Sickness Benefit was replaced with <b>Sickness Allowance</b> and more stringent eligibility criteria.
1993	Family Allowance Supplement was renamed <b>Additional Family Payment</b> , which also replaced Additional Pension for Children and Additional Benefit for Children.
1994	<b>Working Nation whitepaper</b>  Introduction of <b>Mature Age Allowance</b> for people aged 60 years or older who had not reached Age Pension age and had been unemployed and receiving payment for at least 12 months. <b>Mature Age Partner Allowance</b> was introduced for their partners. Paid at the same rate and with the same income and assets tests as Age Pension.  Married rate of Job Search, Newstart Allowance and Sickness Allowance abolished. Dependent spouses paid <b>Partner Allowance</b> in their own right.  <b>Partner Allowance</b> replaced the additional amount of payment for recipients of Job Search Allowance, Newstart Allowance and Sickness Allowance who had a dependent spouse.  <b>Home Child Care Allowance</b> was paid to members of couples with children who were primarily engaged in child care. It replaced the dependent spouse rebate paid to couples with children through the taxation system.  Disability Wage Supplement introduced.
1995	<b>Parenting Allowance</b> was introduced for partners of Job Search Allowance and Newstart Allowance recipients who were caring for children under the age of 16 years. This allowance replaced Partner Allowance for these people. It also absorbed Home Child Care Allowance.  Wife Pension and Mature Age Partner Allowance closed to new entrants. Eligibility age for women to receive Age Pension began to be increased (by six months every two years) to be equal to that for men (first increase from 1 July 1995 to 60.5 years of age).  Partner Allowance was restricted to dependent spouses who were born before 1 July 1955 and had

	<p>little or no recent labour market experience. Younger dependent spouses who were not eligible for another payment were required to claim Job Search or Newstart Allowance and were subject to activity testing.</p> <p><b>Widow Allowance</b> was introduced for women who were no longer partnered, who became separated, divorced or widowed after turning 50 years of age and who had little or no recent workforce experience. Recipients had no requirement to look for work.</p> <p><b>Youth Training Allowance</b> replaced Job Search Allowance for people under 18 years of age.</p> <p><b>Bereavement Allowance</b> replaced Widowed Person's Allowance.</p>
1996	<p>Job Search Allowance and Newstart Allowance activity test administration arrangements were tightened.</p> <p>Job Search Allowance and Newstart Allowance were amalgamated under the title <b>Newstart Allowance</b>.</p> <p>AUSTUDY eligibility criteria was tightened.</p> <p>Basic Family Payment and Additional Family Payment were replaced by a single payment called <b>Family Payment</b>.</p> <p><b>Mature Age Allowance</b> converted from a pension to an allowance.</p>
1997	<p><b>Family Tax Payment</b> was introduced as part of a broader Family Tax Initiative aimed at providing extra assistance to families with children. Family Tax Payment provided assistance to families who qualified for more than the minimum rate of Family Payment.</p> <p>Carer Pension became <b>Carer Payment</b>.</p> <p>No new grants of Widow Pension (Class B), also known as Widow B Pension.</p> <p>The Work for the Dole pilot projects commenced.</p> <p><b>Newstart Allowance</b> activity test was tightened and greater penalties introduced.</p>
1998	<p><b>Youth Allowance</b> was introduced as the main income support payment for young people. It replaced Youth Training Allowance, Newstart Allowance and Sickness Allowance for 15 to 20 year old unemployed people. It also replaced AUSTUDY for 16 to 24 year old students. AUSTUDY was renamed Austudy Payment.</p> <p>Parenting Allowance was merged with Sole Parent Pension to form <b>Parenting Payment</b>. The rates and eligibility conditions for the two payments were largely unchanged resulting in separate rate and eligibility structures for <b>Parenting Payment (Partnered)</b> and for <b>Parenting Payment (Single)</b>.</p> <p>Enhanced Mutual Obligation arrangements announced.</p> <p>Enhanced Mutual Obligations for youth, including literacy and numeracy training.</p> <p>Additional places for young people under Job Network and the introduction of new career counselling programs.</p> <p>New Work for the Dole projects announced.</p> <p>Additional places announced in the Job Placement, Employment and Training Programme (JPET)</p> <p>The Literacy and Numeracy Training Programme was introduced to improve the labour market prospects of unemployed job seekers with low literacy and numeracy skills.</p> <p>AUSTUDY payments aligned to Youth Allowance</p> <p>Youth Allowance and Mobility Allowance eligibilities are expanded</p>

1999	<p>Work for the Dole was expanded for Year 12 school-leavers unemployed for three months or more.</p> <p>Youth Allowance recipients under 18 years of age had to be engaged in full time education or training to be eligible.</p> <p>Community Development Employment Project (CDEP) participant supplement was introduced.</p> <p>Tightened application of the non-payment period where a job seeker moves to an area of higher unemployment.</p> <p>Changes to Parenting Payment meant that the payment was only available to parents who cared for their children for at least 60 per cent of the time.</p> <p>The Indigenous Employment Policy was implemented.</p>
2000	<p><b>Family Tax Benefit Part A and Part B</b> replaced Family Tax Payment, Family Allowance, Mothers/Guardians Allowance and other payments.</p> <p><b>Child Care Benefit</b> replaced Child Care Assistance and the Child Care Cash Rebate.</p> <p>Payment rates and income and asset free areas were increased as part of a package of measures to compensate for the impact of the introduction of the GST.</p> <p>Introduction of the Return to Work program</p> <p>Preparing for Work Agreements were launched as part of the Mutual Obligation Strategy.</p> <p>Introduction of data matching with the Australian Taxation Office, to identify customers not fully disclosing assets affecting their entitlement.</p> <p>Pilots to trial approaches to increase economic or social participation of people on income support for workless families, mature age job seekers and long-term unemployed job seekers.</p>
2002	<p>Mutual Obligation is expanded introducing Work for the Dole for unemployed people aged 35-39 and making involvement optional for job seekers aged 40-49 years.</p> <p>Reduced penalties for non-attendance at interviews.</p>
2003	<p><b>Australians Working Together</b></p> <p>Mature Age Allowance and Partner Allowance phased out from September.</p> <p>Introduction of Working Credit.</p> <p>Since 1997 15 535 Work for the Dole projects had offered 261 929 opportunities to unemployed people.</p> <p>The Jobseeker Account was introduced.</p> <p>Temporarily incapacitated for work exemption is removed from Newstart Allowance.</p> <p><b>Recognising and improving the work capacity of people with a disability</b></p> <p>Extra places in rehabilitation, specialist disability employment assistance, the Job Network, the Language Literacy and Numeracy Program and the Personal Support Program.</p> <p>Compliance reviews through an extension to the data matching pilot.</p> <p>Enhanced reviews for Parenting Payment and Disability Support Pension.</p> <p>Reduced job search requirements for some mature aged job seekers.</p> <p>Introduction of a formal cooling off period for activity and participation agreements.</p>
2004	<p>Increased asset valuation reviews for Age Pensioners.</p>

2005	<p>Widow Allowance phased out from July.</p> <p>A new Case Based Funding model for the delivery of disability employment services was introduced.</p>
2006	<p><b>Welfare to Work</b></p> <p>From July new claimants for income support with disabilities who had a partial capacity to work would no longer qualify for Disability Support Pension.</p> <p>New claimants for income support who were principal carers for children were no longer eligible to apply for Parenting Payment if their youngest child was aged 6 years or older if partnered or 8 years or older if single.</p> <p>The allowance income test was changed so that income between \$62 and \$250 per fortnight reduced payment by 50 cents for each dollar of income. Income over \$250 per fortnight reduced payment by 60 cents for each dollar of income.</p> <p>The income test for students and apprentices was changed so that income above \$316 per fortnight reduced payment by 60 cents for each dollar of income.</p> <p>CDEP youth participant rates introduced.</p> <p>CDEP participants required to register as job seekers with a Job Network member (JNM).</p> <p>Time limited participation introduced for urban &amp; regional CDEP entrants.</p>
2007	<p>Additional employment services for Age Pensioners.</p> <p>Removal of Remote Area Exemptions commences.</p> <p>Income management was rolled out in stages from September 2007 as part of the Northern Territory Emergency Response.</p> <p>Increased participation activities for people on income support as part of the Northern Territory Emergency Response.</p> <p>CDEP participant transition to jobs and employment services commences as part of the Northern Territory Emergency Response.</p> <p>Community Employment Brokers in place to provide employment services and program delivery to Indigenous people as part of the Northern Territory Emergency Response.</p> <p>Eligibility for Mobility Allowance was extended to Parenting Payment Recipients.</p> <p>The Personal Support Programme is expanded.</p> <p>Vocational Rehabilitation Services and the Disability Employment Network places were increased.</p> <p>CDEP activities ceased in urban and major regional areas.</p>
2008	<p>The Productivity Places Program commences.</p> <p>Access to the Pensioner Concession Card and associated allowances was extended to Parenting Payment (Partnered) recipients, with a partial work capacity due to disability.</p> <p>The Child Protection Pilot was introduced including the Child Protection Scheme of Income Management (CPSIM) and Voluntary Income Management (VIM).</p> <p>Bradley Review of Australian Higher Education examines and reports on the future direction of the higher education sector and options for reform, including student income support arrangements.</p>
2009	Improving School Enrolment and Attendance through Welfare Reform Measure (SEAM) trials

	<p>commenced.</p> <p>CDEP ceased in non-remote locations.</p> <p>New CDEP participants received income support payments rather than CDEP wages.</p> <p>Job Services Australia (JSA) commenced.</p> <p>The <i>early access to employment services for redundant workers</i> measure commenced.</p> <p>Full time activity requirements for Youth Allowance (Other) recipients who do not have year 12 or a certificate II qualification are substantially changed under the Learn or Earn initiative, to emphasise the primacy of education for this cohort.</p> <p>Temporary amendments made to the liquid assets test for people who have become unemployed, including retrenched workers, so they can access income support more quickly.</p> <p>Tailored language, literacy and numeracy (LLN) training is implemented in Northern Territory communities.</p> <p>A range of measures are announced in the 2009-10 Budget as part of the Secure and Sustainable Pension Reform package that improved pension adequacy and sustainability, and provided greater financial security for pensioners. The single rate of Age Pension was raised to 66.33% of the couple combined rate. New indexation arrangements were introduced, including a new Pensioner and Beneficiary Living Cost Index (PBLCI) and an increased wages benchmark. A work bonus was introduced for Age Pensioners to provide concessional treatment of employment income. Qualifying age for Age Pension was raised to 67, to be phased in from 2017 to 2023. The income test taper increased to 50 per cent.</p> <p>A range of measures are announced in the 2009-10 Budget to reform student income support in response to the Bradley Review. Many of these reforms also affect Youth Allowance job seekers, including changes to the parental income test threshold and an incremental decrease to the age of independence.</p>
2010	<p>Disability Employment Services commenced.</p> <p>Arrangements for Job Capacity Assessments are revised as part of the Better and Fairer Assessments 2009-10 Budget Measure.</p> <p>Real estate asset reviews are extended to Disability Support Pension.</p> <p>Pilot commenced for a workforce re-engagement contact strategy through Centrelink for new entrants onto the DSP.</p> <p>Changes to participation requirements for principal carers.</p> <p>The Productive Ageing Package is introduced.</p> <p>The new Income Management scheme is rolled out including financial counselling services and financial education programs as well as 'matched savings payments' for those participating in a money-management and savings program.</p> <p>Weekly income support payments were made available for vulnerable recipients.</p> <p>First instalments of Student Start-Up and Relocation Scholarships paid to eligible higher education students receiving Youth Allowance (student), ABSTUDY and Austudy.</p> <p>Age of independence for Youth Allowance and ABSTUDY lowered from 25 to 24 years.</p> <p>Equity and merit-based scholarships exempted from being treated as assessable income under Youth Allowance (student), ABSTUDY and Austudy.</p>

	<p>Changes to the Parental Income Test for Youth Allowance and ABSTUDY are implemented.</p> <p>Workforce participation criterion tightened for Youth Allowance and ABSTUDY. Transitional arrangements are put in place until 31 December 2010 for students completing secondary school in 2008 and taking a gap year in 2009.</p>
2011	<p><b><i>Building Australia's Future Workforce</i></b></p> <p>Additional Language, Literacy and Numeracy Program places.</p> <p>Parenting Payment recipients who were grandfathered in the Welfare to Work reforms will be gradually transferred to Newstart Allowance and part time participation requirements.</p> <p>More generous income tests introduced for Youth Allowance (Other) and for principal carer parents on Newstart Allowance.</p> <p>The early access to employment services for redundant workers measure ceased.</p> <p>Age of independence for Youth Allowance and ABSTUDY lowered from 24 to 23 years. Rural Tertiary Hardship Fund commenced for disadvantaged rural tertiary students.</p> <p>Paid Parental Leave introduced.</p> <p>From 1 July 2011, assessment processes were streamlined by introducing faster and simpler assessments for employment service referrals (Employment Services Assessments) and retaining more thorough assessments for Disability Support Pension claimants (Job Capacity Assessments).</p> <p>From Sep 2011 Job Capacity Assessments for the Disability Support Pension were refined to have a greater focus on a person's potential to work with appropriate capacity building and rehabilitation.</p>
2012	<p>Age of independence for Youth Allowance and ABSTUDY lowered from 23 to 22 years.</p> <p>Youth Allowance (student and apprentice) personal income test threshold increased from \$236 to \$400 per fortnight.</p> <p>The minimum age of eligibility for Newstart Allowance was increased to 22 years.</p> <p>Measures were introduced to tackle entrenched disadvantage, including Jobless Families and Teen Parents trials and an income management model in selected communities.</p> <p>Youth Allowance (student) Student Income Bank increased from \$6000 to \$10 000. Both the income test threshold and Income Bank limit will be indexed in the future.</p> <p>The introduction of revised Impairment Tables for Disability Support Pension.</p> <p>The work test for Disability Support Pension recipients was relaxed and participation requirements were introduced for some recipients as part of <i>Building Australia's Future Workforce</i> measures.</p> <p>Additional participation obligations were introduced for the Very Long-Term Unemployed.</p> <p>Introduction of Clean Energy Household Assistance Package.</p> <p>Announcement of a supplementary allowance for job seekers, students and parents on income support of \$210 per year for single recipients and \$175 per year for partnered recipients (that is, a total of \$350 per year for couples).</p> <p>The workforce participation independence arrangements for ABSTUDY and Youth Allowance that previously applied only to students from Outer Regional Australia, Remote Australia and Very Remote Australia are extended to students from Inner Regional Australia. The Youth Allowance income free area for job seekers increased from \$62 per fortnight to \$143 per fortnight.</p>

## **APPENDIX G Australian Government programs to improve employment outcomes and participation for Indigenous people**

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**Remote Jobs and Communities Program** – From 1 July 2013, the new \$1.5 billion *Remote Jobs and Communities Program* will see a more integrated and flexible approach to participation and employment services for people living in remote Australia. The four main programs currently delivering employment and participation services and community development in remote Australia — Job Services Australia, Disability Employment Services, Community Development Employment Projects and the Indigenous Employment Program — will be rolled into the new integrated *Remote Jobs and Communities Program*. The new program will ensure that people who are not working are participating to their capacity in training or skills development or other activities that advance their employment prospects and contribute to community wellbeing.

**Stronger Futures in the Northern Territory** – This is a comprehensive 10-year package of support to Aboriginal people in regional and remote areas to live strong and independent lives. Aboriginal people in remote communities across the Northern Territory will have greater employment and economic opportunities under the *Stronger Futures* jobs package.

**Indigenous Economic Development Strategy** – The *Indigenous Economic Development Strategy 2011–2018* was released in October 2011. It is an Australian Government policy framework that aims to support the increased personal and economic wellbeing of Indigenous Australians through greater participation in the economy.

**Indigenous Employment Program** – The Indigenous Employment Program offers tailored solutions to assist employers to recruit, train and provide sustainable employment for Indigenous people. It also supports Indigenous people to pursue self-employment and business development opportunities.

**Improving employment services** – \$6.1 million provided for Jobs Services Australia to pilot culturally appropriate mentoring supports for Indigenous job seekers when they commence work. A further \$1 million provided to allow greater flexibility for employment service providers in remote areas to work better with job seekers, many of whom are Indigenous, to secure sustainable jobs and meet employers' needs.

**Indigenous Youth Careers Pathways Program** – this program commenced on 1 January 2012 and provides support for Indigenous young people to transition effectively from school and into further education and/or work. It also provides support for up to 6400 Indigenous students to stay in school and undertake school-based traineeships.

**Youth Pathways to Employment and Participation** – \$0.8 million provided over four years to support BackTrack to continue to provide pathways to employment and participation for disadvantaged and disengaged young people, particularly Indigenous young people, through mentoring, training, and education programs.

**Indigenous Economic Participation National Partnership Agreement** – The National Partnership involves complementary investment and effort by the Commonwealth, states and territory governments to significantly improve opportunities for Indigenous people to engage in private and public sector jobs. The first element of this National Partnership Agreement was completed on 30 June 2010 and created a total of 1538 jobs for Indigenous Australians.

**Improving employment services** – A \$6.1 million Indigenous Mentoring Pilot, which commenced on 1 July 2012, will provide intensive, culturally appropriate mentoring support to more than 1500 Indigenous job seekers over the next three years. The pilot includes both pre and post placement support to assist job seekers achieve

sustainable employment. Grant funding has been provided to selected Job Services Australia (JSA) providers to employ 20 mentors in areas with high Indigenous job seeker populations and employer demand. An online cultural competence training package has also been developed for JSA and Disability Employment Services provider staff and service guarantees have been adjusted to better demonstrate the commitment of providers to the delivery of high quality employment services to Indigenous job seekers. In addition, in the lead up to the new *Remote Jobs and Communities Program*, \$1 million has been provided to allow greater flexibility for JSA and DES providers in remote areas to work with job seekers, the vast majority of whom are Indigenous Australians, to secure sustainable jobs and meet employers' needs. This increased flexibility will be reflected in arrangements under the *Remote Jobs and Communities Program* when it commences on 1 July 2013.

## **APPENDIX H Detail of package of assistance cameos**

## Newstart Allowance recipients with \$0 earnings fortnightly (amounts per fortnight)

		<b>Earned Income Tax</b>	<b>Medicare levy</b>	
Single, Young, Renting				<b>Newstart Allowance</b>
Single, 60+, Homeowner				<b>Pharmaceutical Allowance</b>
Single Parent, Two Children aged 9 and 11, Renting				<b>Newstart Allowance (partner rate)</b>
Partnered, No Children, Renting				<b>Family Tax Benefit A</b>
Partnered, Two Children aged 9 and 11, Renting				<b>Rent Assistance</b>
				<b>Family Tax Benefit B</b>
				<b>Schoolkids Bonus</b>
				<b>Telephone Allowance</b>
				<b>Clean Energy Payments</b>
				<b>Final income</b>

**Newstart Allowance recipients with \$450 earnings (amounts per fortnight)**

Single, Young, Renting	\$450.00	\$450.00	\$450.00	<b>Earned Income</b>
Single, 60+, Homeowner				<b>Tax</b>
Single Parent, Two Children aged 9 and 11, Renting	\$228.00	\$315.80	\$275.70	<b>Newstart Allowance</b>
Partnered, No Children, Renting		\$6.20	\$6.20	<b>Pharmaceutical Allowance</b>
Partnered, Two Children aged 9 and 11, Renting	\$442.00			<b>Newstart Allowance (partner rate)</b>
				<b>Family Tax Benefit A</b>
				<b>Rent Assistance</b>
				<b>Family Tax Benefit B</b>
				<b>Schoolkids Bonus</b>
				<b>Telephone Allowance</b>
				<b>Clean Energy Payments</b>
				<b>Final income</b>

**Newstart Allowance recipients with \$900 earnings (amounts per fortnight)**

			<b>Earned Income</b>	
Single, Young, Renting	\$900.00	\$900.00	\$900.00	<b>\$900.00</b>
Single, 60+, Homeowne r	-\$20.88	-\$20.88	-\$29.59	-\$10.36
Single Parent, Two Children aged 9 and 11, Renting				
Partnered, No Children, Renting	\$879.12	\$879.12	\$870.41	\$875.45
Partnered, Two Children aged 9 and 11, Renting				
				<b>Earned income (reduced by Tax and Medicare Levy)</b>
				<b>Newstart Allowance</b>
				<b>Pharmaceutical Allowance</b>
				<b>Newstart Allowance (partner rate)</b>
				<b>Family Tax Benefit A</b>
				<b>Rent Assistance</b>
				<b>Family Tax Benefit B</b>
				<b>Schoolkids Bonus</b>
				<b>Telephone Allowance</b>
				<b>Clean Energy Payments</b>
				<b>Final income</b>

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Note: All Centrelink/DHS administrative data used in this submission has been extracted by DEEWR through Bluebook and the Research and Evaluation Database (RED).