



Australian Council of Social Service

10 June 2015
Committee Secretary
Senate Standing Committee on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretariat,

Re: Inquiry into the Social Services Legislation Amendment (Youth Employment and Other Measures) Bill 2015 ('the Bill')

Thank you for the opportunity to participate in this inquiry.

ACOSS is a national voice for people affected by poverty, disadvantage and inequality. Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities have the opportunities and resources they need to participate fully in social and economic life.

The Bill being considered by the Committee would significantly weaken the social security safety net by increasing waiting periods to access income support payments, especially for young people and recently-separated parents. It would also reduce the maximum rates of income support payments for many young people and reduce financial incentives for unemployed people to take up part time employment.

ACOSS opposes the measures proposed in this Bill and recommends that it be rejected, apart from Schedule 4: low income supplement.

It is disappointing that measures widely regarded as unfair and harmful for people on the lowest incomes are being recycled from the 2014 Budget into the latest one. As we have consistently argued, there are fairer, more sustainable ways to restore the Federal Budget including by reducing opportunities for people to avoid personal income tax.

Schedule 1: Ordinary waiting periods

As announced in last year's Budget, the Bill seeks to introduce a new one week waiting period for Parenting Payment and Youth Allowance (Other), payments which are currently not subject to a waiting period. We are particularly concerned about the potential impacts of the new waiting period for applicants for Parenting Payment (Single) experiencing or at risk of domestic violence and in need of immediate financial assistance.



While we note that an exemption to the waiting period is available for those who have experienced domestic violence in the four week period before claiming the payment, we do not accept that this provides adequate protection for those who are vulnerable. People are often reluctant to disclose domestic violence. For example, Newstart Allowance activity test exemptions for people experiencing domestic violence are rarely claimed. Any waiting period could delay women from fleeing violent relationships situations due to the lack of funds, putting them and their children in danger.

The Bill also tightens 'financial hardship' exemptions from the one week waiting period for allowances such as Newstart Allowance, which is also claimed by many single parents leaving violent situations, as Parenting Payment is only available to new claimants whose youngest child is less than eight years old.

It proposes to replace the simple and effective 'severe financial hardship' test based on available financial assets with a much more complex 'personal financial crisis' rule. In addition to low financial assets, the claimant must meet one of three new tests before they are exempted from the waiting period. The tests include disclosure of domestic violence, a test of 'unavoidable or reasonable expenditure', and others outlined in a legislative instrument.

This extraordinarily detailed examination of a person's financial circumstances is for the purpose of deciding whether they need early access to one week's income support. This is likely to have one of two outcomes. Either the administrative cost of the proposed rules would exceed the savings to government, or many people who need immediate help would abandon their application.

The current hardship rules are appropriate and should remain.

Schedule 2: Age requirements for various Commonwealth payments

As announced in last year's Budget, the Bill seeks to increase the Newstart eligibility age from 22 to 25 years. This will leave young people who are unable to secure paid work relying on the lower Youth Allowance payment for an additional two years.

The Explanatory Memorandum states that "the key aim of this measure is to provide incentives to young unemployed people to obtain the relevant education and training to increase employability." It notes that the measure is "driven by the current high young unemployment rate."

It is hard to reconcile this measure with efforts to improve the employment prospects of young unemployed people, who have been severely affected by the sluggish employment growth over the last six years. The Bill would not alter the employment services, training opportunities or activity requirements for those affected, only their incomes. A single young person affected by this measure would lose \$48 per week in income compared with the status quo.



The Explanatory Memorandum notes that the current payment structure may provide an incentive for some young people to remain on payments for longer in order to be eligible for the higher Newstart payment. A fairer solution to this perceived problem would be to increase the Youth Allowance payment for students over 21 years of age (whom most people would regard as adults) to the same level as Newstart Allowance (which is inadequate in itself at \$36 a day). This should be part of a wider structural reform to simplify the payments system and improve the adequacy of some payments, rather than ad hoc budget savings measures. For more detail about ACOSS blueprint for welfare reform to reduce poverty and increase participation, see our 2014 submission to the Welfare Review.¹

While the Explanatory Memorandum notes that the Youth Allowance income test has a larger 'free area' than the Newstart Allowance, this will only assist those who are able to obtain paid work. Those unable to do so will be left to rely on a \$30 a day payment, in addition to rental supplements. It is a budget savings measure at the expense of some of the poorest in the community.

Schedule 3: Income support waiting periods

The Bill seeks to extend the ordinary waiting period for working age payments from one to four weeks for people aged under 25 years, replacing a measure in the 2014-15 Budget to extend the period to 6 months. Those assessed as being in 'Stream A' ('job ready') of the Jobactive system will be required to complete assigned activities during this period. If passed, the measure would apply from 1 July 2016 to new claimants for the Youth Allowance (Other) or in some cases, Special Benefit.

The Explanatory Memorandum states that:

"This measure aims to encourage greater participation in work and other activities and make the welfare system fairer and more sustainable. It provides an incentive for affected persons to be self-sufficient, or to undertake further relevant education or training to increase employability before relying on the taxpayer for support."

The Bill sets out a number of exemptions to the waiting period. These include for people who are:

- A parent with care of a child;
- In state care;
- Exempt from the activity test due to special circumstances (domestic violence, pregnancy etc)
- Classified as not being 'job ready'.

The Bill implies that a person can be subjected to two one month waiting periods in any given year.

¹ ACOSS (2014), 'Submission to the Welfare Review.'



The original six month wait for Youth Allowance was by far the harshest measure of the 2014 Budget, and was rightly rejected by the Senate. Despite the shorter wait, and its application to a smaller cohort of young people, the new proposal lacks justification. Like the previous six week wait proposal, it strikes at heart of a basic principle of our social security system: that income support is available to people, subject to reasonable activity requirements, when they need it. The same objections to the previous measure apply to this one. It will impose hardship on people with no other source of income because no set of 'exemptions', however detailed, can cover every circumstance. For example, many people classified in the lowest 'Stream' of Job Services Australia support subsequently become unemployed long term.

This proposal shifts the risk of financial hardship arising from unemployment from government to the individuals affected, implying that they are personally at fault for an economic policy problem governments have struggled to fix.

It would have the effect of imposing very complex and highly discretionary eligibility tests for a social security payment that are more appropriate to emergency relief provided by charities, taking us back to a time before social security was legislated as a system of payments based on simple tests of current financial needs and paid work requirements.

If the policy goal is to encourage young people to undertake further education or training or seek employment, this is best achieved by engaging with young people as soon as they receive income support, or better still, before they leave school. Once they have a regular income, they are in a better position to participate in the job search, training and other activities which are already required of them under the current system. This ensures that those who are vulnerable and have no other source of income are protected from destitution during periods of unemployment, while ensuring that individuals take steps towards employment while they are receiving payments. Strict activity requirements already discourage people who are not in need of financial support or not willing to actively seeking work from applying for assistance.

The unspoken assumption behind this policy, that youth unemployment is mainly caused by a lack of willingness to seek employment, is flawed and unproven. As Professor Jeff Borland argues following a careful examination of the unemployment statistics, the current rate of youth unemployment can be fully explained by inadequate demand for labour since the Global Financial Crisis.² This has particularly affected young people entering the labour force for the first time, together with those who have lost casual jobs, since employers have responded to the downturn by retaining existing permanent staff in preference to hiring new employees. This implies that the main solution to high youth unemployment levels is (as after previous downturns) stronger growth in jobs. Setting aside the impact of low interest rates, there is little in the 2015 Budget that will substantially expand employment. For example, the small business tax deductions are

² Borland J (2014), Labour market snapshot #6, April 2014, at https://docs.google.com/file/d/0B_H1wGTm98W3R1hJbFVBVzJPVnc/edit



estimated to cost \$250 million next financial year in an economy of \$1,660 billion, and new public infrastructure investment in this Budget is minimal.

Stronger jobs growth is not the only remedy to unacceptably high unemployment, including among young people. There are two further steps which we have urged the Government to take.

First, more should be done to improve the employment prospects of people unemployed long term. A growing proportion of recipients of unemployment payments (currently two thirds) has been unemployed for over 12 months. They include over 64,000 young people who received Youth Allowance in April 2015. This is a far greater problem than the short-term reliance on income support experienced by most young people entering the benefit system. Once people are out of paid work for a prolonged period, their job prospects progressively diminish due to loss of skills, health problems, and employers' use of the duration of unemployment as a sorting device for job applicants. In addition, people unemployed long term are more likely to have characteristics that make it harder for them to find a job, including limited skills or a disability. The risk of longer reliance on income support is also greatest for those who received benefits for over a year.

For these reasons, many OECD countries are responding to higher levels of youth unemployment by offering jobs and skills 'guarantees' (which generally involve intensive activity such as paid work experience or training for at least three months) for young people unemployed for six months or more.³ Since it is widely considered that the risk of prolonged unemployment throughout life is greater for young people entering the workforce for the first time, this assistance is offered after six months' unemployment rather than the more 'standard' 12 months for adults. This kind of assistance for young people, offered at this stage, has a number of advantages. Intensive help earlier might go to some young people who have a good chance of securing employment without such help. In addition to directly improving skills and work experience in regular jobs, these activities also allow employment service providers to test (and where necessary strengthen) young people's commitment to actively seek employment.

We are not aware of any other OECD country that has introduced longer waiting periods for benefits for young people in response to the economic downturn. A standard four week waiting period is not, as we understand it, the current policy in New Zealand.

³ OECD (2015), 'NEET Youth in the Aftermath of the Crisis, challenges and policies.'



Second, young people leaving education need more guidance and support to negotiate a labour market that is much more complex, and much less receptive to young people lacking work experience or substantial skills. Career guidance and support with school to work transitions within the school system is often inadequate, and difficult to obtain (beyond basic information on the internet) once young people leave school. Employers increasingly want workers with good 'soft skills, including communication with customers and the ability to work well in a team, which are best gained through experience of regular paid employment. The proposed 'intensive support for vulnerable jobseekers' program and related schemes announced in the Budget should go some way to meeting those needs. They will work best if their main purpose is to improve people's employment prospects rather than to divert them from applying for income support by making conditions of payment unattractive. This is part of the 'opportunity cost' of policies that focus in a one sided way on 'diversion' from income support. They shift employment and training supports from help that works towards activity requirements that have no meaningful impact on young people's employment prospects.

Schedule 4: Low income supplement.

The Bill provides for the abolition of the Low Income Supplement from 1 July 2017. The \$300 per year supplement was introduced as part of the carbon tax compensation package in 2012 and originally called the 'clean energy low income supplement'. With the abolition of the carbon tax, it is appropriate that this supplement is abolished. We note that the supplement was not widely taken up, and suggests this highlights the problems with delivering compensation payments outside of the primary payments system.

Schedule 5: Indexation

As announced in last year's Budget, the Bill provides for the freezing of income free areas for working age payments and student payments for 3 years from 1 July 2015 and 1 January 2016 respectively. This means that income free areas will not be indexed during the period. We note that a similar proposal to freeze income test free areas for pension payments has been abandoned, so that measure is now restricted to people on the lower, more strictly income-tested Allowance payments, including Newstart Allowance.

Under the current personal income test for Newstart Allowance, any private income above \$50 and \$125 a week reduces the payment by 50 cents in the dollar, and any additional income by 60 cents. The single payment cuts out completely at an income of approximately \$500 per week or \$25,000 a year, which is below the minimum wage.



It is therefore clear that this measure will affect people in very low paid employment, who are attempting to make the transition from unemployment to a secure, reasonably paid job. In many cases, they have only been able to obtain a part-time casual job. This is at odds with Government's objective of encouraging paid workforce participation. It will particularly discourage part time and casual employment, which is often the only work low-skilled unemployed people can obtain.

We do not have capacity to make more detailed comments on the bill in the time given, but refer you to the submission from the National Welfare Rights Network, and the attached summaries of our response to similar measures announced in last year's budget.

Yours sincerely,

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