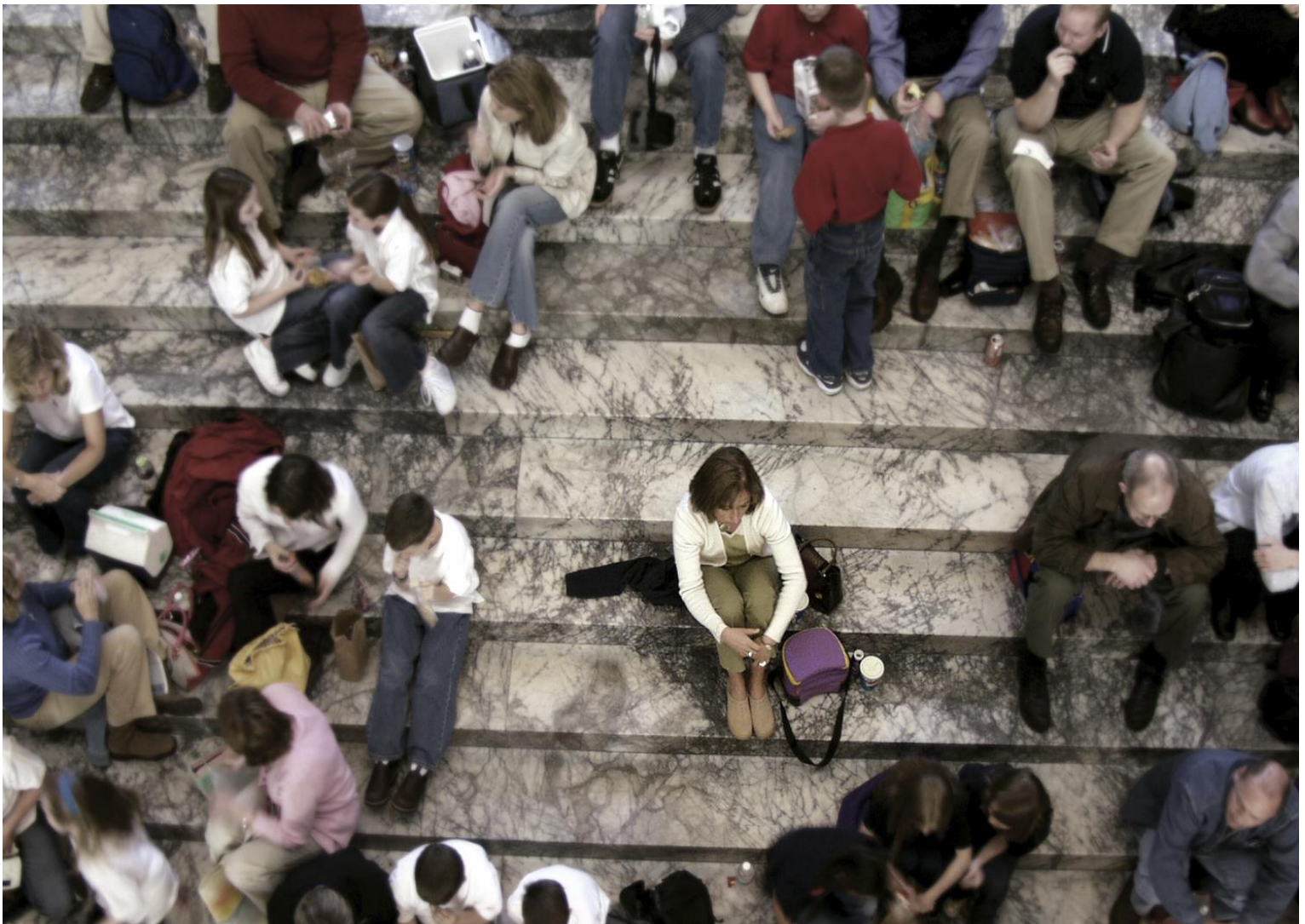




## Budget Priorities Statement 2015-16





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ABS	Australian Bureau of Statistics
ACCHS	Aboriginal Community Controlled Health Services
ACNC	Australian Charities and Not-for-profits Commission
ACOSS	Australian Council of Social Service
ATSILS	Aboriginal and Torres Strait Islander Legal Services
BBF	Budget Based Funded
CALD	Culturally and Linguistically Diverse
CCB	Child Care Benefit
CCR	Child Care Rebate
CPI	Consumer Price Index
CRA	Commonwealth Rent Assistance
DGR	Deductible Gift Recipient
DSS	Department of Social Services
ERO	Equal Remuneration Order
FTB	Family Tax Benefit
FVPLS	Family Violence Prevention and Legal Services
GDP	Gross Domestic Product
GFC	Global Financial Crisis
JSA	Jobs Services Australia
MYEFO	Mid Year Economic and Fiscal Outlook
NAHA	National Affordable Housing Agreement
NATSILS	National Aboriginal and Torres Strait Islander Legal Services
NCOA	National Commission of Audit
NDIS	National Disability Insurance Scheme
NPAH	National Partnership Agreement on Homelessness
NRAS	National Rental Affordability Scheme
PBS	Pharmaceutical Benefits Scheme
SAPTO	Senior Australians and Pensioners Tax Offset



## 1 Overview

### 1.1 The real Budget challenge

Australia is a wealthy country with the capacity to ensure all people have access to quality health, education and early childhood services, affordable housing and a strong social protection system. While we face a medium term challenge in securing the revenue we need to meet the needs of a growing and ageing population, this challenge can be met responsibly and fairly through a staged Budget policy transition which targets wasteful expenditure, including tax expenditures, and strengthens our revenue base.

The 2014 Australian presidency of the G20 led a fresh commitment to an inclusive growth agenda, setting a goal to lift the G20's GDP by at least 2% by 2018. The G20 Leaders' Communique outlined its broader policy goals in the following terms:

*"Our measures to lift investment, increase trade and competition, and boost employment, along with our macroeconomic policies, will support development and inclusive growth, and help to reduce inequality and poverty<sup>1</sup>."*

Inclusive growth means ensuring that the benefits of economic activity and growth are fairly shared, and that we direct investment to improving the living standards of people who have the least.

The Federal Government faces a clear choice in approaching the 2015-16 Budget. It can continue down the path it set in the 2014-15 Budget - in which spending cuts were chosen to restore Budget balance, which imposed the heaviest burden on those with the least capacity to carry such a burden. This was the approach ACOSS urged the Government to avoid in our previous Federal Budget Submission 2014-15<sup>2</sup>. The last Federal Budget has proved to be socially and economically damaging and divisive. It represented a policy approach contrary to the pursuit of inclusive growth in the Australian context.

The alternative for Government is to chart a fairer path which asks members of our community to contribute to the task of Budget repair according to their capacity, which values appropriate investment in critical social and economic infrastructure, and recognises that the repair task requires scrutiny of tax expenditures and the restoration of revenue and cannot be achieved through spending restraint alone.

To chart this path we recommend an annual review of tax expenditures and identify a number of expenditures which should be prioritised in the 2015-16 Budget for reform, including the Private Health Insurance Rebate and the Senior Australians and Pensioners

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<sup>1</sup> G20 Leaders' Communique, Brisbane Summit, 15-16 November 2014. Available: <http://www.mofa.go.jp/files/000059841.pdf>

<sup>2</sup> ACOSS (2014): *Budget Priorities Statement 2014-15*. Available: [http://acoss.org.au/images/uploads/2014\\_15\\_Budget\\_Priorities\\_Statement\\_ACOSS.pdf](http://acoss.org.au/images/uploads/2014_15_Budget_Priorities_Statement_ACOSS.pdf)



Tax Offset (SAPTO). We also recommend overdue reform of superannuation, negative gearing and Capital Gains Tax concessions for small business. Our personal income tax reform proposals are designed to close unintended loopholes in the current system - including the use of private trusts and companies - to restore the integrity of the personal income tax system and achieve greater consistency and fairness in the treatment of different kinds of income.

We have also highlighted a number of areas in which spending could be more effectively targeted to those who need support. This includes savings measures like: proceeding with the Government's 2014-15 Budget proposal to abolish the Seniors Supplement (still before the Parliament at the time of writing); abolishing the Extended Medicare Safety Net; removing the 30% Private Health Insurance Rebate; reducing subsidies for out of patent medicines; and tightening the Age Pension assets test. We have also proposed a number of revenue neutral measures designed to better target assistance within the existing funding envelope: targeting wage subsidies towards those experiencing long-term unemployment; and replacing the dual payment child care system with a single payment which provides a higher level of subsidy to low income families.

In the current economic environment, it is even more important that we invest in basic services and supports for people on the lowest incomes in our community. A failure to invest now will lead to serious social and economic costs long into the future. ACOSS' recent Poverty in Australia report showed that the rate of poverty in Australia has increased in recent years (from 13 to 13.9% of the population between 2010 and 2012), with child poverty at concerning levels (17.7% of children)<sup>3</sup>. Those most at risk of poverty are those out of paid work who must rely on the Newstart and Youth Allowances (\$97 and \$193 a week below the poverty line respectively) and single parents, mostly mothers, of whom 33% are living below the poverty line. For this reason, we have recommended additional investment in income support payments to those on the lowest payments (a proposed \$51 per week increase to the Newstart and Youth Allowances); the indexation of all Allowance and family payments to wage movements (so that these payments keep pace with community living standards); increased assistance to sole parent families (a \$23 per week boost for those with school age children); and a 30% increase in the maximum rate of Commonwealth Rent Assistance. We have also proposed a restructure of employment services to direct investment in flexible assistance for those who are experiencing long-term unemployment (now two-thirds of all people receiving Newstart and Youth Allowance) rather than churning people through the ineffective Work for the Dole program; and investment in a youth employment transitions program to fill the gap left by the discontinuation of Youth Connections. Substantially increased investment in affordable housing programs to

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<sup>3</sup> ACOSS (2014): *Poverty in Australia 2014*. Available:  
[http://acoss.org.au/images/uploads/ACOSS\\_Poverty\\_in\\_Australia\\_2014.pdf](http://acoss.org.au/images/uploads/ACOSS_Poverty_in_Australia_2014.pdf)





increase supply and relieve rental stress is also fundamental to poverty alleviation and employment participation.

The ACOSS 2014 Australian Community Sector Survey<sup>4</sup> has revealed that 80% of community services are unable to meet demand from people who need them. In this submission we recommend increasing investment in frontline community services and preventative health programs; investing in affordable dental care for adults and children; increased support for Aboriginal and Torres Strait Islander Legal Services to meet unmet need for civil and family law services; the indexation of community services funding to wage movements; and substantial direct and indirect investment in affordable housing programs. We have also called for an expansion of Deductible Gift Recipient status to better equip community organisations to resource themselves beyond funding from Government.

#### *The 2014-15 Budget and broader policy context*

The proposals outlined in this paper are designed to support inclusive growth, employment participation, universal access to health, education and affordable housing and strong social protections. They have been developed in a context of considerable uncertainty, with many of the measures from the 2014-15 Budget still before the Parliament, and forthcoming reviews of the federation and tax system which could result in significant structural changes. At the time of writing, final recommendations of a major review of working-age payments conducted in 2014 have not yet been released. The recommendations from these processes and the community discussions that follow are likely to influence significant changes to the income support and taxation systems.

The 2014-15 Budget sought to make major changes to social services and supports. We described it as divisive Budget, entrenching divisions between young and old, and those on high incomes and those struggling to make ends meet. ACOSS has elsewhere detailed our concern about the impacts of these changes on those on low and moderate incomes.<sup>5</sup> We reiterate our strong opposition to a number of key social security measures contained in the 2014-15 Budget, none of which had been passed at the time of writing, including:

- The 6 month waiting period for those under 30 years to access income support payments;
- The changes to limit eligibility for Family Tax Benefit Part B to those with children under 6 years;
- The indexation of Pensions to prices rather than wages;
- The increase to the eligibility age for Newstart from 22 to 24 years;

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<sup>4</sup> ACOSS (2014): *Australian Community Sector Survey 2014*. Available: [http://acoss.org.au/images/uploads/ACSS2014\\_final.pdf](http://acoss.org.au/images/uploads/ACSS2014_final.pdf)

<sup>5</sup> ACOSS (2014): *A Budget that divides the nation*. Available: [http://acoss.org.au/images/uploads/ACOSS\\_2014-15\\_Budget\\_analysis\\_-\\_WEB.pdf](http://acoss.org.au/images/uploads/ACOSS_2014-15_Budget_analysis_-_WEB.pdf)



- The freezing of maximum rates of family payments; and
- The increase in the pension age to 70.

We also urge the Government to restore funding support for vital community services assisting vulnerable members of our community through the 'rationalised' grants program, cuts to peak and representative bodies and for Aboriginal and Torres Strait Islander services. If not reversed, these funding decisions are likely to undermine the viability of services as well as the fabric of the communities they support.

While the 2014-15 Federal Budget reduced investment in a range of programs and supports, it pursued investment in physical infrastructure. ACOSS believes that this investment should be directed in a way which maximises social and economic benefits, including through procurement requirements that at least 10% of jobs generated by the investment be provided to people experiencing long-term unemployment. Wage subsidy programs should support this initiative.

#### *The current fiscal position*

The projected Budget deficit for the 2014-15 financial year is \$40.4 billion. The Budget deficit over the forward estimates is now \$43.7 billion higher than was projected in the May 2014 Budget; reflecting falling commodity prices (e.g. iron ore prices have fallen by 30% since the Budget), reduced profit and income tax receipts (company tax receipts are down by \$14.4 billion over the forward estimates and personal income tax receipts down \$8.6 billion) and slow wage growth<sup>6</sup>. Unemployment is also projected to increase to 6.5%.<sup>7</sup> Given this environment, it would be extremely risky to make further cuts in the 2015-16 Budget.

There is also a structural problem with the Budget as a result of poorly conceived policies implemented during the mining boom, including eight successive income tax cuts that began in 2000 and continued from both Coalition and Labor governments. Abstracting from the effects of the Budget cycle and mineral prices, the Budget has been in structural decline since the early 2000s, when policy decisions were made that assumed the temporary impacts of the boom would be permanent.

During this time programs that were previously well-targeted were extended to those who arguably did not need them, including the extension of the means tested Age Pension (part) to those with over \$1.1 million in assets besides the family home, a policy decision that this submission proposes to reverse.

The cost of major programs is projected to increase significantly over the next decade as gaps in the social safety net are finally addressed, including the National Disability

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<sup>6</sup> Australian Government (2014): *Mid-Year Economic and Fiscal Outlook 2014-15*. Commonwealth of Australia.

<sup>7</sup> *Ibid.*





Insurance Scheme (NDIS). A critical funding shortfall (estimated to be \$6 billion) has been identified in the NDIS due to the expansion of the scheme to people over 65 years, not factored into initial modelling. These costs must be met through revenue repair, not by diverting funding from other essential social services (e.g. aged care services). There is also long-standing growth in existing essential services, especially health, child care and schools. ACOSS has made a number of recommendations to ensure the sustainability and equity of future funding to these services and supports including better targeting of child care assistance and the abolition of poorly targeted health concessions. The decision to index schools and hospital funding to CPI only is not sustainable and should be reversed.

Beyond these specific programs, the ageing of the Australian population is a structural issue that will continue to have impacts on budgets, magnifying the need to implement the recommendations proposed in this submission to fund the health and aged care needs of the population equitably and sustainably into the future.

## 1.2 Key recommendations

We propose that modest additional expenditures of the order of \$5,910 million in 2015-16 (\$7,585 million in the following year) in key priority areas be funded by savings measures, worth an estimated \$13,090 million (\$18,112 million in 2016-17).

The deficit would be steadily and responsibly reduced by more than \$7 billion in 2015-16 and over \$10 billion in the following year.

Much still remains to be done to remove a number of poorly targeted direct spending and tax expenditures introduced over the past decade. The below expenditure savings and revenue measures are designed to achieve greater equity, efficiency and simplicity in the tax system. Altogether, expenditure savings would raise \$3790 million (\$4112 million in 2016-17) and revenue measures a further \$9300 million (\$14,000 million in 2016-17). Importantly, the expenditure savings and reductions in poorly targeted tax breaks would accumulate over time, making room for necessary future expenditures in such areas as health, aged care and disability services as the population ages.

## 1.3 Table of recommendations

	Cost (\$ millions)	Saving (\$ millions)
<b>Expenditure measures</b>		
Strengthen flexible investment for people unemployed long-term and extend and index a supplement to those participating in work experience	100 (100 in 2016-17)	
Simplify and improve wage subsidy scheme	0 (0 in 2016-17)	



	Cost (\$ millions)	Saving (\$ millions)
Invest in youth employment transitions program	65 (70 in 2016-17)	
Increase Allowances by \$51 per week	400 (1300 in 2016-17)	
Index Allowances annually to wages	90 (100 in 2016-17)	
Establish a social security commission to advise Government on payment adequacy	5 (7 in 2016-17)	
Index family payments to wage movements	120 (130 in 2016-17)	
Increase Family Tax Benefit (FTB) B for sole parents	480 (500 in 2016-17)	
Sustain investment in preventative health programs	54 (130 in 2016-17)	
Invest in affordable dental care for children and adults	700 (1000 in 2016-17)	
Maintain funding for Aboriginal Medical Services	700 (718 in 2016-17)	
Maintain funding to Aboriginal and Torres Strait Islander health programs	80 (85 in 2016-17)	
Introduce universal minimum rate of child care assistance with higher subsidy for low income households	Revenue neutral	
Fund a new adapted Aboriginal and Torres Strait Islander child and family services program	200 (205 in 2016-17)	
Continue funding for the National Congress of Australia's First Peoples	5 (5 in 2016-17)	
Reinstate funding to Aboriginal and Torres Strait Islander Legal Services	13 (14 in 2016-17)	
Provide additional funding to meet unmet need for Aboriginal and Torres Strait Islander civil and family law services	6 (6 in 2016-17)	
Restore funding cut from social services in 2014-15 Budget	82 (100 in 2016-17)	
Index community services funding to wage movements	360 (370 in 2016-17)	
Maintain a national regulatory framework for the non-profit sector	50 (52 in 2016-17)	
Establish an Affordable Housing Growth Fund	750 (900 in 2016-17)	
Increase maximum rate of Commonwealth Rent Assistance by 30%	720 (760 in 2016-17)	



	Cost (\$ millions)	Saving (\$ millions)
Maintain and index homelessness funding through NPAH	160 (170 in 2016-17)	
Index National Affordable Housing Agreement to CPI with wages component	33 (34 in 2016-17)	
Invest in expansion of revised National Rental Affordability Scheme	36 (98 in 2016-17)	
Provide adequate funding to peak representative bodies, including for young people and asylum seekers and refugees	1 (1 in 2016-17)	
Fund a fulltime Disability Discrimination Commissioner	0.3 (0.3 in 2016-17)	

### Tax and savings measures

#### (a) Tax measures

Remove Capital Gains Tax concessions for small business assets		0 (1000 in 2016-17)
Review tax expenditures and reduce/abolish poorly targeted expenditures		2200 (2300 in 2016-17)
Curb the use of private trusts to avoid personal income tax		0 (1000 in 2016-17)
Curb the use of private companies to avoid personal income tax		0 (1000 in 2016-17)
Increase the superannuation preservation age		0 (0 in 2016-17)
Simplify superannuation concessions		0 (0 in 2016-17)
Stem the avoidance of personal income tax through superannuation 'churning'		0 (500 in 2016-17)
Extend 15% tax rate to superannuation fund earnings in pension phase, in stages		0 (300 in 2016-17)
Remove the private health insurance rebate		6600 (6900 in 2016-17)
Extend Deductible Gift Recipient (DGR) recipient status	700 (730 in 2016-17)	
Limit deductions for expenses related to passive investments, including housing, to income from the same assets		500 (1000 in 2016-17)



	Cost (\$ millions)	Saving (\$ millions)
<b>(b) Expenditure saving measures</b>		
Tighten the Age Pension assets test		1350 (1450 in 2016-17)
Abolish the Seniors Supplement		240 (250 in 2016-17)
Phase out compulsory income management schemes		0 (not in forward estimates)
Abolish the Extended Medicare Safety Net		400 (412 in 2016-17)
Reduce subsidies for out of patent medicines		1800 (2000 in 2016-17)
<b>TOTAL COST</b>	<b>\$5,910 million (\$7,585 million in 2016-17)</b>	
<b>TOTAL SAVINGS</b>	<b>-\$ 13,090 million (-\$18,112 million in 2016-17)</b>	
<b>NET TOTAL (savings)</b>	<b>-\$7,180 million (-\$10,527 million in 2016-17)</b>	



## 2 Securing the revenue we need to meet the community's needs

Australia is the fifth lowest taxing country in the OECD, ahead of only Mexico, Chile, the United States and Korea.<sup>8</sup> Since the Global Financial Crisis (GFC), the tax revenue windfall from the mining boom has subsided leaving federal revenues in 2012-13 2% of GDP lower than they were in 2007-08.<sup>9</sup> This is the main reason that the Budget is now in deficit. It is clear that both Federal and State tax revenues will have to increase in future years to help restore public budgets and meet the cost of services for an ageing population. This should be done in a way that minimises any harm to equity or economic development. Revenue restoration cannot simply be achieved by allowing income tax 'bracket creep' to increase average income tax levels indefinitely. On the other hand, we cannot afford a repeat of the eight successive income tax cuts that seriously eroded income tax revenues during the 2000s. Income taxes are the fairest way to raise public revenue and governments should strengthen that tax base, not undermine it. This can be achieved by removing or reducing the impact of the most poorly designed and inefficient and inequitable tax shelters.

Whenever the income tax 'base' is narrowed by deliberate tax shelters or unintended loopholes, this means that higher tax rates are required to raise the same amount of revenue. This is inefficient as well as inequitable. There is a case for taxing investment income at lower rates than income from paid work on economic efficiency grounds given that capital is more mobile and sensitive to tax levels. It is important, however, to ensure that taxes on different investment incomes are as consistent as possible. Otherwise, the tax system will distort economic decision-making in ways that are harmful to Australia's economic development.

A good example of the impact of these distortions is the 50% discount on tax rates for capital gains received by individuals and trusts. This encourages excessive speculative investment in property and other assets yielding capital gains and it is one of the reasons for the steep inflation in home prices we have experienced since the late 1990s. The concessional treatment of capital gains compared with other investment income (such as interest and active business income) diverts investment from other purposes as well as fuelling boom and bust cycles in the economy. The concessional tax treatment of capital gains also overwhelmingly benefits the top 20% of taxpayers, who receive two-thirds of all capital gains.

This tax distortion is exacerbated by the unlimited deductions for losses on investments in property and other assets yielding capital gains such as shares, agricultural schemes (e.g. pine forests), and collectables. Australia is unusually generous in placing few restrictions on these deductions. This has encouraged the practice of 'negative gearing' where investors

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<sup>8</sup> OECD, Revenue Statistics, OECD Member Countries: Comparative Tables. Available at:

<https://stats.oecd.org/Index.aspx?DataSetCode=REV>

<sup>9</sup> Parliamentary Budget Office (2014): *Trends in Australian Government Receipts 1982-3 to 2012-13*, at 5:

[http://www.aph.gov.au/-/media/05%20About%20Parliament/54%20Parliamentary%20Depts/548%20Parliamentary%20Budget%20Office/Reports/01-2014%20Trends%20in%20Australian%20Government%20receipts/20140415-Trends%20in%20Australian%20Government%20receipts%20-%20full\\_report.pdf](http://www.aph.gov.au/-/media/05%20About%20Parliament/54%20Parliamentary%20Depts/548%20Parliamentary%20Budget%20Office/Reports/01-2014%20Trends%20in%20Australian%20Government%20receipts/20140415-Trends%20in%20Australian%20Government%20receipts%20-%20full_report.pdf)



(especially in property) deliberately incur losses on their investment for a number of years to maximise deductions against their other income. These deductions (including interest on loans) are poorly matched with income from the investment, which mainly takes the form of capital gains. The deductions are typically claimed against wages which are taxed every year at the individual's marginal tax rate, but income from these investments mainly takes the form of capital gains which are only taxed at half that rate, and often years later when the asset is sold. The result is an even stronger tax bias in favour of debt-financed investment in property shares and other assets.

Negative gearing is discussed further in Chapter 4 (Housing). Our proposal is to quarantine deductions for expenses relating to passive investment in housing, shares, collectables and similar assets purchased after 1 January 2016 to offset income received from those assets, including capital gains realised on their subsequent sale.

To reduce the distortion of investment decisions by the 50% tax discount for capital gains, the Henry Report recommended a common 40% tax discount for most major forms of investment income apart from superannuation and owner occupied housing. This would increase tax rates on capital gains and reduce those applying to other investment incomes such as bank interest. This proposal has merit but is best introduced as part of a wider reform of the tax system. A sensible place to begin reform of the tax treatment of capital gains in this Budget is to reduce the additional concessions that apply to capital gains realised on the sale of certain small business assets. The current 50% tax discount is doubled in these cases, and there are exemptions for capital gains held for over 15 years and those used for 'retirement purposes.' Together, these concessions mean that many small business owners can avoid paying Capital Gains Tax altogether, an outcome that is inequitable and difficult to justify.

The original purpose of these additional concessions was to enable small business owners to use the sale of their business assets to fund their retirement. However this is a risky approach to retirement saving and these special tax breaks encourage over-investment in business assets as against other strategies to improve business profitability and to save for retirement. Small business owners should be encouraged to save for their retirement through superannuation rather than by avoiding tax on capital gains.

The current set of retirement and age-based tax concessions are both unfair and inefficient. As the population ages, governments will face increasing and legitimate demands on health and aged care services, yet less than 20% of individuals over the age of 64 pay any income tax, despite increases in the incomes of this age cohort from employment, investments and superannuation. This is not sustainable. We need a national conversation about how to equitably and sustainably meet the health, aged care and other needs of an ageing population without imposing unaffordable user charges or co-payments for universal services.

Superannuation tax breaks are the largest component of tax expenditures, totalling a projected \$37 billion in 2013-14, broadly equivalent to the cost of the Age Pension.<sup>10</sup> Far from alleviating Budget pressures as the population ages, current superannuation tax

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<sup>10</sup> Treasury (2013): *Tax Expenditures Statement*, Commonwealth of Australia.





expenditure settings are contributing to our Budget problems. Some 30% of the value of superannuation tax breaks goes to the top 10% of income earners and only 20% are received by the bottom 50% of income earners.<sup>11</sup> Men in the top 10% of the wage distribution receive more from Government in superannuation tax exemptions than they would if they received the full Age Pension.<sup>12</sup> For a system that was at least partly intended to relieve Government reliance on public funding as the population ages, this is a poor public policy outcome.

An unintended consequence of changes to the tax treatment of superannuation over the last decade is that high income earners over 55 years of age can use superannuation tax concessions to 'churn' their wages through superannuation accounts – reducing their effective tax rate to 15% - without actually increasing their retirement savings. This is achieved by sacrificing salary for employer superannuation contributions (up to the concessional contributions cap of \$25,000 to \$35,000), and then asking the fund to pay them an equivalent pension. This has no effect on their before-tax income or retirement savings, but it artificially reduces their tax. This unintended tax break is not available to taxpayers under 55 years of age, and it will erode the revenue available to governments to finance health and aged care for the growing number of retirees who need them. The use of this strategy to avoid personal income should be curbed by reducing the annual cap for concessional contributions for every dollar of superannuation benefits paid during the same tax year (see Chapter 2).

Recommendations to begin improving the equity and sustainability of retirement income subsidies are contained in Chapter 3. These include restoring the \$25,000 annual cap on concessional tax superannuation contributions, curbing income tax avoidance through the 'churning' of wages through superannuation accounts that pay an equivalent pension, and progressively extending the 15% tax on superannuation fund earnings to accounts in the 'pensions phase.'

More broadly, if the Government subjected tax expenditures to the same rigorous Budget scrutiny as direct expenditures, it could save billions of dollars every year. Federal Treasury projected last year that in 2013-14 tax expenditures would reach a total of \$120 billion, or 7.6% of GDP.<sup>13</sup> This compares to direct expenditures of \$402 billion in the same year. Tax expenditures are therefore a significant component of the Budget but attract much less scrutiny in the Budget process than direct expenditures. They have risen well in excess of economic growth in the last decade, from 4.1% of GDP in 2001-02, to 7.6% in 2013-14.<sup>14</sup>

Revenue savings from the handful of major tax expenditures could save at least as much as is achieved through regular reviews of a much larger number of smaller direct expenditures, and Budget discipline can be undermined by new tax breaks and the extension of existing ones. For these reasons, the OECD has suggested that tax expenditures that are

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<sup>11</sup> Treasury (2013): *Highlights of Treasury paper presented to Superannuation Roundtable in April 2012*, Commonwealth of Australia.

<sup>12</sup> *Ibid.*

<sup>13</sup> Treasury (2013): *Mid-Year Economic and Fiscal Outlook 2013-14*, Commonwealth of Australia.

<sup>14</sup> Treasury (2014): *Tax Expenditure Statements*. Commonwealth of Australia.



comparable with direct expenditures should be included within any public expenditure 'ceilings',<sup>15</sup> and the following guidelines were developed under its auspices:

- 'Under nominal or structural deficit or operating/current balance rules tax expenditures should either be included in the total expenditure cap that is set every year during Budget preparation or in a special tax expenditure cap.'
- 'All tax expenditures should be reviewed in the same way as regular expenditures in the annual Budget process. They should be reviewed by the financial staff of spending ministers and the Budget bureau in the same way as regular expenditures.'<sup>16</sup>

Tax expenditures that are poorly targeted or difficult to justify include:

- The extension of the tax offset for pensioners to seniors whose assets or income are too high to receive a pension (including couples with over a million dollars in investment assets apart from their homes);
- The Private Health Insurance Rebate<sup>17</sup>; and
- 'Grandfathering' arrangements for previous tax concessions for non-superannuation termination payments and unused leave (apart from bona-fide redundancy payments).

While the above tax expenditures are an intentional part of the taxation system, there are a number of tax shelters that undermine the intent of tax policy. For example, relatively well-off individuals can avoid personal income tax by diverting and 'sheltering' their income or income producing assets in structures such as discretionary trusts and private companies, or combinations of the two.

Private discretionary trusts can be used to avoid income tax by splitting income with a family member, delaying or avoiding payment of Capital Gains Tax, and by passing on the benefits of investment tax breaks from the trust to its beneficiaries. Although the intention of the current tax policy is that any income that is not taxed in the hands of beneficiaries is instead taxed in the hands of the trust, this is not consistently applied. The income paid from private discretionary trusts rose from \$22 billion in 2000 to \$32.4 billion in 2011-2012, a 47% increase in 12 years.<sup>18</sup>

Private companies are also used by individuals with high incomes to reduce their personal income tax. This is achieved by retaining income within the company for a number of years where it is typically taxed at 30% or less compared with the 46.5% rate that would otherwise apply. Company income is eventually brought to tax through dividends or wages paid to the owner, but tax can be avoided until that time.

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<sup>15</sup> OECD (2004): *Best practice guidelines, off budget and tax expenditures*. GOV/PGC/SBO(2004)6 at 4.

<sup>16</sup> *Ibid* at p13.

<sup>17</sup> The savings in direct expenses arising from this measure are costed in Chapter 4.

<sup>18</sup> Australian Taxation Office (2014): *Taxation Statistics*, Commonwealth of Australia. Table 26, 'Total trust income, by trust size. Accessed at: <https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Tax-statistics/Taxation-statistics-2011-12/?anchor=Partnershipsandtruststable#Table26>



To improve the fairness and efficiency of the income tax system and protect the personal income tax base from revenue erosion, ACOSS proposes that the tax treatment of private discretionary trusts and companies be tightened to reduce these tax avoidance opportunities.

A full list of recommendations to raise revenue, including those relating to housing and retirement incomes, is included in the Executive Summary, above.

**Recommendation 1: Certain Capital Gains Tax concessions for small business assets should be removed.**

The following tax concessions for capital gains from the disposal of small business assets should be abolished from 1 July 2016:

- The additional 50% discount for these capital gains;
- The exemption for gains on assets held for over 15 years; and
- The exemption for gains used for retirement purposes.

Revenue: \$0 (\$1,000 million 2016-17)

**Recommendation 2: Tax expenditures should be intensively reviewed each year by the Treasury and Expenditure Review Committee and poorly targeted tax expenditures should be reduced or abolished:**

(1) From 1 July 2015 the following tax concessions should be removed or tightened:

- The SAPTO should be restricted to individuals entitled to a social security pension, and redesigned to exclude income within the pension free area from tax;
- The Private Health Insurance Rebate should be removed<sup>19</sup>; and
- 'Grandfathering' arrangements for previous tax concessions for non-superannuation termination payments and unused leave (apart from bone-fide redundancy payments) should be removed.

(2) The Government should identify those tax expenditures that have a similar character to direct expenditures, attribute them to the relevant expenditure Departments, and include them in an annual Expenditure Review process through a process of 'envelope budgeting.'

Revenue: \$2,200 million (\$2,300 million in 2016-17)

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<sup>19</sup> The savings in direct expenses arising from this measure are costed in Chapter 4.



**Recommendation 3: The use of private trusts to avoid personal income tax should be curbed:**

From 1 July 2016, tax-preferred income of private discretionary trusts should be taxed as capital gains in the hands of beneficiaries and stronger rules should be introduced to prevent the avoidance of tax on income (including capital gains) that is not distributed to beneficiaries each year.

Revenue: \$0 (\$1,000 million in 2016-17)

**Recommendation 4: The use of private companies to avoid personal income tax should be curbed.**

From 1 July 2016, income retained in private companies, apart from a reinvestment allowance comprising a fixed proportion of the assets of the company, should be taxed at the top marginal rate of personal income tax plus Medicare Levy.

Revenue: \$0 (\$1,000 million in 2016-17)



### 3 Improve employment opportunities and incomes for people at risk of poverty

#### 3.1 Employment services

At 6.1% in December 2014, falling from a 13 year high of 6.2% in November. While Australia's unemployment rate is still low by OECD standards, the majority of those receiving the unemployment payment are unemployed long-term (over 12 months), and the weak labour market will compound the difficulties faced by this group. In 2011, 10% of Jobs Services Australia (JSA) clients were Aboriginal or Torres Strait Islander, 45% lacked Year 12 qualifications, 15% had an assessed disability, 15% were over 50 years old, and over 15% were from Culturally and Linguistically Diverse (CALD) backgrounds – all groups with below average employment prospects. Young people have been particularly severely affected by the decline in employment opportunities since 2008.

Once people are unemployed long-term, their future job prospects progressively diminish. As a result, even a temporary weakness in the labour market can have long lasting and harsh economic and social impacts. Reducing prolonged unemployment is the most important task of our employment services system. While the impacts of employment assistance on an individual's job prospects are typically modest, even a 10 percentage point improvement over the short to medium term can, if sustained, substantially reduce long-term unemployment. This leads to savings in income support, higher tax revenues, and reduced needs for services such as health care as people who would otherwise be excluded from the labour market find employment.

The Government is reforming the main employment services system, Job Services Australia. Many of the changes being introduced are welcome including a greater emphasis on payment for employment outcomes and less administrative burden for providers. The key weakness of the new system is the same as that of the present one: a lack of flexible investment in assistance to help people experiencing or at risk of long-term unemployment overcome their hurdles to employment. Under the proposed system, providers will receive annual 'service fees' of \$510 per annum (or \$638 per annum for with regional loading) to assist the most disadvantaged jobseekers (those in Stream C) and an up-front 'Employment Fund' credit of \$1200 to invest in work experience and training. Unlike the present system, this fund is not replenished once an individual becomes unemployed long-term, except to fund very specific investments such as Work for the Dole and wage subsidies.

In this sense, the greater flexibility of the new system is illusory because flexibility and innovation require investment – and not only in forms of assistance determined in advance by Government. While higher outcome payments give providers more scope (and incentive) to invest in people unemployed long-term, a typical outcome payment for an individual unemployed for 12 months in Stream 'C' who remains in employment for 6 months is just \$5500. If an effective work experience, training or other program improves such an



individual's job prospects by 10%, then a provider who invests more an average of \$550 in a long-term unemployed person would not benefit financially from their investment.

The likely outcome of the new model is that people unemployed long-term, and those at risk of it, continue to receive employment assistance that is standardised and low-cost. This is exacerbated by the requirement that most unemployed people participate in a single program, Work for the Dole, for six months of every year. Participation in work for benefits schemes has little or no impact on people's employment prospects. Data released in June 2014 shows that only 19% of participants in Work for the Dole were employed three months later.<sup>20</sup> A recent evaluation of the United Kingdom's equivalent of Work for the Dole, Mandatory Work Activity, found that participation in that program had no statistically significant effect on employment.<sup>21</sup> The main drawback of work for benefits schemes is that the work experience participants receive is usually well removed from paid employment opportunities. If it is regular productive employment, then the participants should be paid the legal wage. To invest in this program on a large scale is therefore an inefficient use of public resources. Further, it is not reasonable to require people to undertake a program that will not improve their job prospects, especially where it involves working for less than the minimum wage – as will be the case with the 'fulltime' variant.

If the resources devoted to Work for the Dole – including establishment fees (\$64,000 one-off payment), service fees (\$380,000 per annum) and placement fees (\$220 per placement) paid to Work for the Dole Coordinators and \$1000 to \$3500 placement fees paid to Job Services Australia providers, were instead made available to providers to invest in the assistance which they consider best meets the needs of each individual, employment assistance would be more cost effective.

On the other hand, programs which connect unemployed people with regular jobs are relatively effective. The Wage Connect wage subsidy scheme has achieved promising results, with 47% of the 8084 participants who completed the program's 26 week job placement by May 2013 retaining their positions after the subsidy ended. The scheme, which provides a subsidy roughly equal to Newstart Allowance to employers to offer paid work experience to very long-term unemployed people, gives people valuable experience in a 'real job' and the employer an opportunity to test their ability on the job.

We therefore welcome the Government's commitment to expand wage subsidies, and propose some adjustments to these schemes to make them more cost effective. Rather than operate three separate schemes for different age groups, we suggest that a single wage subsidy scheme be introduced and targeted to people unemployed long-term. Rather than defer payments to employers until the participant has remained in employment for a

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<sup>20</sup> DEEWR (2014): *Labour market assistance outcomes, June 2014*.

<sup>21</sup> Feargal McGuinness (2014) *Work Experience Schemes*, 27 June 2014. House of Commons Library





prolonged period, part of the subsidy should be available within the first three months to assist employers with induction and training expenses.

To increase the flexibility of employment assistance for people who are disadvantaged in the labour market, proposed restrictions on access to vocational and other training should be removed. If training is restricted to preparation for a specific job, then opportunities for many people whose skills are narrow or out of date to improve their employability would be arbitrarily restricted. Governments have invested for many years in vocational education and training and basic education because these qualifications and skills improve people's career prospects and life chances. People who are unemployed and low skilled should not be denied these opportunities. These are better ways to connect training to job opportunities.

A close working relationship between employment services providers, training organisations and employers is essential to improve the employment prospects of people disadvantaged in the labour market. The present employment services system throws up a number of hurdles to such cooperation. These include competition among individual providers (which means that employers are often approached by many different providers when they would prefer to establish a lasting relationship with one), the limited resources available to providers to invest in the work required to establish these relationships in the first place (for which they cannot use Employment Pathway Fund credits), and a reward structure that emphasises quick outcomes. In collaboration with the Business Council of Australia and the Australian Council of Trade Unions, ACOSS has identified these barriers to a partnership approach to employment services, and we have made a number of recommendations to adjust the employment services system to remove them. The recommendations include national and regional employment brokers, the establishment of local networks or boards of employers, training and employment service providers, rewards for employment outcomes lasting one year, and allowing providers to use Employment pathway Fund resources to finance the preparatory work required to establish formal partnerships with employers.<sup>22</sup>

**Recommendation 5: Strengthen flexible investment for people unemployed long-term within the employment services system by redirecting resources to the Employment Fund and easing restrictions on the purposes for which they can be used.**

- 1) Funds earmarked for Work for the Dole (including for Work for the Dole Coordinators) should be reallocated into the Employment Fund to assist individuals who are unemployed long-term with work experience, training and other assistance

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<sup>22</sup> ACOSS, Business Council of Australia and Australian Council of Trade Unions (2014): *Partnerships to secure jobs for disadvantaged jobseekers*, available at [http://www.acoss.org.au/images/uploads/Partnerships\\_to\\_secure\\_jobs\\_FINAL.pdf](http://www.acoss.org.au/images/uploads/Partnerships_to_secure_jobs_FINAL.pdf).



that improves their job prospects. (Saving = \$150 million in 2015-16, \$200 million in 2016-17)

- 2) The Job Commitment bonus program should be abolished and the savings diverted to the Employment Fund. (Saving = \$70 million in 2015-16, \$70 million in 2016-17)
- 3) Credits should be made to the Employment Fund in respect of each jobseeker at the commencement of 12 months of long-term unemployment, equivalent to those made at the commencement of the unemployment spell. (Cost: \$300 million in 2015-16, \$350 million in 2016-17)
- 4) Employment Fund credits should be available for training whether or not this is linked to a specific job, and for the purpose of establishing 'demand-led' schemes, that is, a formal agreement with an employer to supply them with workers drawn from people who are either unemployed long-term or classified within Streams B or C, and to mentor and train those workers for positions with the employer.
- 5) The Work for the Dole Supplement (\$10.40 per week) should be indexed annually to movements in the Consumer Price Index. Work for the Dole participants should not be required to work for less than an appropriate legal wage beyond the 4 week limit<sup>23</sup> that currently applies to unpaid work experience placements. (Cost \$20 million in 2015-16, \$20 million in 2016-17)

Cost: \$100 million (\$100 million in 2016-17)

#### **Recommendation 6: Simplify and improve the effectiveness of wage subsidy schemes**

- 1) The proposed wage subsidy schemes for different age groups should be replaced by a single program targeting people of all ages who are unemployed long-term, and the number of places expanded.
- 2) Half the subsidies paid to employers should be paid within the first three months of the placement.

Cost: neutral

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<sup>23</sup> See Australian Government, *Guide to Social Security Law*, Version 1.208 available at: <http://guides.dss.gov.au/guide-social-security-law/3/2/9/120/>



**Recommendation 7: Invest in an effective youth employment transition program to support at risk young people in their transition from school to work**

The Government should ensure that the gap left by the cessation of the Youth Connections program is filled by funding a youth transitions employment program that:

- 1) provides effective career counselling for early school leavers and those at risk of leaving school without achieving Year 12 or equivalent qualifications;
- 2) assists early school leavers on income support to re-engage with education and training that improves their employment prospects; and
- 3) supports those at risk of leaving school early to achieve Year 12 or equivalent qualifications.

Cost: \$65 million (\$70 million in 2016-17)

### **3.2 Working-age payments**

The social security system provides an essential safety net for people who are unable to earn sufficient income to meet their basic living costs. Australia's social security system is more cost effective in reducing poverty than those in almost every other OECD country. Expenditures on social security payments in 2013 were 9% of GDP compared with an OECD average of 13%.<sup>24</sup>

It is inaccurate to suggest that expenditures on working-age payments are a growing pressure on the Federal Budget. There has been a long term decline in reliance on working-age payments. Over the 20 years to 2012, the proportion of the working-age population receiving income support fell from 19% to 17%. In 2013-14 just 30% of social security expenses comprised working-age payments such as Newstart Allowance, Disability Australian Council of Social Service Pensions and Parenting Payment.<sup>25</sup> Of the \$28 billion of growth in social security costs between 2002 and 2012 after inflation, only \$6 billion comprised increases in working-age payment expenses. Expenditure on Newstart Allowance and Parenting Payment declined by \$4 billion over that period, despite a rise (with higher unemployment) during the GFC.<sup>26</sup> A sharp increase in the number of people receiving the Newstart Allowance in 2013 was mainly due to the transfer of approximately 80,000 sole parents in that year from the higher Parenting Payment to the lower Newstart

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<sup>24</sup> OECD Social expenditure data base.

<sup>25</sup> Treasury, *Budget Paper 1 2014-15* Commonwealth of Australia available at: [http://www.budget.gov.au/2014-15/content/bp1/html/bp1\\_bst6-01.htm](http://www.budget.gov.au/2014-15/content/bp1/html/bp1_bst6-01.htm)

<sup>26</sup> Daly (2013): *Budget pressures on Australian Governments* Grattan Institute



Allowance, a decision that reduced payments for the poorest single parent families by over \$60 per week.<sup>27</sup>

It is disturbing that some of the harshest social security measures in last year's Budget targeted working-age payments, especially the proposed six month wait for unemployment payments for many people up to 29 years of age, when the major drivers of growth in Budget expenditures lie elsewhere. The main purpose of income support for unemployed people is to share the risk of unemployment between each individual and Government. The removal of income support for up to six months each year from unemployed young people would undermine that purpose. We are not aware of any other wealthy country that has responded to rising youth unemployment in this way. A fairer and more productive approach is to keep young people engaged with education, training and the labour market and support them in their transition to paid employment through income support and effective employment and training programs (as proposed elsewhere in this Chapter).

Unemployment payments (Newstart and Youth Allowances) were originally designed to tide people over a short period of unemployment. However, as unemployment fell over the last two decades, the profile of those remaining on benefits has become more disadvantaged. Among Jobs Services Australia (JSA) clients in 2014, over 60% were unemployed long term (over one year), and most of this group were unemployed for over two years.

The maximum single rate of Newstart Allowance in December 2014 was just \$258 per week, or \$37 a day. The payment for unemployed young people living independently of their parents was \$213 per week. Our 'Poverty in Australia' report estimated that the risk of poverty among people in households where the main earner receives Newstart Allowance was 55% in 2012 and the equivalent statistic for people receiving Youth Allowance was 51%.<sup>28</sup> Together with people receiving Parenting Payment and Disability Support Pension, those receiving the Newstart and Youth Allowance consistently rank highly among people experiencing financial hardship and deprivation.<sup>29</sup>

The real value of Allowance payments has not increased since the early 1990s, and these payments were excluded from the \$32 per week increase in pensions announced in 2009. Further, Allowance payments are only indexed to the Consumer Price Index whereas pensions are currently indexed to both consumer price movements and Male Total Average Weekly Earnings. Indexation to both consumer prices and wages is essential to ensure that people who rely on income support do not fall behind the living standards of the rest of the

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<sup>27</sup> ACOSS (2012) *Submission to the Senate Education Employment and Workplace Relations Committee regarding the Social Security amendment (Fair incentives to work) Bill (2012)*, ACOSS Paper 190.

<sup>28</sup> ACOSS (2014) *Poverty in Australia*.

<sup>29</sup> ACOSS (2008) *Missing out, hardship in Australia*, ACOSS Info Paper – see [www.acoss.org.au](http://www.acoss.org.au).



community, as is the experience of people on Newstart and other Allowances. For this reason, ACOSS opposed the proposal in last year's Budget to restrict pension indexation to consumer prices only.

As a result of these payment anomalies, the single rate of Newstart Allowance (and related supplements) is \$166 per week less than the pension and Youth Allowance is \$217 less. Aside from the inequity of different levels of payment for people with similar living costs, this gap between pension and Allowance payments discourages many people on pensions such as the Disability Support Pension from seeking employment, in case they lose the pension and wind up on the lower payments. The per week gap between pension and Allowance payments for single parents means that many of our poorest families experience a sharp decline in their income once their youngest child turns 8 years and the parent is transferred to Newstart Allowance, despite the fact that the costs of raising a child increase with age. The gap between pensions and Allowance also flows through to supplementary payments, which are lower for those on Allowances. For example, the Clean Energy Supplement for a single person without children receiving an Allowance is \$9 per week while a single pensioner without children receives \$14 per week.

The previous Government legislated a small increase in Allowance payments in the form of an Allowance Bonus, worth the equivalent of \$4 a week. This would be the first real increase in these payments for 20 years. Regrettably, it is now to be phased out after 2016, a decision we call on the Government to reverse. Alternatively, these expenditure savings should be reinvested in lasting improvements in income support for people receiving Allowance payments. One option is to index those payments to movements in wages as well as the CPI.

The Henry Report on the tax-transfer system recommended that the single rate of Allowance payments be benchmarked to two-thirds of the partnered rate, as was implemented for single pensioners in 2009. This would currently require a \$51 per week rise in the single rate of Newstart Allowance, which should also extend to other Allowances such as Austudy and Abstudy payments and the Youth Allowance for those aged over 17 years living away from their parents. Payments for sole parents on Newstart Allowance should also increase accordingly. As the Henry Report noted, there is room to increase these payments without significantly weakening work incentives. A single adult on Newstart Allowance who obtains a fulltime job at the minimum wage would more than double their disposable income. This payment increase would have a substantial and immediate effect on reducing poverty, including among sole parent families affected by the 2013-14 Budget (which would be fully restored for the poorest of those families by a combination of the Newstart Allowance and Family Tax Benefit increases proposed here).

The current Welfare Review is examining the structure of working-age payments and both the Review Panel and the Government have identified the removal of payment anomalies between pensions and Allowances as a key goal. The Panel's Interim Report provides substantial evidence to demonstrate the inadequacy of Allowance payments, especially for single people and sole parents, and suggests that a new intermediate 'tier' of payments be



introduced between Allowance and pension levels for groups who are not expected to participate fulltime in the paid workforce such as many people with disabilities. This proposal cuts both ways. It is likely that if it were implemented many people who will receive social security in the future would receive increased payments while many others would receive reduced income support – an unacceptable outcome.

In our submission to the Review, we argued that a more fundamental reform of working-age payments is needed. Instead of setting levels of payment on the basis of an individual's 'distance from employment' (and by implication whether they are more or less 'deserving' of income support) they should be set on the basis of financial needs and living costs. The present division between working-age pensions and Allowances should be replaced by a base rate payment that is adequate to meet basic minimum living expenses and supplements to meet additional costs faced by substantial minorities of people on income support, including rent payments, the extra costs faced by people with disability and their carers, the extra costs of raising a child alone, and the costs of any job search and training requirements. The base rate payment would be substantially higher than Newstart Allowance. Activity requirements (where appropriate) would continue to be based on each individual's employment capacity, but maximum payment levels would not.

This reform would reduce the most severe poverty. If carefully crafted it could remove inequities in payment levels without leaving any group worse off financially. Importantly, it would smooth transitions from income support to employment and greatly simplify the system because people would no longer have to move from higher to lower payments as they move closer to paid employment.

Equitable and cost effective payment reform is difficult to achieve through the vagaries of the political process and the annual Budget cycle. Governments also lack a rigorous, regularly updated evidence base to determine the adequacy or otherwise of payments for different groups and different needs. The system is built on the assumption that regular indexation will ensure that adequacy is maintained, in the absence of a proper assessment of the adequacy of different payments, and the appropriateness of relativities between them, in the first place. In reality, indexation of a poorly designed payment base exacerbates inequities in the system over time.

A number of reviews of social security payments have been undertaken in recent years, including the Harmer Review of pension payments, a Senate inquiry into the adequacy of Allowance payments, the Henry Review of the Tax Transfer system and now the Welfare Review Panel. Each of these reviews has contributed to our stock of knowledge of the circumstances of people who rely on income support, the options for payment reform and the trade-offs involved. Their limitations are that they are all one-off reviews, and repeated recommendations to improve the adequacy of Allowance payments have been ignored by governments.

One way to introduce more rigour into the setting of payment levels is for Government to establish an independent commission that reports regularly to the Government and





Parliament on the adequacy of all social security payments, appropriate relativities between them, and indexation arrangements. The commission would also consider the impact of its recommendation on employment incentives and budgetary costs. It would not set payment levels since these are rightly decisions for Government.

**Recommendation 8: Increase Allowance payments for single people by \$51 per week**

- (1) Allowance payments for single people (other than those on youth and student payments) should be increased by \$51 per week from March 2016, and benchmarked to 66.3% of the combined married couple rate of Allowances (a higher rate in the case of sole parents) as is the case for pension payments. This applies to people on Newstart Allowance, Widow Allowance, Sickness Allowance, Special Benefit and Crisis Payment.
- (2) Allowance payments for single people on youth and student payments (Austudy Payment, Abstudy Payment and Youth Allowance) who are either over 24 years of age or 18-24 years and living away from the parental home should also be increased by \$51 per week from March 2015 and benchmarking of those payments to 66.3% of the married rate should be phased in.

Cost: \$400 million (\$1,300 million in 2016-2017)

**Recommendation 9: Index Allowance payments annually to movements in earnings**

From July 2015, Allowance payments for people aged 17 to Age Pension age, and those over pension age not eligible for an Age or Veteran's Pension, should be indexed annually to movements in wages as well as to movements in prices.

Cost: \$90 million (\$100 million in 2016-17)

**Recommendation 10: Establish a social security commission to advise the Government and Parliament on a regular basis on the adequacy of social security payments**

A social security commission should be established as a statutory authority to advise the Government and Parliament on a regular basis on the financial needs of people relying on social security payments, appropriate relativities between them, and the budgetary costs and implications for employment incentives of policy options to improve payment adequacy.

Cost: \$5 million (\$7 million in 2016-17)

**Recommendation 11: Phase out compulsory income management schemes**



Compulsory income management schemes around the country (including New Income Management in the Northern Territory and the Place Based Trails) should be phased out over a 12 month period. Where the individuals and communities affected seek to continue some form of income management, they should be replaced by opt-in schemes designed in consultation with the communities.

Cost: 0 (not in forward estimates)

### **3.3 Family payments**

Our family payment system performs two vital social and economic roles. It helps prevent child poverty (vertical equity) and it ensures that the tax-transfer system treats low and middle income families with children fairly by taking account of the costs of raising them (horizontal equity). In the absence of family payments, many more children would live in poverty and many families' lower capacity to pay income tax would be ignored.

It is fairer and simpler to compensate low and middle income families for the direct costs of children through the social security system than through tax rebates and deductions, which are more complex for people to claim and exclude those who earn too little to pay income tax. Therefore, we do not regard family payments for middle income families as an undesirable form of 'middle class welfare' but do think the case for extending cash payments or tax breaks for children to high income families is much weaker.

In recent years, the family payment system has strayed from the primary purpose above. The introduction of the Baby Bonus and Schoolkids Bonus were poorly conceived and poorly targeted. Regrettably, they have been abolished or are being phased out to achieve Budget savings rather than being reinvested in better targeted support for low income families. The Baby Bonus was abolished by the previous Government and replaced with the Paid Parental Leave scheme (which is subject to a work test). After a negotiation between the Government and the cross-bench, the School Kids Bonus is to be income tested from 1 January 2015 and phased out by July 2016.

The decision in the late 1980s to benchmark family payments for those on low incomes to the married rate of pension (and therefore to wage rate movements) reduced child poverty by about one-third. In 2009 this link to the pension and wage rate movements was removed, so that the FTB Part A payment for low income families is no longer keeping pace with improvements in community living standards. The 2014-15 Budget sought to freeze the maximum and base family payment rates for two years (2014-16), which will result in lower family payments especially for low income families. At the time of writing, this measure had not been passed by the Parliament. The inevitable result of both these changes is that child poverty, as properly measured, will increase.

The 2014-15 Budget also sought to introduce a range of other changes to family payments. This included the tightening of income test limits for FTB Part B (from \$150,000 to



\$100,000) which ACOSS recommended in our 2014-15 Budget Priorities Statement and which has been passed by Parliament. This will achieve Budget savings of \$379 million in 2015-16 and \$1.2 billion over the forward estimates. These savings should be redirected within the family payments system to increase assistance to sole parent families, as recommended below.

The 2014-15 Budget also proposed to reduce essential support to sole parent families by restricting access to FTB Part B to those with children under 6 years of age. Despite proposing the introduction of a \$14 per week Sole Parent Supplement to those with children between 6 and 12 years of age, this change would leave many sole parents \$44 per week worse off. ACOSS strongly opposes this measure. At the time of writing, it has not been passed by the Parliament.

For more detail on ACOSS' proposals for reform of the family payments system to reduce child poverty and improve and better target support to families, see our 'Back to Basics' publication.<sup>30</sup>

#### **Recommendation 12: Ensure that family payments keep pace with community living standards by indexing to wage movements**

Restore the indexation of the maximum rate of FTB Part A to wage movements from 1 July 2015.<sup>31</sup>

Cost: \$120 million in 2015-15 (\$130 million in 2016-17)

#### **Recommendation 13: Increase assistance to sole parent families**

Increase the maximum rate of FTB Part B for sole parent families with school age children, to the same rate that applies to the main carers of a child under 5 years (currently a \$23 per week gap).<sup>32</sup>

Cost: \$480 million in 2015-16 (\$500 million in 2016-17)

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<sup>30</sup> ACOSS (2013) *Back to basics, proposals to reform family payments*.

<sup>31</sup> Based on wages increasing at 0.75% above CPI (2014-15 Budget projections).

<sup>32</sup> This is based on the assumption that the proposed changes to FTB Part B eligibility and the introduction of a Sole Parent Supplement will not be legislated. If these measures are legislated, ACOSS recommends an increase in the Sole Parent Supplement to compensate for the reduction in income through FTB Part B changes and the transition of sole parents from Parenting Payment Single to Newstart.



### 3.4 Retirement incomes

As our population ages, Governments will face a challenge in financing high quality, accessible health and aged care for a growing population of older people. This task is made more difficult by the fact that less than 20% of individuals over 65 years pays income tax; and age-based pensions, supplements and associated concessions extend to people who arguably do not need them. The community faces a choice – do we want to reduce public support for health and aged care (and rely more on user charges) or better target aged based tax concessions and payments for older people, so that their impact on the Federal Budget is more sustainable?

The Age Pension plays a vital role in protecting the incomes of low and middle income earners from a sharp decline after they retire. On the whole, it is well designed and cost effective in preventing poverty in old age, and is more tightly targeted than equivalent payments in most other wealthy nations. For many years the Age Pension was designed so that social security support does not extend to people with relatively high incomes or income-yielding assets – around the top 20% of people of pension age. However in recent years Age Pension entitlements and associated supplements and concessions have been extended to a cohort of older people who arguably do not need them. In 2006, the Age Pension asset test was eased to such an extent that a home-owning couple with a million dollars in investment assets (other than their home) can now qualify for a part pension. This entitles them to a range of pensioner concessions and supplements, even if their residual pension entitlement is only a few dollars a week.

In the medium term, consideration should be given to replacing the separate income and assets tests with a combined income test and extending the present 'deeming' arrangements. In this Budget, the assets test should be tightened to broadly restore the targeting regime that applied before 2006.

The 2014-15 Budget included a measure to abolish the Seniors Supplement, which was recommended by ACOSS in our 2014-15 Budget Priorities Statement. Legislation to effect this change is currently before the Parliament, but had not been passed at the time of writing. ACOSS strongly supports the passage of this legislation. The Seniors Supplement and the former Seniors Concession Allowance (introduced in 2004) is poorly targeted. Individuals over 65 years who have assets that disqualify them under the pension rules can qualify for a Seniors Supplement of \$850 per year (\$650 if partnered) if their taxable incomes fall below \$50,000 for singles, and \$80,000 for couples. As many retirees on relatively high incomes draw their income mainly from superannuation which is non-taxable, they may be eligible for the Supplement despite having incomes well above these thresholds. People receiving the Supplement are also likely to have investment assets worth more than a million dollars (if partnered) and to fall within the top 20% of the retiree income distribution.



To keep the economy growing and to fund essential services as the population ages, it is vital that more mature age people retire later, and retire gradually (by working on a part time or temporary basis after leaving their fulltime jobs). The most important step that policy makers could take to encourage people to do this is to raise the preservation age for access to superannuation from 55 years so that it meets the forecast pension age of 67 years. The preservation age should continue to rise beyond the legislated age of 60, at one year per annum, until it reaches age 67. Such a policy would be much fairer and cause less financial hardship than an increase in the pension age itself, since the people who rely most on the Age Pension are those who have little choice but to retire at 65 or earlier – such as people with disabilities or caring responsibilities and low skilled workers who have been made redundant. These people typically derive little benefit from early access to superannuation because the balances in their superannuation accounts are small.

On the other hand, a higher preservation age is likely to have a substantial impact on the workforce participation decisions of those who do have a choice to retire later. Even if the immediate effect on their disposable incomes is not substantial (given that most baby boomers currently have low superannuation balances), it would send a strong signal to employers and employees that people are generally expected to work until at least 65 years.

Early access arrangements should be established. Options include allowing access from age 55 for certain groups including Aboriginal and Torres Strait Islander people and people receiving certain social security payments (such as Disability Support Pension or Carer Payment), or allowing withdrawals earlier than the preservation age for any purpose up to modest annual and lifetime limits. If implemented in conjunction with an increase in the level of compulsory saving this should have no adverse impact on living standards in retirement, and in any event many people on low incomes have as much need to draw upon their savings (for example due to unemployment, or to meet child rearing costs) during working life as they do after retirement.

Tax breaks for superannuation are the most expensive 'tax expenditures', costing almost \$40 billion a year, roughly the same as the Age Pension. The original intent of superannuation was to boost retirement incomes and reduce the cost to Government of providing financial support to people after working-age, by encouraging people to save for their own retirement. While modest tax support for retirement saving is desirable, the present superannuation concessions are poorly targeted and wasteful.

Employer contributions are taxed at a flat 15% instead of the individual's marginal tax rate. This is unfair because high earners save over 30 cents in tax per dollar contributed by employers, while those on incomes less than approximately \$20,000 pay an additional 15 cents for every dollar contributed since they fall below the tax free threshold. The Treasury estimated that in 2012, 32% of the value of the concessions went to the top 10% of wage



earners while the bottom 50% received just 19% of their total value.<sup>33</sup> This is inefficient as well as unfair because high income earners are much more likely to save for retirement in the absence of concessions than low or middle income earners. The previous Government effectively removed the 15% tax from employer superannuation contributions for individuals earning less than \$37,000 by legislating a Low Income Superannuation Contribution of 15% of wages for individuals earning below this threshold. This was a welcome first step towards a fairer superannuation system, although even with the Low Income Contribution in place the value of the tax concession for these individuals is still zero, compared with over 30 cents per dollar contributed by the employer in the case of a high income earner. The present Government has legislated to abolish the Low Income Contribution from July 1 2017, which would have an adverse impact on the retirement incomes of people in low wage jobs, the majority of whom are women.

The unfair and complex system of tax breaks for superannuation contributions should be replaced with a simpler taxation structure, in which contributions are taxed at the employee's marginal tax rate and a superannuation rebate is paid into employee's superannuation accounts.

To boost the superannuation savings for people on low incomes, the rebate would be paid at the rate of 100% of contributions up to a low flat annual contributions cap. Beyond this it would be paid at 20% of additional contributions up to a higher cap. The cap would be lower than the existing cap on concessional contributions, and set at a rate sufficient to encourage an appropriate level of saving beyond Superannuation Guarantee contributions by an employee on an average fulltime wage. The rebate would apply to the sum total of all contributions, whether compulsory or voluntary, which would improve simplicity. The proposal would improve equity, while being revenue neutral, and is consistent with the superannuation reform proposals in the Henry Report (except that it would not reduce employees' current disposable incomes).

The tax concessions for superannuation contributions and fund earnings in the 'pension phase' are also unfair and unsustainable, the more so as the population ages. Two problems stand out. First, many superannuation fund members over 55 years of age are able to contribute to superannuation and withdraw a superannuation pension at the same time, as previous age-based restrictions on contributions have been eased and the tax on benefits was removed completely for those over 60 years of age. While it is desirable to give people the flexibility to ease their way into retirement, these arrangements are open to abuse. Individuals can salary sacrifice up to the concessional contributions cap (currently \$25,000 to \$35,000), and pay themselves an equivalent pension. They can thereby avoid personal income tax on their earnings without saving at all, despite the fact that retirement saving is the purpose of tax breaks for superannuation. The 'churning' of wages through super

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<sup>33</sup> Treasury estimates.





accounts is being heavily promoted by super funds and financial advisers, jeopardising the personal income tax base as more people reach retirement age and make use of this strategy.

Currently, the earnings of superannuation funds are taxed at a rate of 15% (lower for capital gains) until the 'pensions phase' is reached (that is, once a pension is paid from the account), at which time fund earnings are tax free. This additional concession during the pensions phase may have been appropriate at a time when there was a clear distinction between a 'contributions phase' (pre-retirement) and a 'pensions phase' (post-retirement) but as indicated above, the same individual can now contribute and be paid a superannuation pension at the same time. It is likely that remaining age-based limits on contributions will be removed in future, further blurring the distinction between these two 'phases'.

The Henry Report recommended that fund earnings be taxed at the same rate in both phases, though at less than 15%. Given the fiscal challenges facing this and future Governments as the population ages, and the fact that taxes on superannuation benefits have been abolished, there is a strong case for applying the standard 15% tax rate to fund earnings in both phases. This, along with our other proposals, would raise substantial revenue in future years to help finance health and aged care services. It would also improve equity in the tax treatment of different types of investment income received by people of different ages and simplify the system.

#### **Recommendation 14: Tighten the Age Pension assets test**

Reduce the assets test free area for home owners to \$100,000 for singles and \$150,000 for couples, and increase the taper rate for both home owners and non-home owners from \$1.50 per \$1,000 of additional assets to \$2 per \$1,000, so that the cut out point for the part pension for couples is reduced from \$1.1 million in assets besides the family home to \$794,250 in assets besides the family home.

Savings: \$1,350 million (\$1,450 million in 2016-17)

#### **Recommendation 15: Abolish the Seniors Supplement**

Abolish the Seniors Supplement (available to people who do not qualify for the Age Pension due to their income and assets) from 1 July 2015 leaving the Pension Supplement in place for Age Pensioners.

Savings: \$240 million (\$250 million in 2016-17)<sup>34</sup>

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<sup>34</sup> This recommendation is based on the assumption that the legislation currently before the Parliament to abolish the Seniors Supplement is not passed before the 2015-16 Budget.



**Recommendation 16: Increase the preservation age so that it corresponds to the Age Pension access age by 2027.**

The preservation age should continue to increase at the current rate (by one year per annum) to 2027, reaching 67 by that year. Early access arrangements should be introduced for people with disabilities and caring roles that effectively require them to retire earlier. These may include allowing access from age 55 for Aboriginal and Torres Strait Islander people and people whose disabilities or caring roles would ordinarily qualify them for certain social security payments (such as the Disability Support Pension or Carer Payment) or by allowing withdrawals earlier than 55 for any purpose up to modest annual and lifetime limits.

Savings: \$0 million (\$0 million in 2016-17)<sup>35</sup>

**Recommendation 17: Simplify concessions for superannuation contributions**

Existing tax concessions for superannuation contributions should be replaced with a simpler taxation structure, in which employer contributions are taxed at the employee's marginal tax rate and a capped superannuation rebate is paid into employee's superannuation accounts. This rebate would also replace other concessions for contributions, including the deduction for self-employed individuals.

Savings: \$0 million (\$0 million in 2016-17) – revenue neutral

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<sup>35</sup> Significant savings would be generated beyond the forward estimates.



## 4 Make essential services available and affordable

Australia's social safety net includes universal health and education services and targeted services for population groups with particular needs, including homelessness, emergency relief, disability, mental health, community legal and Aboriginal and Torres Strait Islander programs and services.

While our social safety net is fairly strong, there are significant gaps which result in poor or no access to services for low income, socially excluded and disadvantaged groups. We also face increasing costs of services due to an ageing and growing population. Difficult decisions must be made about how to target and fund social services into the future. Rather than rely increasingly on user charges, the sustainability of social services should be secured by rolling back poorly targeted and inflationary subsidies, restoring revenue and targeting services to those most in need while preserving universal access to health and education services.

### 4.1 Health

The design, funding and administration of the health system is a powerful determinant of healthcare access, equity and effectiveness. There is much that could be done to improve the equitable distribution and effectiveness of current spending within the health Budget.

In considering new health proposals and changes, ACOSS urges the Government to ensure that:

- there is an appropriate balance between health promotion, prevention and treatment;
- quality health services are provided according to need and not inappropriately rationed;
- there are no increases to the level or type of co-payments required by individuals when they access health services;
- additional consumer contributions to the cost of health services are levied according to individuals' ability to pay through taxation or a health levy; and
- systems of resource allocation and cost control ensure efficient delivery of health services.

In partnership with states and territories, the Federal Government has a fundamental responsibility to ensure that health services across the continuum are available to the people that need them and that particular at risk groups in the community are provided with the services they need to live healthy and productive lives.

While the Government has raised concern about the sustainability of the health system in Australia, we continue to track in line with the OECD average for health expenditure; 9.6% of GDP went to health expenditure in Australia in 2012-13, only slightly above the OECD



average of 9.2%.<sup>36</sup> Recent analysis by the Australian Institute of Health and Welfare found that during 2012-13 Government health funding fell for the first time, with the Commonwealth Government reducing its rate of expenditure by 4.4%.<sup>37</sup> We do know that with an ageing population and changing health needs, there will be increasing pressure placed on health budgets; and we have called for a community conversation about appropriate mechanisms to fund the health services we expect as a community. However, analysis of the current situation suggests that there is no immediate crisis in health funding and no evidence to support measures such as individual co-payments in primary healthcare. Nevertheless there are key opportunities to redistribute the existing health Budget in a way that provides greater benefit to the community, and ensures that subsidies and services are well-targeted on the basis of evidence about what works and who needs access.

Universal healthcare is the most effective, efficient and equitable way to ensure the delivery of adequate health care to the Australian public.<sup>38</sup> ACOSS continues to argue strongly for universal coverage of essential health services for the whole community; and for measures to improve the accessibility of those services for people and communities that are currently poorly served. As well as being more effective in reducing the health burden of the country, this approach enables the health system to respond to the needs of the community and works to eliminate the current social gradient of health.<sup>39</sup> ACOSS believes that a significant proportion of essential health services should continue to be delivered through Medicare.

Funding arrangements between the states and territories should reflect appropriate indexing; be based on evidence and agreement on adequacy of funding; and focus on performance and improvement of health outcomes across the community. They should also support the core principles of transparency and accountability that ensure communities are able to understand and inform the funding and program decisions intended to support them.

ACOSS has deep concerns regarding proposals to introduce new individual health co-payments. Additional individual co-payments in healthcare would further undermine access to essential healthcare services and disproportionately impact on disadvantaged groups in the community already not sharing in the good health experienced by most in our community. Particular groups including Aboriginal and Torres Strait Islander communities, those with chronic illnesses, and people with disabilities and mental health issues need to be supported to access the services they need, rather than facing additional barriers to access. We are also disappointed to see measures introduced in the 2014-15 Budget that increase current co-payments, particularly for Pharmaceutical Benefits Scheme (PBS) medications;

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<sup>36</sup> Australian Institute of Health and Welfare (2014): *Health Expenditure Australia 2012–13* p.27  
<http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129548869>.

<sup>37</sup> *ibid*.

<sup>38</sup> Rights to healthcare are outlined in the *Australian Charter of Healthcare Rights*. In July 2008, Australian Health Ministers endorsed the charter as for use across the country. It can be accessed at <http://www.safetyandquality.gov.au/national-priorities/charter-of-healthcare-rights/>.

<sup>39</sup> National Sustainability Council Sustainable Australia Report (2013), *Conversations with the future* Canberra p.117 accessible at <http://www.environment.gov.au/system/files/resources/e55f5foo-b5ed-4a77-b977-da3764da72e3/files/sustainable-report-full.pdf>.



and urge the Government not to consider any further increases in individual costs for these health interventions.<sup>40</sup>

ACOSS has advocated for many years for reform to ensure that low income households have access to affordable dental services. Reforms to improve the national provision of and access to oral health services are particularly urgent at a time when we are seeing increasing levels of preventable dental decay in children. As such, we were disappointed with the deferral of the commencement of the National Partnership agreement for adult public dental services from 2014-15 to 2015-16.<sup>41</sup> We urge the Government not to delay this any further.

Government and taxpayer expenditure on health is significant and there needs to be an appropriate level of accountability and transparency within the health system. Healthcare services should be respected as a community asset and vested interests should not be able to access public funds to provide healthcare services without adequate accountability back to Government and community. The provision of community pharmacy services is a good example, where significant concerns have been raised regarding inadequate transparency over the negotiation and implementation of a \$16 billion investment over five years through the community pharmacy agreement.<sup>42</sup> The negotiation of a new agreement in this area creates the opportunity for significant improvements to be made, ideally building on recommendations flowing from the current Australian Audit Office audit into the agreement once released.

The delivery of health services needs to be connected to the community they are designed to serve, with patients at the centre of healthcare decision-making. The current arrangements around the funding and support of GP services work extremely well in moderating costs and charges, and current proposals being discussed such as allowing private health insurers to partially fund these services are likely to result in increased costs for the Government and taxpayers, in addition to individuals and households.<sup>43</sup> This speaks to a greater concern within ACOSS' membership regarding the privatisation of health care, as evidenced by moves to bring private health insurance into the provision of services across primary care, emergency care and pharmacy.

The health of individuals builds healthy families and communities, and a productive and prosperous economy. Health expenditure is an investment in our community. Health programs that are based on evidence and take a preventative and early intervention

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<sup>40</sup> See ACOSS evidence at the Community Affairs inquiry into *the National Health Amendment (Pharmaceutical Benefits) Bill 2014*

[http://www.apf.gov.au/Parliamentary\\_Business/Committees/Senate/Community\\_Affairs/Pharmaceutical\\_Benefits/Public\\_Hearings](http://www.apf.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Pharmaceutical_Benefits/Public_Hearings) (Oct 2014).

<sup>41</sup> Commonwealth Government (2014) *Budget Paper 2: Budget Measures*:  
[http://www.budget.gov.au/2014-15/content/bp2/html/bp2\\_expense-14.htm](http://www.budget.gov.au/2014-15/content/bp2/html/bp2_expense-14.htm) (Oct 2014).

<sup>42</sup> Consumers Health Forum (2010) *Analysis of the 5<sup>th</sup> Pharmacy Agreement*  
<https://www.chf.org.au/pdfs/pos/pos-603-CHF-analysis-fifth-cpa.pdf>.

<sup>43</sup> 2014 ACOSS Submission into the Australian Senate Community Affairs Committee Inquiry into the *Private Health Insurance Amendment (GP Services) Bill 2014* accessible via [www.acoss.org.au](http://www.acoss.org.au) (Oct 2014).



approach where possible are the best investments our Government can make. Evidence should also form the basis of funding decisions, such as those relating to pharmaceutical benefits and alternative remedies.

ACOSS is concerned about a number of announcements made in the 2014-15 Budget which reduced investment in early intervention and health promotion initiatives. Of key concern was the cessation of the National Partnership agreement on Preventative Health.

ACOSS urges the Government to continue and build on the significant work that has been done in relation to producing health performance data. The work of the Health Performance Authority is beginning to provide significant information for health providers and communities and will lead to improved outcomes. ACOSS also commends work being done to access 'big data' that will provide opportunities to learn more in relation to the effectiveness of interventions, improve health outcomes on a population level and increase the effectiveness and efficiency of the health system.

There is inefficiency in the healthcare system and there is waste. However, the solution is not to place a greater burden on individual health care consumers, most of whom do not have significant financial means. It would be much better to focus on areas where there are real savings to be made, including:

- The Extended Medicare Safety Net, which does not appear to have assisted in reducing out-of-pocket costs for consumers and in fact may have increased the costs of particular medical procedures.<sup>44</sup>
- The Private Health Insurance Rebate, which has failed in its promise to increase private health insurance and take pressure off public hospitals.<sup>45</sup>
- Continuing the work that has been undertaken to reduce the cost to Government of out of patent prescription medicines. Further accelerating reforms, or introducing single pricing mechanisms, have the opportunity to deliver significant further savings.<sup>46</sup>

Aboriginal and Torres Strait Islander community controlled health services (ACCHS) provide the preferred method of primary health care to the majority of Aboriginal people in the areas they service. There are over 150 ACCHS around the country serving nearly 300 communities. ACCHS are also large scale employers of Aboriginal and Torres Strait Islander

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<sup>44</sup> CHERE (2011): *Extended Medicare Safety Net: A review of capping arrangements report 2011* [http://www.health.gov.au/internet/main/publishing.nsf/Content/2011\\_Review\\_Extended\\_Medicare\\_Safety\\_Net/\\$File/Final%20Report%20-%20Review%20of%20EMSN%20benefit%20capping%20June%202011.pdf](http://www.health.gov.au/internet/main/publishing.nsf/Content/2011_Review_Extended_Medicare_Safety_Net/$File/Final%20Report%20-%20Review%20of%20EMSN%20benefit%20capping%20June%202011.pdf). More detailed arguments for this position are set out in ACOSS' submission earlier this year to the [Senate Inquiry into the Health Insurance Amendment \(Extended Medicare Safety Net\) Bill 2014](#).

<sup>45</sup> Terence Cheng (2013): 'Why it's time to remove private health insurance rebates' <http://theconversation.com/why-its-time-to-remove-private-health-insurance-rebates-16525>. See also Grattan Institute below.

<sup>46</sup> Grattan Institute (2014) *Balancing budgets supporting analysis* p.36 : [http://grattan.edu.au/wp-content/uploads/2014/03/802\\_Balancing\\_Budgets\\_Supporting\\_Analysis.pdf](http://grattan.edu.au/wp-content/uploads/2014/03/802_Balancing_Budgets_Supporting_Analysis.pdf)



people, employing more than 3,200 Aboriginal people. Current funding for these services expires in June 2015.

The Aboriginal and Torres Strait Islander health sector delivers the best outcomes for Aboriginal and Torres Strait Islander people as well as providing a critical mechanism for self-determination, yet funding is not keeping pace with demand which is growing 6% per year. While approximately 5% of all health expenditure is on Aboriginal health, only one-quarter of this goes to Aboriginal specific services. Aboriginal and Torres Strait Islander health expenditure is projected to decline, in real terms, relative to population growth and health needs. In this Budget, the Federal Government must make a substantial funding commitment which delivers certainty to Aboriginal and Torres Strait Islander frontline services and the communities they support.

It is also fundamental that the Federal Government commits to resourcing the implementation of the National Aboriginal and Torres Strait Islander health plan, including working with the National Health Leadership Group to negotiate necessary resources.

#### **Recommendation 20: Sustain investment in effective preventative health mechanisms**

Investment in preventative health programs should be maintained and based on evidence of what works and community direction about addressing priority needs.

Costing: 54 million in 2015-16 (\$130 million in 2016-17)

#### **Recommendation 21: Abolish the Extended Medicare Safety Net**

The Extended Medicare Safety Net should be abolished due to its role in inflating prices.

Saving: \$400 million in 2015-16 (\$410 million in 2016-17)

#### **Recommendation 22: Remove the 30% private health insurance rebate from 1 July 2015**

The rebate has not reduced pressure on public hospitals and should be removed.

Saving: \$6,600 million in 2015-16 (6,900 million in 2016-17)<sup>47</sup>

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<sup>47</sup>Australian Government (2015): 'Budget Paper 1: Federal Strategy and Outlook', *Federal Budget 2014-15*, [http://www.budget.gov.au/2014-15/content/bp1/html/bp1\\_bst6-01.htm](http://www.budget.gov.au/2014-15/content/bp1/html/bp1_bst6-01.htm).





**Recommendation 23: Reduce subsidies for PBS listed medicines which are out of patent.**

This would stop the practise of paying subsidies to pharmacies once medicines are out of patent and the subsidy is no longer necessary.

Saving: \$1,800 million in 2015-16 (\$2000 million in 2016-17)

**Recommendation 24: Invest in accessible, affordable dental care for children and adults**

Ensure access to dental care for children and adults though the public health system.

Costing: \$700 million in 2015-16 (\$1000 million in 2016-17)

**Recommendation 25: Maintain funding for Aboriginal Medical Services around the country, including funding for a national peak body**

Current funding for Aboriginal and Torres Strait Islander Medical Services expires in June 2015.

Cost: \$700 million in 2015-16 (\$718 million in 2016-17)

**Recommendation 26: Maintain funding to Aboriginal and Torres Strait Islander health programs**

Restore the \$165.8 million/four years cut from Aboriginal and Torres Strait Islander programs in the 2014-15 Budget.

Cost: \$80 million in 2015-16 (\$85 million in 2016-17)

## **4.2 Education and early childhood services**

A well-educated population is key to Australia's economic and social wellbeing. However, significant numbers of children and young people, particularly from low income households and disadvantaged communities, are not achieving their educational potential. Lack of education has long been recognised as a key factor in poverty and disadvantage. Those who are better educated are at less risk of poverty, while those living in poverty are less likely to achieve high quality educational outcomes. To ensure that every child in Australia has access to the best education, funding for the needs based school funding education reforms must be maintained.

Studies show that access to high quality early childhood education and care plays a critical role in children's educational outcomes throughout formal schooling, including in areas such



as school attendance, completion rates, behavioural outcomes in class and interest and motivation.<sup>48</sup> In addition, research conducted by Melbourne University found that children who attended preschool achieved markedly higher NAPLAN literacy and numeracy scores than those who did not.<sup>49</sup> Research from the United Kingdom demonstrates that these advantages continue through to better employment and wage outcomes at age 33.<sup>50</sup>

Particular attention must be paid to the situation concerning Aboriginal and Torres Strait Islander children. On every indicator, these children fair more poorly than their non-Aboriginal and Torres Strait Islander counterparts. Considerable evidence shows that Aboriginal and Torres Strait Islander children engaged in Aboriginal and Torres Strait Islander community controlled Early Learning Services are likely to achieve markedly better outcomes, especially in their transition to school. Other social dysfunctions are also reduced as the families of these children can, through early years services (Multifunctional Aboriginal Children's Services and Aboriginal Child and Family Centres), get early support and ongoing access to professional services, including with the vital transition to school. While hard to quantify, the saving in such cases are likely to be significant in human, societal and economic terms.

Compared with the OECD, the workforce participation of Australian parents is noticeably lower: around, 62 per cent of Australian mothers with a child under 15 years undertook some form of work in 2009 compared to an OECD average of 66%.<sup>51</sup> In addition to providing an important educational foundation for children, access to affordable, quality and flexible care for children strengthens women's workforce participation. However, such access is poor in Australia, particularly for low income and single parent families. The current system of child care payments is particularly complex and inequitable. There are different payment types for low and higher income families and, by international standards, low levels of spending on child care overall. Indeed, despite above average public expenditure on families (through the family payments system), Australia spends less on childcare services than most OECD countries: 0.6% of GDP compared with the OECD average of 0.7%.<sup>52</sup> The CCR is inherently regressive as it covers part of the gap fee between income tested CCB and fees charged. In addition, the level of subsidy available for low income families is generally not sufficient to finance quality care. As a matter of equity, funding should be directed to give most assistance to families that are in most need.

In 2014, the Productivity Commission conducted an Inquiry into Child Care and Early Childhood Learning. At the time of writing, its final report had been handed to Government

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<sup>48</sup> Berlinski, S., Galliani, S. and Gertler, P. (2009) The effect of pre-primary education on primary school performance. *Journal of Public Economics*, 93(1-2), 219-234; Queensland Department of Education, Training and Employment (2013) *Evaluation of the Early Years Centre initiative – Summary Report*.

<sup>49</sup> Warren, D. and Haisken-DeNew, John P. (2011) *Early Bird Catches the Worm: The Causal Impact of Pre-School Participation and Teacher Qualifications on Year 3 NAPLAN Cognitive Tests* MIAESR, University of Melbourne.

<sup>50</sup> Goodman, A. and Sianesi, B. (2005) *Early Education and children's outcomes: How long do the impacts last?* Institute for Fiscal Studies.

<sup>51</sup> OECD (2012): *Family Database*, Paris.

<sup>52</sup> OECD, *Better Life Index*, available at: <http://www.oecdbetterlifeindex.org/countries/australia/>.



but not been publicly released. The draft report released in July 2014 indicated support for simplifying the child care system by replacing the two existing payments with one payment for all families, with higher levels of subsidy for low income families and assistance tapering out for high income households. Current expenditure on child care payments must not be reduced in any reform process. Pending the outcomes of the Productivity Commission Inquiry into child care, the CCR and CCB should be integrated into a single payment with higher levels of subsidy for low income families.

Aboriginal and Torres Strait Islander early years services have been funded under the Budget Based Funded Program (BBF), for which funding expires in June 2015. Most BBF services are located in regional or remote areas where the market may not otherwise support the maintenance of a viable early childhood education service.<sup>53</sup> The BBF programme receives approximately \$60 million per annum. A review of the program was released in 2014, which found that “the programme plays a vital role in the communities it operates in, particularly in regional and remote areas where it is the only child care and early learning service available for families.”<sup>54</sup> Funding under the National Partnership agreement on Early Childhood Development – children and family centres expired in 2013-14, leaving the 38 child and family services funded under this agreement to rely solely on State and Territory governments for support. Without Federal Government support, many of these services will not survive. ACOSS supports Secretariat of National and Islander Childcare (SNAICC)’s proposal for new funding model for Aboriginal and Torres Strait Islander child and family services which condenses the BBF and the Aboriginal and Torres Strait Islander Child and Family Centres programs into one program to cover the range of services needed.

**Recommendation 27: Introduce a universal minimum rate and increase the maximum rate of the CCB.**

The maximum rate of CCB should be increased to better reflect the actual costs of providing quality care. This should be funded by the removal of the CCR, which would then be replaced with a universal minimum rate of CCB.

Cost: Revenue neutral

**Recommendation 28: Fund a new Aboriginal and Torres Strait Islander child and family services program**

This program would condense existing programs, including the BBF programme, Multifunctional Aboriginal Children’s Services and Aboriginal Child and Family Services.

Cost: \$200 million in 2015-16 (\$205 million in 2016-17)<sup>55</sup>

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<sup>53</sup> Department of Education, *Review of Budget Based Funded Program*, Final Report, May 2014.

<sup>54</sup> Ibid.

<sup>55</sup> For more detail, see SNAICC, ‘Aboriginal and Torres Strait Islander early years funding: The need for change’, Factsheet 4 available at [www.snaicc.org.au](http://www.snaicc.org.au).



### 4.3 Aboriginal and Torres Strait Islander Programs

The most recent Productivity Commission *Overcoming Indigenous Disadvantage* highlights progress towards achieving Closing the Gap goals of reducing infant mortality and the life expectancy gap and some improved economic outcomes (including higher incomes, lower rates of reliance on income support and higher rates of employment).<sup>56</sup> However, it shows no improvement in the rates of disability and chronic disease, mental illness, alcohol and drug problems and family and community violence. Most disturbingly, the report shows a staggering 57% increase in the adult imprisonment rate between 2000 and 2013 and a sharp increase in juvenile detention rates.

While there is certainly scope for reform of Aboriginal and Torres Strait Islander services, this should be with a view to maximising effectiveness, not to achieving Budget savings. The task of Budget repair should be approached with a view to asking those with capacity to contribute more to do the heavy lifting. On almost every measure, Aboriginal and Torres Strait Islander peoples are the most economically disadvantaged and excluded members of our community.

Aboriginal and Torres Strait Islander people are more likely to experience poverty than other Australians (19.3% compared with 12.4%)<sup>57</sup> and experience higher rates of unemployment (21% for people of working age).<sup>58</sup> As a result, Aboriginal and Torres Strait Islander people disproportionately rely on social security payments as their primary source of income, with the exception of the Age Pension.<sup>59</sup>

In developing policy responses to these challenges, governments must respect Aboriginal and Torres Strait Islander contributions to the development of policy, the design and development of service responses and the implementation of services, including the evaluation of outcomes. Strong, well-resourced and community controlled services in key areas – housing, employment, education, health, early childhood and legal services - will pay dividends. Bipartisan policy and long-term planning is necessary – a generational plan, with guaranteed budgets and policy and funding certainty.

Addressing the increasing over-representation of Aboriginal and Torres Strait Islander people in the justice system should be one of the Federal Government's most pressing

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<sup>56</sup> Productivity Commission (2014): *Overcoming Indigenous Disadvantage*.

<sup>57</sup> Unpublished estimates provided by Azpitarte from the Brotherhood of St Laurence, in McLachlan et.al (2013) *Deep and Persistent Disadvantage in Australia*. Productivity Commission Staff Working Paper. Poverty is measured using HILDA data, and based on a 50% of median income poverty line. These data are not adjusted for housing costs.

<sup>58</sup> Australian Bureau of Statistics (2014): *Australian Aboriginal and Torres Strait Islander Health Survey: Updated Results, 2012-13*, cat. no. 47270.55.006, available: <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/47270.55.006-2012%E2%80%9313~Main%20Features~Labour%20force%20characteristics~17>

<sup>59</sup> Department of Social Services Datasets, 2014, available: <https://data.gov.au/dataset/dss-payment-demographic-data/resource/3f8a71b1-d98d-4b06-9cba-0c1082e1f673>



priorities. The social costs of over-imprisonment include family dislocation, poor physical and mental health, unemployment and cultural disconnection. The fiscal cost of over-imprisonment, which falls largely on state governments, is unsustainable and has flow on impacts to other areas of Federal Government spending: health, income support, employment services. Reduced funding to legal services will result in less community legal education, prevention and legal assistance; more people coming into contact with the formal justice system and higher imprisonment rates; at a vastly higher social and economic cost than the short-term savings achieved.

Cuts to funding for Aboriginal and Torres Strait Islander Legal Services announced in the Mid Year Economic and Fiscal Outlook (MYEFO) last year should be reversed. Funding to the Indigenous Legal Aid and Policy Reform Program was reduced by \$13.3 million between 2013 and 2017. The Government has indicated that the cuts are targeted directly to law reform and advocacy work undertaken by the NATSILS and Aboriginal and Torres Strait Islander Legal Services (Aboriginal and Torres Strait Islander Legal Services (ATSILS)) around the country. However, the cuts exceed the amount currently allocated to law reform and advocacy by the ATSILS and will inevitably result in reduced direct service delivery capacity as well as reducing the ATSILS capacity to provide informed policy advice to Government. Indeed, at the time of writing, a number of ATSILS offices around the country have been forced to close. The ATSILS and Family Violence Prevention and Legal Services (FVPLS) are the only organisations with the access, ability and expertise to obtain the necessary information that is critical to all governments to design effective and evidence based policy solutions in the justice sector. Without this knowledge, the alarming levels of Aboriginal and Torres Strait Islander over-representation in the justice system cannot be addressed. The cuts were announced before the finalisation of a Productivity Commission inquiry into access to justice which provides important data about the extent and nature of unmet need for legal services by low income and disadvantaged groups, including Aboriginal and Torres Strait Islander peoples.

For further recommendations relating to Aboriginal and Torres Strait Islander peoples, see the 'Health' and 'Education' sections above.

#### **Recommendation 29: Continue funding the National Congress of Australia's First Peoples**

Funding to the national peak representative body for Aboriginal and Torres Strait Islander people should be restored.

Cost: \$5 million (\$5 million in 2016-17)

#### **Recommendation 30: Reinstate funding to Aboriginal and Torres Strait Islander Legal Services**

Reinstate funding which was cut from Aboriginal and Torres Strait Islander Legal Services in December 2013 MYEFO. Remove prohibition on Aboriginal and Torres Strait Islander Legal Services from using Commonwealth funding for law reform and advocacy activities.

Cost: \$13 million (\$14 in 2016-17)



**Recommendation 31: Provide additional funding to meet unmet need for Aboriginal and Torres Strait Islander civil and family law services**

Make the \$6 million one-off additional funding grant for civil and family law services a permanent and recurring part of funding provided to Aboriginal and Torres Strait Islander Legal Services.

Cost: \$6 million (\$6 in 2016-17)

**4.4 Community sector sustainability**

The context for setting priorities within this Federal Budget presents challenges and uncertainties both for the Government and for community services. For the Government, fiscal challenges prompted a review of spending priorities by the National Commission of Audit. A forthcoming review of the tax system will provide an opportunity to secure a sustainable revenue base. Other policy processes, such as the reviews of national competition policy and of federalism, may also influence how the Government's Budget priorities are set. In that context it is important to remember that community services are highly trusted by the Australian public and make a significant contribution to the nation's health and wellbeing. They address poverty, inequality and disadvantage through well designed and delivered programs. They also provide core value through their involvement with and in communities, contributing to social as well as economic inclusion and ensuring participatory communities. We must learn from the historic failure of markets to achieve any of these objectives by continuing to invest in the services that can support people and communities, particularly those affected by poverty and inequality. We must also learn the lessons of both *underfunding* and *defunding* this vital social infrastructure, with prolonged and sometimes entrenched disadvantage that becomes even harder to overcome.

The 2014-15 Budget created serious challenges for the community services sector. Funding for services has been reduced and the legitimacy of activities challenged, particularly in core areas of need across the community. Budget processes over the past year have led to at least \$270 million in cuts to social services over the forward estimates, with additional impacts anticipated in relation to the 2014 freeze on indexation of funding. More directly, the 2014 Federal Budget saw \$51.9 million in savings from community service funding cuts with projected savings of \$57.1 million in 2015-16. Cuts to basic grants and the removal of indexation of funding has affected community services broadly, and has specifically targeted the areas of access to justice, respite for carers and innovation through collaboration. At the same time, demand in these areas continues to grow. The most recent Australian Community Sector Survey (2014) found 80% of services could not meet demand



across the sector, with even higher rates among particular areas such as community legal services.

Far from being strengthened in response to the growing evidence of serious need, recent Budget and funding cycles have further undermined the capacity of community services to contribute effectively to the health and wellbeing of the nation. Cuts to Department of Social Services (DSS) funding implemented in December 2014 saw organisations lose Government funding for services they had been providing, many for years, across the areas of emergency relief, financial counselling, community mental health, and in supporting carers, families and children and young people. Much-needed capacity to develop policies and provide advice in key areas such as housing and homelessness and disability were also cut.

The future of the National Partnership Agreement on Homelessness and the National Affordable Housing Agreement remain unclear. Likewise the National Mental Health Commission's Review of Mental Health Services and Programmes has created ongoing uncertainty for mental health policy, programs and services. Continuing uncertainty of current agreements is compounding the impact of funding cuts to date, with dire consequences for services who are once again in the position of not knowing the future of vital funding agreements and have little or no capacity to plan how best to support people and communities in need. Young people unable to get paid work have been targeted by 2014 Budget measures that would significantly reduce their access to social security payments, with a likely consequence of increasing the burden on already-overstretched youth services.

The importance of adequate funding for community services remains paramount. Funding must be based on need and driven by effective measures to improve and sustain community outcomes. But no amount of funding can be truly effective if the mechanisms around its delivery remain inconsistent, unpredictable, and undermine the value of that funding either fiscally or through insufficient support for collaboration. We welcome the moves by the Commonwealth Department of Social Services towards longer-term funding cycles and the recognition that these are important to achieve better processes around funding.

The policy settings within which community services are funded by Government are critical to their effectiveness. They must be based on basic principles of contracting that ensure:

- 3-5 year timeframes within contracts where possible;
- adequate indexation that is not eroded by efficiency dividends;
- timely decision-making and proper compensation for adjustment to Government funding for services as required;
- adequate negotiation and rollover periods as existing contracts come to end; and
- transitional assistance for organisational change in any Commonwealth funded social service program that is targeted for structural reforms, to provide a minimum of six months' notice in the event of funding that is reduced or removed entirely from community service organisations.

An additional and long-standing barrier to the sector's effectiveness and productivity has been the relatively low pay of workers in the community sector. Australian charities, of which community services are a significant component, contribute 8% of Australia's employment nationally. Yet successive findings of ACOSS' annual Australia Community





Sector Survey have revealed that the greatest organisational challenge faced by community services was the capacity to attract and retain the workforce needed to deliver effective services. ACOSS supported the 2010 equal remuneration application and subsequent Equal Remuneration Order (ERO) by Fair Work Australia, recognising that workers in social services were paid significantly less than they would have been for equal or comparable work in Government or private enterprises; and that this pay inequity was undermining the sector's basic capacity and effectiveness.

Wage increases resulting from the order ranged from 18-42%. The value of the ERO for community service workers must now be maintained in order to ensure the ongoing productivity of this vital sector. While funding agreements should be based on current rates (incorporating past ERO instalments), supplementation for forthcoming instalments should be identified in the interests of transparency and accountability.

Australia's charities continue to demonstrate great economic as well as social significance. This was reaffirmed in 2014 by the publication of the first data from the Australian Charities and Not-for-profits Commission's (ACNC) annual reporting cycle. Australia charities contribute 5% of gross domestic product. We employ 919,000 people and facilitate the contribution of an additional 2 million volunteers. The sector has extensive expertise in how best to meet and support complex social needs across the country; and provides great value in supporting social and economic inclusion and participatory communities.

This value is significantly enhanced by mechanisms that reduce duplicative and burdensome processes in regulation and reporting, such as a national regulatory framework. We reaffirm our support for such a framework and for the functions of a national Charity Register based on compulsory reporting by charities; and with a responsibility and capacity to share the evidence from that reporting with the sector and the broader community.

The sector's capacity would be further enhanced by reducing barriers to sustaining itself, such as in tax arrangements that limit the level of private and philanthropic support available to charities. We reaffirm our support for the extension of DGR to charities, as recommended by the Productivity Commission in 2010.

**Recommendation 32: That the Government work with community service organisations to determine adequate funding levels to meet community needs and ensure social and economic participation; and to implement investment to meet those levels over a five year timeframe.**

Until appropriate funding levels are determined, the Government should restore the funding cut from social services in 2014, including through portfolio savings measures within Department of Social Services and in other relevant areas.

Cost: \$82 million 2015 (\$100 million in 2016-17)



**Recommendation 33: Index community services funding to wage movements**

Ensure funding for the delivery of community services includes adequate price indexation tied to the wage price index.

Cost: \$360 million in 2015-16 (\$370 million 2016-17)

**Recommendation 34: Maintain a national regulatory framework**

Maintain a national regulatory framework with compliance-based reporting to a national Charity Register and a communications function that sustains and develops further the confidence in charities and not-for-profit organisations in Australia.

Cost: \$50 million in 2015-16 (\$52 million in 2016-17)

**Recommendation 35: Extend DGR recipient status**

Extend DGR status to those charities whose dominant purpose is altruistic and for the public benefit.

Cost: \$700 million in 2015-16 (\$730 million in 2016-17)



## 5 Improve access to affordable housing

High housing costs are the biggest source of financial stress in many households, particularly those on low incomes. Nationally in 2011, four in five private rental households in the lowest 20% are in unaffordable housing (paying more than 30% of income in rent) with more than 30% of the second lowest quintile experience housing stress.<sup>60</sup>

At the time of writing, there is considerable uncertainty about the future of housing funding and programs, with forthcoming reviews of federalism and tax reform in 2015.

A scheduled review of the National Affordable Housing Agreement (NAHA) has not taken place and it is anticipated that the Government will use the federalism review process to consider the future of the National Affordable Housing Agreement and respective Commonwealth, State and Territory roles in funding and delivering housing programs and assistance. Given this, it is not anticipated that changes will be made to the NAHA prior to completion of the federalism review.

The National Partnership Agreement on Homelessness, extended for 12 months, is due to expire in June 2015 with no certainty about ongoing funding under that agreement. The future of the National Rental Affordability Scheme is also unclear with the 2014-15 Budget reducing funding in the forward estimates. Finally, the McClure Welfare Review final report has not been released but is likely to include recommendations for reform of Commonwealth Rent Assistance.

Housing markets are complex and the solutions are not simple, but the Commonwealth Government wields key policy levers that impact on the availability of affordable housing, not least through the tax system. ACOSS advocates a comprehensive affordable housing strategy which includes reform of housing taxation; direct investment in the growth of affordable housing stock and incentives for private sector and institutional investment in affordable housing; an increase in financial support to low income renters; and sustained support for homelessness services. The Commonwealth also has significant scope to influence the direction of housing reforms through conditions it can attach to National Partnership agreements. This is one way in which improved rental standards and tenancy regulation could be achieved across the country.

### 5.1 Reform housing taxation

Tax concessions for housing purposes are, at least in theory, designed to improve housing affordability. In practice they often have the opposite effect, inflating home prices and rents by encouraging over-investment in existing housing stock.

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<sup>60</sup> Kath Hulse, Margaret Reynolds and Judith Yates (2014): *Changes in the supply of affordable housing in the private rental sector for lower income households, 2006-2011*, AHURI



The tax benefits of 'negative gearing' are heavily skewed, providing ten and a half times the benefits to the top 20% of households (around \$3,800 a year) than they do to the lowest 20% (around \$364 a year).<sup>61</sup> Moreover, over 90% of investment in negatively geared housing stock applies to existing properties, thereby inflating housing costs and fuelling speculative booms in the housing market. This tax concession also skews investment in housing towards individual investors (rather than institutions) and towards investments yielding capital gains (rather than a stable rental income stream).

Deductions for expenses relating to passive investments in housing, shares, collectables and similar assets purchased after 1 January 2016 should be quarantined to offset income received from those assets, including capital gains realised on their subsequent sale. This is a first step to improving housing market outcomes and reducing the fiscal and social cost of this tax break. The proposed policy change would have a gradual impact on housing investment, as it would not apply to assets purchased before Budget night 2015.

## **5.2 Grow affordable housing stock**

To ensure the financial viability of low-rent housing, the Government should establish an Affordable Housing Growth Fund to increase the supply of affordable housing, through direct Government investment. It should also ensure that current funding under the rolling NAHA is indexed appropriately to ensure future adequacy.

## **5.3 Encourage private sector investment in new affordable rental housing stock**

The Government should encourage private sector and institutional investment in affordable housing stock, by maintaining and expanding a revised NRAS or similar incentive program into the future and exploring other innovative models to leverage private investment (e.g. housing bonds). Incentive schemes should be designed to enable investors to use a combination of different incentives to maximise growth in affordable housing stock. In tandem with reform of housing tax concessions, these changes should seek to achieve more consistent treatment of individual and institutional investors.

From 2009, when the first NRAS properties were delivered, up until June 2013, 14,575 low-rent properties had been completed, with over 38,000 projected at that stage to be delivered by April 2017.<sup>62</sup> The program has been consistently and dramatically oversubscribed, with high demand from potential investors. In the 2014-15 Budget, the Government discontinued incentive allocation and withdrew funding from Round 5 of the program, saving \$235 million over the forward estimates and resulting in a loss of 12,000 dwellings. Improvements to the program should be undertaken to build on its strengths and

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<sup>61</sup> Yates, J. (2009): *Tax expenditures and housing* Australian Housing and Urban Research Institute, Melbourne.

<sup>62</sup> Department of Social Services (2013): *NRAS monthly performance report – June 2013* Australian Government, Canberra.



ensure that we maintain and strengthen an incentive scheme to encourage private investment in affordable rental housing.

Housing supply bonds have been successful overseas in financing affordable housing and could play an important role in attracting private investment at scale in Australia. The model proposed by the Australian Housing and Urban Research Institute would involve a combination of Government funding and private bond finance indirectly subsidised through tax incentives and Government guarantees.<sup>63</sup> The costs of establishing such a scheme here have been estimated at \$25 million in the first year (\$145 million over the forward estimates), which could raise \$2 billion in bonds and generate 7200 new dwellings, in addition to the costs of setting up a housing finance intermediary (estimated at approximately \$10 million per annum).

#### **5.4 Increase financial assistance to low income renters**

Commonwealth Rent Assistance (CRA) provides important assistance to low income residents of private housing markets but has failed to keep pace with steep rental inflation, leaving many struggling to cope with high private rental costs. The McClure Welfare Review interim report recommended that CRA be reviewed to determine appropriate levels of assistance and the best mechanism for adjusting the value of payments over time. CRA should be increased to provide immediate relief to renters on low incomes, pending a review of the adequacy, indexation and impacts of CRA on housing sub-markets.

The National Commission of Audit report and the McClure Welfare Review interim report both flagged potential reform of CRA to extend eligibility to public housing tenants and reform rent setting policies. The National Commission of Audit (NCOA) indicated support for the replacement of direct Commonwealth Government investment in housing (including via the NAHA and NRAS) with expanded eligibility for CRA. While consideration should be given to reform of CRA it should not be seen as a substitute for Commonwealth investment in the growth of affordable housing stock, but as a complement to supply side investment.

#### **5.5 Maintain the level of funding to homelessness services**

Homelessness remains a serious social problem in Australia. Additional investment in homelessness services under the previous Government achieved a reduction in the number of rough sleepers, but with a growth in the number of people living in overcrowded dwellings, overall homelessness figures have remained the same. Further, an increasing number of older people are experiencing homelessness.<sup>64</sup>

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<sup>63</sup> AHURI (2014): 'How might bond finance expand affordable housing in Australia?', Issue 173, June 2014

<sup>64</sup> Council to Homeless Persons (2011): *Submission to Inquiry into the opportunities for participation of Victorian seniors*



The Transitional National Partnership Agreement on Homelessness (NPAH) is due to expire in June 2015. The lack of certainty around the NPAH is putting pressure on homelessness services' ability to plan for coming years and to reduce the instance and severity of homelessness. Unless the Commonwealth commits (at a minimum) to maintaining the current level of funding for homelessness services, we risk going backwards in our national efforts to end homelessness. The rollover agreement reduced the quantum of funding by \$44 million, by discontinuing funding for capital and research. Adequate long-term funding to meet the capital and research needs of the sector and ensure the maintenance of robust homelessness data should be secured in the negotiation of a long-term housing and homelessness agreement.

**Recommendation 36: Limit deductions for expenses relating to housing and other passive investments to income from the same asset**

The ability to reduce income tax liability by deducting expenses relating to housing investments (and other passive investments) should be limited to allowing deductions against the income received from those assets, including capital gains realised on subsequent sale. This should apply to all new investments of this type entered into after 1 January 2016.

Revenue: \$500 million (\$1,000 million in 2016-17)

**Recommendation 37: Establish a long-term Affordable Housing Growth Fund**

An Affordable Housing Growth Fund should be established with a commitment of \$750 million in the first year, growing to \$6,000 million over 5 years. This funding should be strictly designated for expanding the stock of affordable housing.

Program guidelines should enable housing providers to draw on a range of affordable housing programs to deliver maximum affordability and provide mixed tenure developments.

Cost: \$750 million in 2015-16 (\$900 million in 2016-2017)

**Recommendation 38: Review Commonwealth Rent Assistance and increase the maximum rate of CRA**

CRA should be reviewed to ensure that it best meets the needs of people who are on low incomes. As a first step, the maximum rate of CRA should be increased from 1 June 2015 by 30% (approximately \$22 per week) for low income households currently receiving the highest rate of CRA.

Cost: \$720.5 million in 2015-16 (\$759.6 million in 2016-17)



**Recommendation 39: Maintain funding for homelessness services and index to CPI or wage price index, whichever is highest**

That the Commonwealth commit to maintain the level of funding provided under the original NPAH (including research and capital costs), to be indexed to the CPI or the wage price index, whichever is higher.

Cost: \$160 million in 2015-16 (\$170 million in 2016-17)<sup>65</sup>

**Recommendation 40: Improve the adequacy of NAHA indexation**

That funds allocated under the NAHA be indexed to the level of the CPI on an ongoing basis, with the relevant proportion which funds staff indexed to wages.

Cost: \$33 million 2015-16 (\$34 million 2016-17)<sup>66</sup>

**Recommendation 41: Invest in the National Rental Affordability Scheme to increase the supply of affordable rental housing**

Funding for Round 5 incentives in the 2014-15 Budget should be reinstated to deliver 12,000 additional affordable rental dwellings and maintain investor confidence in the program.

Cost: \$36 million in 2015-16 (\$98 million in 2016-17)

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<sup>65</sup> This calculation is based on the funding for 2013-14 under the transitional agreement, indexed to CPI at 2.5%.

<sup>66</sup> This calculation is based on the difference between 2014-15 budget projections and CPI indexation estimated at 2.5%.





## 6 Supporting a strong civil society

If we have learnt anything from the response of the Australian community to the 2014-15 Budget, it is the importance of including the community in the process of setting our national priorities.

Policy is better designed and has a greater chance of success when it is supported by a broad cross-section of society, beyond the vested interests that advocate for or against certain elements. No priority setting exercise is more critical than the Federal Budget, whose priorities determine the services and supports funded by Government for people and communities in the year to come. This is a core expectation of a strong civil society and active, vibrant and independent community organisations are a key tool for meeting this expectation.

The merit of strong participation in the decisions that affect us socially and economically was evident again in the G20 process hosted by Australia in November. The message - long proclaimed by civil society – that growth must be *inclusive*, and that its success must be evaluated on this basis, has now been endorsed by governments around the world and by international institutions from the World Bank to the International Monetary Fund.

The 2015-16 Budget is an opportunity to show global leadership in the pursuit of inclusive growth. Inclusive growth will be measured by the extent to which we close the gap in social outcomes across income levels and lift people out of poverty. It will also be measured by the extent to which the decisions that underpin Australia's growth are informed by the involvement of a well-informed and engaged public, including:

- Budget priority setting: what should we prioritise for additional investment and where can we make savings while ensuring fairness;
- The design of our service system: which services should be available universally, and which targeted to particular groups;
- The level of social security that we regard as critical to maintaining human dignity; and
- Our collective priorities for infrastructure investment to meet the rapidly changing needs of our population, achieve more liveable communities and to benefit from the possibilities of technology and innovation.

We call on the Government to strengthen its commitment to inclusive growth through meaningful engagement with civil society about the supports and services that the Australian community hold to be essential; and how best we can pay for them through fair and sustainable taxation.

To do so, we recommend investment in the architecture of an active effective civil society, including through peak representative bodies and positions which ensure that the voices of otherwise marginalised groups are heard in public policy debates and decision-making processes.



**Recommendation 42: Provide adequate funding to national peak representative bodies for disadvantaged minority groups, including young people and refugees and asylum seekers**

Adequate funds should be provided to ensure representation of politically marginalised groups at the national level, including reinstatement of funds withdrawn in the 2014-15 Budget.

Cost: \$1 million in 2015-16 (\$1 million in 2016-17)

**Recommendation 43: Fund a fulltime Disability Discrimination Commissioner**

A fulltime Disability Discrimination Commissioner should be funded to enable effective representation of people with a disability both nationally and internationally.

Cost: \$300,000 (\$330,000 in 2016-17)

