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***Submission to the Senate Standing
 Committee on Education, Employment and
 Workplace Relations***

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

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1. Introduction

1. The St Vincent de Paul Society is a respected lay Catholic organisation operating in 148 countries around the world. In Australia we operate in every State and Territory with more than 50,000 members and volunteers committed to our work of social assistance and social justice. We are accountable to the people in our community who are marginalised by structures of exclusion and injustice.
2. On 29 June 2012, Mr Tim Watling, Inquiry Secretary invited a written submission from the St Vincent de Paul Society to the inquiry into the adequacy of Newstart and other allowances and changing labour market by 3 August 2012.
3. The Terms of Reference for the scope of the inquiry are as follows:
 - (a) the adequacy of the allowance payment system for jobseekers and others, with particular reference to the adequacy of the Newstart Allowance payment as an income support payment for jobseekers and the adequacy of all other allowance payments that support a range of recipients who study or provide care;
 - (b) the appropriateness of the allowance payment system as a support into work, with particular reference to:
 - (i) the effectiveness of the payment as an incentive into work,
 - (ii) the effectiveness of the allowance payment system in facilitating transitions between working and other activities, such as studying, caring and retirement, or in the event of illness or disability, and in helping or hindering recipients to overcome barriers to employment, and
 - (iii) the impact of the differences between pensions and allowances on the transition between working and other activities; and
 - (c) the impact of the changing nature of the labour market, particularly the rise of insecure work and decline of unskilled jobs, on the:
 - (i) nature and frequency of individual interaction with the allowance payment system, and
 - (ii) over and underpayment of allowances to recipients.
4. The National Council of the St Vincent de Paul Society (“the Society”) takes this opportunity to make comment on the Terms of Reference.

2. Executive Summary

5. The St Vincent de Paul Society has long advocated for an increase to the Newstart allowance of \$50 per week, and we welcome the government's willingness to hold an inquiry into the adequacy of Newstart and other allowance payments.
6. We believe that the social welfare system has a strong part to play in promoting greater social equity and reducing poverty in Australia. However, for too long Governments have heeded to populist approaches to welfare and as a result the system has faltered, and many Australians now live below the poverty line.
7. In summary, we recommend that the Committee taking the following action:
 - (a) Find that the Newstart Allowance is inadequate.
 - (b) Urge the government to increase the Newstart Allowance by \$50 per week, and that it be indexed to wages as well as CPI.
 - (c) Urge the government to establish an independent statutory body to determine, report on or provide advice about the adequacy of the allowance payment system (which includes the Age Pension, Carer Allowance, Newstart Allowance, Parenting Payment, Youth Allowance) and other benefits provided by the Department of Human Services.
 - (d) Find that the parenting payment and the disability support pension are inadequate and urge the government to increase those income support payments.
 - (e) Find that the current Newstart Allowance rates operate as a disincentive to work.
 - (f) In light of the changing labour market and rise of insecure work, urge the government to take the following steps in relation to Newstart payments:
 - (i) Provide greater security by allowing all income support recipients to remain on the Centrelink system for 12 months after commencing paid work. Therefore, if people became unemployed again (because of insecure work or otherwise), they would not have to go through an onerous re-application process and would not be subject to the ordinary waiting periods for the allowance.
 - (ii) Abandon the system that allows Centrelink payments to be withheld for eight weeks if it is determined that the income support recipient became unemployed due to a "voluntary act".
 - (iii) Examine the ways to make income reporting requirements more flexible for income support recipients engaged in intermittent work.
 - (iv) Allow income support recipients entering paid work to retain their health care and pensioner concession cards for 12 months after job entry.

3. The adequacy of the allowance payment system (a)

Newstart is inadequate

8. The Society believes that the current rate of the Newstart allowance is inadequate for many reasons.
9. The current Newstart allowance for a single adult is \$35 per day, or \$245 per week. This rate has not been increased in real terms for 20 years.
10. The rate for single persons is now less than 50% of the full-time minimum wage and is the lowest unemployment payment, relative to wages, in the OECD.¹ As at 2009, the payment for a single person on Newstart was approximately 36% of the median income of a single person in Australia.² If the disparity between median incomes and the Newstart allowance is allowed to grow into the future it is estimated that by 2050 a single unemployed person will be receiving a payment of approximately 11% of the average male wage.³
11. Furthermore, 62% of Newstart recipients pay over 30% of their income in housing costs, placing them under “housing stress”.⁴ Contrary to popular thought, Newstart recipients are not eligible for many other supplementary payments. In fact, they likely only to be eligible for rent assistance, the maximum rate being \$56 per week.
12. We believe that rent assistance is also inadequate. For example, rent assistance only covers 17% of the median rental price in the cheapest capital city in Australia, being Hobart at \$320⁵ per week. For Newstart recipients in Sydney rent assistance would only cover 11% of the median⁶ rental price.
13. The inherent poverty trap facing Newstart recipients was aptly described in Crikey in that “we’ve set up a system where the poor actually have to pay *more* for most things”⁷. For example, if public transport is available where people live, then it usually costs more (as they typically live further out from the cities), and is much sparser and less frequent. If indeed, Newstart recipients run a car, it will usually be older and is likely to cost more to run. Credit costs more, in particular small amount short-term credit contracts where the interest payable may sometimes be in excess of 50%. They cannot lower their bills by taking advantage of government assistance for things like solar panels or water tanks, because they don’t own their own house.
14. Finally, a survey of Newstart recipients has found that they had an accurate perception of their own deprivation. Surveyed Newstart recipients have said that:

¹ Peter Whiteford, *Global trends in poverty and inequality: the Australian welfare system in an age of uncertainty* (29 March 2012), Presentation to ACOSS National Conference
<<http://www.acoss.org.au/uploads/Peter%20Whiteford%20PDF.pdf>>.

² Ibid, page 16.

³ Ibid, page 17.

⁴ ACOSS, *\$35 a day: not enough to live on*, (March 2012), Factsheet
<http://acoss.org.au/images/uploads/Newstart%20Allowance%20brochure%20FINAL_March%20version.pdf>.

⁵ Sonja Koremans, *Rental squeeze hits in Australian capital cities* (20 January 2012), News.com.au online,
<<http://www.news.com.au/money/property/rental-squeeze-hits-in-australian-capital-cities/story-e6frfmd0-1226249371833>>.

⁶ \$500 per week, see: Ibid.

⁷ Jeremy Sear, *Nobody said “NewStart” should be “comfortable”, Malcolm – but it should be sufficient to survive*, (17 April 2012), Crikey online, <<http://blogs.crikey.com.au/purepoison/2012/04/17/nobody-said-newstart-should-be-comfortable-malcolm-but-it-should-be-sufficient-to-survive/>>.

- (a) 60% identify themselves as poor;
- (b) 50% do not have \$500 in emergency savings;
- (c) 40% are unable to pay utility bills;
- (d) 44% lack access to dental treatment; and
- (e) 65% are unable to afford a week's holiday away from home a year.⁸

Consumer Price Index is not a real indicator of the real cost of living

15. The inadequacy of Newstart is compounded by its indexation to the Consumer Price Index (CPI), which we have previously advocated is not a real cost of living:

The CPI is a national average, but the basket of goods and services on which the poor and disadvantaged rely is in many areas significantly higher than average.⁹

16. The CPI gives a very general indication of trends in inflation but not the cost of living. In some years CPI decreases because of a reduction in costs of overseas holidays, luxury clothing, jewellery etc, which are not typically accessed by people on low incomes, such as those on Newstart. Nevertheless, those reductions help offset the rising costs of education, energy supplies, health and transportation, which have a much greater impact on people with low incomes.

17. For example, in the year 2000, the CPI decreased following the impact of lower prices on luxury goods resulting from the abolition of the Whole Sales Tax (WST). However, people on low incomes do not buy luxury goods and so they did not share in the benefits of the CPI decrease.¹⁰

Why has Newstart not been increased?

18. In 1980, the Age and Disability Support Pensions and the Newstart Allowance payments were the same, at \$58 a week. Following the Harmer Pension review in 2009 there was an increase to pensions, but not to the Newstart. In 2010, the Henry Taxation Review recommended that an increase of \$50 per week be given to Newstart recipients. This has not occurred.

19. We believe that part of the reason the Newstart has not increased is due to the misrepresentation and denigration of the welfare system in Australia by successive governments and media, the focus of which has been on "welfare fraud"¹¹. However, the level of fraudulent access to income payments is negligible¹² compared to the amount of people in receipt of income supports payments and benefits.

⁸ ACOSS, *Who is missing out? Material deprivation and income support payments*, (March 2012), <http://acoss.org.au/images/uploads/Missing_Out_2012_ACOSS.pdf>.

⁹ Terry McCarthy and John Wicks, *Two Australias: addressing inequality and poverty* (2001), St Vincent de Paul Society, page 23.

¹⁰ Terry McCarthy and John Wicks, *Two Australias: addressing inequality and poverty* (2001), St Vincent de Paul Society, page 23.

¹¹ See for example the Centrelink fraud tip off line, where only 2% of the tip-offs resulted in further investigation by Centrelink: Patricia Karvelas, *Minimal calls to welfare fraud line investigated* (19 April 2012), The Australian online, <<http://www.theaustralian.com.au/national-affairs/minimal-calls-to-welfare-fraud-line-investigated/story-fn59niix-1226332105656>>.

¹² Ibid.

20. Governments have also propagated “long-term welfare reliance” to condemn welfare recipients as the agents of their own disadvantage, irrespective of the vicissitudes of life, cyclical poverty or imbedded structural and social inequality. The change in attitude by governments to social welfare is described by Dr Philip Mendes as the carrot and the stick approach:

The government response to unemployment has been to apply both the carrot and the stick. The carrot includes the availability of wage subsidies and incentives to relocate to locations of higher employment opportunity...The sticks include many of the mutual obligation measures introduced by the previous Coalition Government such as work for the dole, payment breaches, dole diaries, employment pathway plans, and other punitive measures intended to pressure the unemployed to end their supposed dysfunctional reliance on income security. According to the recent study by John Murphy and his colleagues (2011) based on two rounds of interviews with income security recipients, many are treated as second class citizens. Interviewees frequently described Centrelink as a source of arbitrary power, anxiety, fear, and intimidation and humiliation that undermined individual agency, and failed to provide a basic level of respect to its clients. The sticks seem to fall most heavily on the most disadvantaged groups such as Indigenous Australians, and only serve to divert responsibility for these groups from the government to NGO emergency relief and crisis support services. Somebody has to repair the collateral damage.¹³

21. We believe that the welfare system as a whole must be viewed as a crucial, essential and worthy function; the essence which is to assist the aged, children, the disabled, the unemployed, single parents the mentally ill etc, to have access to the basics of living. More importantly, it must be seen as a system that promotes greater equity.
22. Therefore, it is not enough to have a welfare system that operates but that does not provide adequate access to the very **basic** costs of living.

Independent Tribunal

23. The politicisation of the issue of welfare over the last 30 years has led to a distortion of the perception of importance of welfare and about the integrity of those in receipt of welfare. Resultantly, people on unemployment payments have had a zero real increase in benefit levels.¹⁴ In our view, due to the potential danger of distortions by Governments (and media) about the functioning of the welfare system and negative perceptions of unemployed people, the determination of the level of unemployment payments should be conducted by an independent statutory body, similar to the Australian Government Remuneration Tribunal.

Recommendation

24. That the Committee:
- (a) Find that the Newstart Allowance is inadequate;
 - (b) Urge the government to increase the Newstart Allowance by \$50 per week and that it be indexed to wages as well as CPI; and
 - (c) Urge the government to establish an independent statutory body to determine, report on or provide advice about the adequacy of the allowance payment system (which includes the Age Pension, Carer Allowance, Newstart Allowance, Parenting

¹³ Dr Philip Mendes, *Australia's income security system and the abandonment of equity* (9 May 2012), Address to community forum on Newstart <<http://www.stkch.org.au/wp-content/uploads/Philip-Mendes-Presentation.pdf>, pages 3-4.

¹⁴ Peter Whiteford, *Global trends in poverty and inequality: the Australian welfare system in an age of uncertainty* (29 March 2012), Presentation to ACOSS National Conference <<http://www.acoss.org.au/uploads/Peter%20Whiteford%20PDF.pdf>>, page 18.

Payment, Youth Allowance) and other benefits provided by the Department of Human Services.

The inadequacy of other payments

25. We have previously submitted that the parenting payment itself is currently inadequate (and will only lead to further deprivation of single parents if moved to the much lower Newstart by way of the Social Security Legislation Amendment (Fair Incentives to Work) Bill 2012¹⁵). We also believe that Disability Pensions and Aged Pensions are inadequate.
26. The poverty lines as set by the Melbourne Institute of Applied Economic and Social Research set the poverty lines for the March 2012¹⁶ quarter as follows:

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

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

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

Notes:

- ^a A married couple without children receiving Allowances is assumed to be receiving Newstart Allowance.
^b A married couple without children receiving Pensions is assumed to be receiving the Age Pension or Disability Support Pension.
^c A married couple with children receiving Allowances is assumed to be receiving Newstart Allowance or Parenting Payment Partnered.
^d A single person receiving an Allowance is assumed to be receiving Newstart Allowance.
^e A single person receiving a Pension is assumed to be receiving the Age Pension or the Disability Support Pension.
^f A sole parent is assumed to be receiving Parenting Payment Single.
^g All basic payments for Pensioners include the maximum applicable Pension Supplement.
^h Total income is the sum of allowances, pensions and benefits for persons who have no other income. To be comparable with the poverty lines, total income reported should be net of personal income tax. However, allowing for offsets/rebates, no income tax would be payable for welfare recipients who received no other income. Hence, direct comparisons of total income with the poverty lines are valid.
ⁱ Poverty lines for single persons and married couples with up to four children are shown here, inclusive of housing costs. For recipients of allowances, the income unit head is assumed to be in the workforce, since recipients of the most common allowance, Newstart Allowance, are usually required to search for employment to be eligible for payment. For pensioners and sole parent families, costs are based on poverty lines for income units where the head is not in the workforce.

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27. The above figures indicate that single parents, pensioners and Newstart recipients (without rent assistance and family tax benefits) are all living below the poverty line. Indeed, pensioners and single parents live just above the poverty line with the addition of rent assistance and family tax benefits.
28. Furthermore, a study by Saunders and Wong found that people living on social security payments had very accurate perceptions of whether they are living in poverty, which is

¹⁵ See: St Vincent de Paul Society, Submission No 34 to Senate Standing Committee on Education, Employment and Workplace Relations, *Inquiry into the Social Security Legislation Amendment (Fair Incentives to Work) Bill 2012*, July 2012.

¹⁶ Melbourne Institute of Applied Economics and Social Research, *Poverty lines: Australia, March quarter 2012*, (22 June 2012), University of Melbourne,

<http://melbourneinstitute.com/downloads/publications/Poverty%20Lines/Poverty-lines-Australia-March-2012.pdf>.

measured by “multiple deprivation”. People reliant on Newstart, the parenting payment and the disability support pension “were far more likely to miss out on the essentials of life than recipients of other income support payments and the community at large”,¹⁷ and suffer deprivation by income.¹⁸

Recommendation

29. That the Committee:

- (a) Find that the parenting payment and the disability support pension are inadequate, in addition to the Newstart Allowance; and
- (b) Urge the government to increase those income support payments.

4. The appropriateness of the allowance payment system as a support into work (b)

Effectiveness of the payment, is it an incentive to work? (i) and effectiveness of the allowance payment system in facilitating transitions between working and other activities (ii)

30. We have previously submitted¹⁹ that the Newstart allowance has reached such abominably low levels that it now operates as a disincentive to work.
31. If Newstart recipients do not have the means to pay for basics such as the cost of utilities, they certainly cannot afford the basics for seeking employment, such as clothing for interviews, computers for the development of CVs and transport to and from job interviews.
32. Illustrating the ineffectiveness of Newstart in facilitating opportunities for work is a letter received in 2011 by the Society from a young man living in Queensland:

I rent a single bedroom unit for \$200 per week.

Around five weeks ago, I was retrenched from my job of four years. I was retrenched from my job of four years. I do not own a car and do not have sufficient funds to purchase a car. Public transport being what it is around here makes finding work very hard. In fact, one job I applied for that I got an interview for I had to knock back as I realised that I could not get to the place of employment via public transport.

With Centrelink payments and rent assistance I would get around \$295 per week. I need power of course, and a phone, and I use the internet to help find work ... so without even thinking about food, clothes, transport etc ... I have around \$40 a week to live on after I pay for internet, phone, power and rent.

Now I'm in a situation where I can't afford to live here so I am thinking of going back to Tasmania to live with my mother as I just can't find affordable accommodation here, because the Government in its wisdom doesn't pay a single person enough to exist on their own, I find I have to move to a state with less job prospects. Lucky for me my family is there because moving to a place of less job prospects can result in your payments getting cut off (moving to live with relatives is ok).

¹⁷ ACOSS, *Who is missing out? Material deprivation and income support payments*, (March 2012), <http://acoss.org.au/images/uploads/Missing_Out_2012_ACOSS.pdf> page 3.

¹⁸ Peter Saunders and Melissa Wong, *Material Deprivation in Australia: Recent Trends and Implications* (29-30 March 2012), Presented to the ACOSS National Conference, <<http://www.acoss.org.au/uploads/Melissa%20Wong%20Presentation.pdf>> page 11.

¹⁹ St Vincent de Paul Society, *Submission to the Independent Inquiry on Insecure Work*, (January 2012), <<http://www.vinnies.org.au/files/NAT/SocialJustice/2012/Insecure-work-submission.pdf>> page 5.

I am currently on Newstart sickness benefits for anxiety and depression brought on by my situation.

I don't know what to do ... it all seems a bit too hard ... keep going I guess ... that's all you can do ...

33. Furthermore, research shows that the ultimate goal of Newstart Allowance recipients is to find full-time work²⁰, however it is not due to their lack of “incentive to work”, but due to certain workforce barriers that operate to exclude those people from working, including: housing instability or homelessness, health problems, disability, lack of education or literacy, lack of adequate transport, unaffordable childcare etc.
34. In our view for any allowance payment to be an incentive to work and to facilitate the transition between periods of unemployment, it must be adequate to cover the necessities of obtaining work and must be adaptive to the changing nature of the labour market (discussed at 5 below).

Recommendation

35. That the Committee find that the current Newstart Allowance operate as a disincentive to work.

5. The impact of the changing nature of the labour market on Newstart Allowance payments particularly, the decline of unskilled jobs and the rise of insecure work

36. It has been observed²¹ that Newstart Allowance recipients stayed on the income support system to manage the risk of the low-paid labour market and often found income support rules inflexible.
37. Due to the increase of insecure work, a study has shown that many people on Newstart weighed up the security of the potential work against the risk of becoming ineligible for income support in the future. The factors that Newstart recipients took into consideration about whether to enter into the labour market or stay on the Newstart allowance included:
 - (a) The unreliability of casual work and the implications of irregular and uncertain shifts.²² In particular the risk of taking up irregular casual work without a guaranteed quickly reactivated safety net²³ and the view of Centrelink as “painful” and incompatible with short-term work as it requires a person to reapply once a job ceases. This often left a gap between the termination of employment and the recommencement of income support payments.²⁴
 - (b) The penalty under Centrelink’s rules for income support recipients it regards as having left work “voluntarily” or due to “misconduct”. Centrelink guidelines regarding “Unemployment Non-payment Periods” require staff to consider the “reasonableness” of the income support recipient’s decision, having regard to whether the work was unsafe or unreasonable demands were placed on the person.

²⁰ Eve Bodsworth, *Making work pay and making income support work* (March 2010) <http://www.bsl.org.au/pdfs/Bodsworth_Making_work_pay_2010.pdf> page 8.

²¹ Ibid, page vii.

²² Ibid, page 26.

²³ Ibid.

²⁴ Ibid.

However, this system does not consider that many of the jobs available for unskilled workers are likely to be onerous, physically demanding and low-paid. They are also more likely to place employees in a vulnerable position in relation to unreasonable demands or harassment from employers.²⁵

- (c) That Centrelink's reporting requirements and income calculations are unsuited to non-standard forms of work.²⁶
- (d) The loss of health care and pensioner concession cards.

38. The above clearly indicate the shortcomings of the Newstart in the changing nature of the labour market.

Recommendation

39. The Society believes that the Committee should adopt the following recommendations as suggested in the 2010 study and urge the government to:

- (a) Provide greater security by allowing all income support recipients to remain on the Centrelink system for 12 months after commencing paid work. Therefore, if people became unemployed again (because of insecure work or otherwise), they would not have to go through an onerous re-application process and would not be subject to the ordinary waiting periods for the allowance.
- (b) Abandon the system that allows Centrelink payments to be withheld for eight weeks if it is determined that the income support recipient became unemployed due to a "voluntary act".
- (c) Examine the ways to make income reporting requirements more flexible for income support recipients engaged in intermittent work.
- (d) Allow income support recipients entering paid work to retain their health care and pensioner concession cards 12 months after job entry.

Dr John Falzon

Chief Executive Officer

National Council of the St Vincent de Paul Society

²⁵ Ibid, page 27.

²⁶ Ibid, page 28.