



11 December 2013

Senator Sue Boyce
Chair
Senate Community Affairs Legislation Committee
Parliament House
Canberra ACT 2600

Email: community.affairs.sen@aph.gov.au

RE: Inquiry into the *Social Services and Other Legislation Amendment Bill 2013*

Dear Senator Boyce,

The National Welfare Rights Network (NWRN) appeared before the inquiry into the *Social Services and Other Legislation Amendment Bill 2013* on 10 December 2013.

The following comments are in response to the evidence that we presented to the Committee.

Schedule 5: Interest charge

The National Welfare Rights Network opposed the schedule in its current form. NWRN only supports the passage of Schedule 5, if there is major amendment, the most important being the introduction of discretion not to apply penalty interest, including where there is reasonable excuse.

The following are our recommendations to ensure there are adequate protections in the bill.

1. Insertion of a general discretion not to apply the penalty, mirroring existing section 1229AA(1).

2. Insertion of a similar provision to 1229E(3) for s1229F (failure to comply with or termination of repayment arrangement) allowing the Minister to proscribe an instrument declaring situations where 1129F(1) will not apply.
3. Removal of the provisions 1229D(2) and 1229D(3) enabling the Minister to extend the new penalty interest regime beyond student debts.
4. 1229F(2) should be amended to end the penalty period when a person re-enters or enters a new arrangement and makes a repayment.
5. Consultation with the National Welfare Rights Network and other relevant stakeholders on the drafting of the Ministerial Instrument as envisaged by s1229E(3) and the development of policies for implementation of the penalty.

We also wish raise two additional comments on this schedule.

The first matter concerns the scope for widening the application of the penalty provision to other former Centrelink recipients with outstanding debts. A number of submitters expressed concerns that the interest penalty could, in future, be extended to other groups of debtors. We understand that there are about 12,000 outstanding student debts.¹

Information from Senate Estimates indicates that there was 323,737 debtors at December 2011, with an outstanding debt base of \$1.16 billion. This amount includes both Centrelink payments and Family Tax Benefit A and B overpayments. The majority were Centrelink overpayments, with \$930 million in overpayments from 270,395 debtors.²

The second issue concerns the raising of penalty interest on former Abstudy recipients, given the high rates of payment inaccuracy for this payment.

We draw attention of the Committee to most recent findings on the 2012-13 Department of Employment, Education and Workplace Relations *Random Sample Survey Program*.

This program is a point in time survey, which is designed to establish the value of outlays and the accuracy of payments, and it provides a 'benchmark data on the level of inaccurate payments'.³

For the 2012013 year, the sample revealed an accuracy rate for Abstudy Payment of just 86.5% (with a margin for error of 2.6%).⁴

¹ Briefing to Welfare Rights from the *Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education*, December 2012.

² Senate Community Affairs Legislation Committee, Additional Budget Estimates, 16 February 2012, *Answers to Questions on Notice, Human Services Portfolio, HSW 10*.

³ Department of Employment, Education and Workplace Relations. *Annual Report 2012-13*, p. 52.

⁴ *Ibid*, p. 53.

This represents an error rate for one-in-seven Abstudy payment recipients in a 12 month period.

Given this rate of incorrect payments, we believe that it will be profoundly unfair in some cases for the Department of Human Services to raise and recover overpayments, and also impose a high rate of interest on these debts. This is an especially questionable practice when we factor in that very few young Indigenous people access the review and appeals system and question the decision to raise the overpayment in the first place.

Schedule 6: Student start-up loans

From 1 January 2014, the student start-up loans are to be income-contingent, and there will be a limit of two loans a year of \$1,025 each (indexed). The loans will be repayable under similar arrangements to Higher Education Loan Program debts. Students will only be required to begin repaying their start-up loan after their Higher Education Loan Program debt has been repaid.

Grandfathering arrangements will apply, so that recipients who received a student start-up scholarship or Commonwealth Education Costs Scholarship prior to 1 January 2014, and have remained continuously on student payments, will continue to be eligible to receive the student start-up scholarship, as a grant, until coming off student payments.

In our evidence to the Committee, we noted that the Government is expected to reap savings in excess of \$1.2 billion over five years from this measure alone. We indicated the importance of the current start-up scholarships as supplementation to low and inadequate rates of student income support. A person in receipt of the maximum rate of Youth Allowance receives just \$29 per day. Students may receive Rent Assistance, though if sharing the rate is reduced to maximum weekly amount of around \$40 per week.

The student start-up scholarships provide valuable, essential assistance for students with the costs of study, including the purchase of text books, computers and internet access.

Increasing levels of debt and financial stress is evident in recent research on the financial circumstances of students.

Welfare Rights notes the recent study, *University student finances in 2012*, which reports on the current financial stressors facing both domestic and international students. Published by Universities Australia, it finds that students are experiencing much greater levels of financial stress than ever before, with over two-thirds of students expressing concern about their financial situation. The report notes students that are experiencing the most extreme and severe financial distress are

from poor families and Indigenous backgrounds.

Welfare Rights recognises that existing financial pressures from combining study and work can weigh heavily on families who are unable to offer additional financial support to continue in higher education. It is a reasonable proposition that the changes to the start-up loans, and the further loading even more debt upon already vulnerable students may influence both the decision to start a course, or to continue in an existing course.

The Government has flagged a review of existing social security arrangements. The issue of rates of income support for people studying and receiving Youth Allowance or Abstudy must be considered in this review.

The introduction of a deferred loans scheme into Social Security legislation represents a major departure from previous Australian social security arrangements. Additionally, it sets a significant precedent for the introduction of this form of long term debt for other vulnerable people who rely on social security payments.

Schedule 12: Extending the deeming rules to account-based income streams

Senator Siewert sought comments on Financial Planning Association of Australia submission on the schedule to align the income test treatment of account-based income streams from 1 January 2015.

Unfortunately, time constraints do not allow us to comment on this submission. However, we understand that the Australian Council of Social Services and the Council on The Ageing have provided comments on this schedule.

Evaluating and monitoring impacts of the reforms

NWRN notes that the Bill contains no plans to evaluate the reforms contained in this legislation. NWRN urges the Committee to outline plans to monitor and evaluate the any changes to interest charges and the start-up loans scheme.

Please do not hesitate to contact me to discuss this submission.

Regards,

Maree O'Halloran
President
National Welfare Rights Network