

# CHAPTER 3

## The adequacy of Newstart Allowance and related issues

3.1 The committee received and considered a large body of evidence concerning the adequacy of the allowance payment system, much of it focused and unambiguous in its criticism of Newstart Allowance. Very early on in this inquiry, it became clear that this payment was the main point of stakeholder concern.

3.2 This chapter looks at arguments presented by submitters challenging the adequacy of allowance payments and examines whether the Newstart Allowance payment is fit for purpose.

3.3 The second part of the chapter examines the budgetary implications of raising the allowance and identifies ways in which the resulting concerns could be addressed.

### Measuring adequacy

3.4 At its core this inquiry relates to whether a person dependent on income support can meet their basic, everyday living costs in a manner acceptable in the Australian context. Adequacy is, therefore, about more than the ability to simply pay for food and shelter. As put by the Business Council of Australia:

Adequacy refers to the minimum standards required to meet basic needs and sustain some level of social engagement.<sup>1</sup>

3.5 The overwhelming majority of submissions expressed the view that the current rate of payment was inadequate, impeding recipients' ability to meet their basic costs of living in an acceptable manner.

3.6 The scope of this report being too limited to do every submission justice, a few examples are cited below. These reflect the flavour and unanimity of the large number of submissions received.

3.7 The Salvation Army summed up its views thus:

The Salvation Army...asserts that the current payment system does not provide recipients with adequate income, as defined by internationally recognised human rights standards, to meet even the most basic of underlying essential guarantees for social support systems.

The Salvation Army believes that significant inequity has developed between Australian receiving different forms of income support allowances, and that this has resulted in unacceptable levels of disadvantage and further entrenched individuals and families in poverty.<sup>2</sup>

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1 Business Council of Australia, *Submission 46*, p. 3.

2 The Salvation Army, *Submission 25*, p. 4.

3.8 Mission Australia pointed to the maximum fortnightly rate of Newstart Allowance for a single person being less than half the Australian minimum wage. Research cited by the submission estimates that, after rent, the average single Newstart recipient living in Sydney is left with approximately \$16.50 per day to cover all other costs of living.<sup>3</sup>

3.9 ANGLICARE Sydney not only considered the allowance inadequate, but went so far as to call Newstart 'the most significant barrier to assisting long-term unemployed people return to meaningful employment.'<sup>4</sup>

3.10 In a joint submission, Community Information and Support Victoria and Good Shepherd Youth and Family Service came to the stark conclusion that Newstart Allowance was now so low that it has become a pathway to poverty instead of to employment.<sup>5</sup>

3.11 The views above were by no means unique. Submission after submission stated that allowance payments were inadequate, and many supported calls from welfare agencies such as the Australian Council of Social Service and UnitingCare Australia for allowance payments for single people to be increased by \$50 per week.<sup>6</sup>

3.12 However, the needs and realities facing people living on income support are many and varied.

3.13 The committee is cognisant of the fact that the allowance payment system interacts with and supports many different groups of people. When thinking of Newstart Allowance, it is easy to think of people of working age who are unemployed. However, it is important to remember that Newstart recipients include older Australians, people who were formerly on different pensions, single parents with children and families with two unemployed adults. Newstart recipients can be people on the fringes of society, who need tremendous support to reintegrate into the community:

Jesuit Social Services works with people involved in the justice system, individuals with drug and alcohol problems, those affected by mental illness, young people at risk of homelessness, as well as refugee and newly arrived migrants. Many of these individuals are recipients of allowance payments. The inadequacy of allowances often presents a barrier which hinders the ability of our clients to realise their aspirations and more fully participate in the life of the community.<sup>7</sup>

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3 Mission Australia, *Submission 33*, p. 4.

4 ANGLICARE Sydney, *Submission 21*, p. 5.

5 Community Information & Support Victoria and Good Shepherd Youth & Family Service, *Submission 13*, p. 11.

6 Australian Council of Social Service, *Submission 64*, p. 43; UnitingCare Australia, *Submission 12*, p. 3; Macarthur Future Food Forum, *Submission 14*, p. 2; United Voice, *Submission 49*, p. 3.

7 Jesuit Social Services, *Submission 27*, p. 6.

3.14 As put by Jesuit Social Services, the allowance payment system is part of a 'broader framework of institutions and support services that promote a more inclusive society by providing a basic safety net for members of our community.'<sup>8</sup>

### *Singles*

3.15 Many submissions argued that single recipients of Newstart Allowance, both with and without dependents, were the group in greatest financial hardship, as they receive the lowest rate of payment and least additional assistance.<sup>9</sup> The Australian Council of Social Service (ACOSS) pointed out that the maximum single rate for Newstart was \$245 in March 2012, or \$133 less per week than the rate of payment for singles on the age and disability pensions.<sup>10</sup>

3.16 Single parents also receive less on Newstart Allowance than on the Parenting Payment Single (PPS). This last point is of particular concern given the government's introduction of the Social Security Legislation Amendment (Fair Incentives to Work) Bill 2012 in June of this year. This legislation changed eligibility requirements for Parenting Payment (PP) from 1 January 2013, with parents who no longer qualify for PP to be moved onto Newstart Allowance instead. For parents coming to Newstart Allowance from PPS, this will mean a lower rate of payment.

3.17 The joint submission described how the income required by various types of households may be determined:

A commonly cited approach to determining the amount of income that different households require to attain the same living standard is the OECD Modified Equivalence Scale. The scale is calculated by adding together a factor of 1 for the first adult and a factor of 0.5 for each subsequent person aged 14 and over and 0.3 for each child under 14 for a particular household. Once this sum has been calculated, a household's disposable income can then be divided by the scale, providing an equivalent to a single person's income, facilitating comparison between different household types.<sup>11</sup>

3.18 The difference in rates of payment for single and partnered recipients reflects the economies of scale that are achieved by sharing living costs with another person. The OECD modified equivalence scale described above suggests that:

...an appropriate relativity for the single rate of allowances would be approximately two-thirds of the combined couple rate.<sup>12</sup>

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8 Jesuit Social Services, *Submission 27*, p. 5.

9 See for example Australian Council of Social Service, *Submission 64*; Australian Human Rights Commission, *Submission 43*; Jesuit Social Services, *Submission 27*; Business Council of Australia, *Submission 46*; and Professor Peter Whiteford, *Submission 60*.

10 Australian Council of Social Service, *Submission 64*, p. 5.

11 Department of Education, Employment and Workplace Relations; the Department for Families, Housing, Community Services and Indigenous Affairs, the Department of Human Services and the Department of Industry, Innovation, Science, Research and Tertiary Education, *Submission 38*, p. 100 (Hereafter '*Submission 38*')

12 *Submission 38*, p. 100.

3.19 This is the relativity settled on for single and partnered pension rates settled on following the Harmer Review. However, the agencies explained, a set relativity between single and partnered Newstart Allowance rates does not exist. The committee understands that this relativity currently sits at approximately 55 per cent and that its alternation would require a change in policy.<sup>13</sup>

### ***Older Australians on Newstart Allowance***

3.20 Australia has an ageing labour market. Whereas in 1983 approximately 56 per cent of 45–64 year olds were in the labour force, by 2003 that percentage had risen to 69 per cent. We are now, therefore, seeing the emergence of a growing and vulnerable group of older people seeking employment.<sup>14</sup>

3.21 This cohort faces unique obstacles:

Age discrimination and disability discrimination is rife in Australia, and is acknowledged as a major barrier to the employment of people in mature age. Once unemployed, older people find it very difficult to find work again. Their average time spent on NSA is 70 weeks; double that of their younger peers.<sup>15</sup>

3.22 Given that the qualifying age for receipt of the Age Pension is set to increase to age 67 by 2023, the number of older Australians in the labour market will continue to expand.

3.23 Australia's ratification of the *International Covenant on Economic Social and Cultural Rights* (ICESCR) carries obligations to provide all citizens the right to social security, work, and technical and vocational training.<sup>16</sup> These rights are echoed in the United Nations *Principles for Older Persons*, which Australia supports and which promotes the rights of the older person:

- to work or access other income-generating opportunities;
- to participate in determining when, and at what pace, to withdraw from the labour force; and
- to access educational and training opportunities.<sup>17</sup>

3.24 Older workers, the AHRC advised, face particular obstacles to finding employment. These obstacles are such that older Australians in the labour force are far more likely to be long-term unemployed than their younger counterparts, with 33 per cent of unemployed 55–64 year olds being long-term unemployed in 2010–11. This

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13 *Submission 38*, p. 100.

14 Australian Human Rights Commission, *Submission 43*, p. 4.

15 National Welfare Rights Network, *Submission 68*, p. 11.

16 Australian Human Rights Commission, *Submission 43*, p. 4.

17 Australian Human Rights Commission, *Submission 43*, p. 4.

percentage fell to 22 for unemployed people aged 35–44, and to 13 per cent for unemployed 15–24 year olds.<sup>18</sup>

3.25 Mr Dennis Trewin, Chair of the Academy of Social Sciences in Australia, provided the committee with the following table, depicting a breakdown of Newstart recipients by age and gender:<sup>19</sup>

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**JOB SEEKERS RECEIVING NEWSTART ALLOWANCE AND YOUTH ALLOWANCE (OTHER) BY AGE AND SEX, AS AT MAY 2012**

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Age	Short-term job seekers		Long-term job seekers		Total job seekers	
	Number	Per Cent	Number	Per Cent	Number	Per Cent
<b>MALES</b>						
Less than 18 years	1,150	1.2	1,087	1.0	2,237	1.1
18 - 20 years	6,183	6.3	9,805	9.1	15,988	7.8
21 - 24 years	18,107	18.4	17,440	16.1	35,547	17.2
25 - 29 years	16,483	16.8	16,382	15.2	32,865	15.9
30 - 39 years	23,698	24.1	24,753	22.9	48,451	23.5
40 - 49 years	17,383	17.7	19,848	18.4	37,231	18.0
50 - 59 years	11,373	11.6	13,676	12.7	25,049	12.1
60 years and over	3,868	3.9	5,048	4.7	8,916	4.3
<b>Total</b>	<b>98,245</b>	<b>100.0</b>	<b>108,039</b>	<b>100.0</b>	<b>206,284</b>	<b>100.0</b>
<b>FEMALES</b>						
Less than 18 years	1,098	2.2	1,282	1.7	2,380	1.9
18 - 20 years	5,074	10.2	9,726	13.0	14,800	11.9
21 - 24 years	9,801	19.7	11,656	15.6	21,457	17.2
25 - 29 years	6,288	12.6	7,717	10.3	14,005	11.3
30 - 39 years	8,082	16.2	12,816	17.2	20,898	16.8
40 - 49 years	9,814	19.7	16,722	22.4	26,536	21.3

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18 Australian Human Rights Commission, *Submission 43*, p. 5.

19 Mr Dennis Trewin, *Answer to question on notice*, received 1 November 2012.

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50 - 59 years	7,552	15.2	12,053	16.2	19,605	15.8
60 years and over	2,078	4.2	2,643	3.5	4,721	3.8
<b>Total</b>	<b>49,787</b>	<b>100.0</b>	<b>74,615</b>	<b>100.0</b>	<b>124,402</b>	<b>100.0</b>

**PERSONS**

Less than 18 years	2,248	1.5	2,369	1.3	4,617	1.4
18 - 20 years	11,257	7.6	19,531	10.7	30,788	9.3
21 - 24 years	27,908	18.9	29,096	15.9	57,004	17.2
25 - 29 years	22,771	15.4	24,099	13.2	46,870	14.2
30 - 39 years	31,780	21.5	37,569	20.6	69,349	21.0
40 - 49 years	27,197	18.4	36,570	20.0	63,767	19.3
50 - 59 years	18,925	12.8	25,729	14.1	44,654	13.5
60 years and over	5,946	4.0	7,691	4.2	13,637	4.1
<b>Total</b>	<b>148,032</b>	<b>100.0</b>	<b>182,654</b>	<b>100.0</b>	<b>330,686</b>	<b>100.0</b>

3.26 The committee received a great deal of evidence on programs available to assist people in finding employment, as well as on how older workers can benefit from these. This is discussed in the next chapter.

***People with dependents***

3.27 The committee received disturbing evidence concerning children living in poverty in Australia:

It has been estimated that 12% to 15% of all children in Australia are living in income poverty (UNICEF, 2007; Whiteford and Adema, 2007). Further to this, Abello and Harding (2006) estimated in their three-year Australian study of income mobility transitions that around 12% of children experienced persistent financial disadvantage for three years and that another 28% of children experienced financial disadvantage for at least one year. Of those children born into the lowest quintile of income, only one in four transitioned to higher income quintiles over the three-year period. This lack of mobility for some children appears to be directly related to the wage and educational outcomes of their parents (Cassells et al, 2011).<sup>20</sup>

3.28 Many Newstart Allowance recipients have at least one dependent child in their household.<sup>21</sup> Given the difficult circumstances many people face when reliant on

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20 ANGLICARE Sydney, *Submission 21*, p. 9.

21 For more on dependent children in households reliant on Newstart Allowance, see ANGLICARE Sydney, *Submission 21*, p. 9.

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Newstart Allowance as their primary source of income, and the potential consequences on their children, the committee is particularly concerned about the need to help parents make the transition from welfare to work.

3.29 Further to this is the generational effect of long term unemployment. The committee is aware that relatively little research exists in Australia on intergenerational unemployment. What is clear, however, is that a positive correlation does exist between labour market outcomes of parents and their children.<sup>22</sup>

3.30 The committee was very pleased to learn that payments are determined with a view to ensuring that households with dependent children receive higher overall rates of payment.

### **The real value of Newstart Allowance**

3.31 To better understand cost of living pressures faced by Newstart Allowance recipients, the committee considered evidence on the real value of the payment.

3.32 The Australian Council of Trade Unions (ACTU) pointed out to the committee that the real, Consumer Price Index (CPI)-adjusted value of Newstart has remained almost constant for the past two decades:

In constant 2011 dollars, the unemployment benefit was around \$188 per week in March 1982, compared with \$244.85 in 2012. When the unemployment benefit became Newstart Allowance in July 1991, it was worth \$233.80 in 2011 dollars. Eighty per cent of the real increase in the payment rate therefore occurred in the 1980s; the payment has remained more or less constant in real (CPI-adjusted) terms for the past two decades.<sup>23</sup>

3.33 To illustrate the point, the ACTU provided the following graph<sup>24</sup> showing that the real value of Newstart Allowance has remained more or less constant in CPI-adjusted terms since 1982:

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22 Mr Dennis Trewin, Chair, Policy and Advocacy Committee of the Academy of Social Sciences, *Response to question taken on notice*, received 1 November 2012.

23 The Australian Council of Trade Unions, *Submission 62*, pp 7–8.

24 The Australian Council of Trade Unions, *Submission 62*, p. 8.



### 3.34 ACOSS added:

Since 1994, the single rate of NSA has fallen from 92% to 72% of the poverty line and from 26% to 21% of the fulltime median wage. Its purchasing power has declined by \$8 a week since the cost of essential goods and services such as rent and utilities has risen more quickly than the CPI.<sup>25</sup>

## Financial pressures on welfare recipients

3.35 A number of submissions discussed the unique financial pressures faced by Newstart Allowance recipients.

3.36 Submissions posited that welfare recipients not only have to make their payments stretch to meet the basic costs of living, such as food and housing, but also need to spend a substantial portion of their welfare income on the not inconsiderable cost of job hunting. As put by the St Vincent de Paul Society, Newstart recipients are caught in a 'poverty trap' whereby they often pay more for basic needs precisely because of their circumstances:

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 run their own house.<sup>26</sup>

3.37 The committee heard from ACOSS that welfare recipients face a large amount of financial stress, which is different to and comes on top of their deprivation. Surveys

25 Australian Council of Social Service, *Submission 64*, p. 6.

26 St Vincent de Paul Society, *Submission 26*, p. 5.

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looking at whether respondents suffered financial stress over a particular period consider whether respondents:

- could not pay household bills on time;
- could not pay the rent or mortgage on time;
- had to pawn or sell belongings for cash;
- had to go without meals;
- were not able to heat the home in cold weather;
- had to seek financial assistance from family and friends; and
- had to seek assistance from welfare organisations.<sup>27</sup>

3.38 ACOSS provided the following Australian Bureau of Statistics (ABS) table showing how financial stress is experienced by households:

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27 Questions taken from a Household, Income and Labour Dynamics in Australia (HILDA) survey cited by *Submission 38*, p. 101.

	Payment type					
	Age pension	DSP & Carer	NSA, Youth & study	Parenting Payment	Other	Total
<b>Number of indicators of financial stress experienced by households in the last 12 months</b>						
None	53.6	23.7	9.2*	8.8	39.3	31.5
One	16.2	11.7	6.5*	6.7	18.4	12.2
Two	8.8	7.6	5.5*	7.4	9.6*	8.0
Three or more	21.4	57.0	78.7	77.0	32.7	48.3
<b>Proportion of persons in household that experienced indicator in the last 12 months</b>						
Unable to raise \$2000 in a week for something important	13.7	45.0	56.8	57.0	19.8	34.5
Spent more money than received	10.3	20.3	36.7	31.2	19.5	21.6
Could not pay electricity, gas or telephone bills on time	5.5	24.9	40.0	43.4	12.9	23.6
Could not pay car registration or insurance on time	2.1*	7.8	15.0	15.8	6.8*	8.6
Pawned or sold something	0.6*	7.4	12.3*	13.9	1.5*	6.8
Went without meals	0.9*	7.4	13.0*	12.4	2.1*	7.4
Unable to heat home	1.8*	8.4	10.0*	8.8	6.3**	5.6
Sought assistance from welfare/community organisations	0.4*	9.0	14.1	16.9	4.0*	8.8
Sought financial help from friends or family	2.9*	16.9	27.0	30.0	7.9*	15.6
Could not afford holiday for at least one week a year	28.0	56.2	75.3	74.2	39.4	49.8
Could not afford a night out once a fortnight	25.3	48.0	63.2	58.3	32.5	40.8
Could not afford friends/family over for a meal once a month	9.7	19.8	34.7	28.2	9.5	19.3
Could not afford a special meal once a week	17.1	33.0	41.6	43.7	21.4	29.6
Could only afford second hand clothes most of the time	11.2	33.0	46.1	45.7	15.2	27.8
Could not afford leisure or hobby activities	12.9	37.0	51.7	48.1	18.3	29.3
* estimate has a relative standard error of 25% to 50% and should be used with caution						
** estimate has a relative standard error greater than 50% and is considered too unreliable for general use						

3.39 The Joint Agency Submission also discussed financial stress experienced by allowance payment recipients, citing ABS research:

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

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Allowance, Youth Allowance, Austudy and ABSTUDY, the rate of reported financial stress was higher, at around 79 per cent.<sup>28</sup>

3.40 The departmental submission noted, however, that financial stress indicators must be used with caution when determining whether a person has adequate income or is in poverty:

Some people on low incomes do not report any financial stress, while others with moderate to high incomes report problems meeting expenses. New Newstart Allowance recipients could also be expected to have difficulties adjusting to lower incomes following a job loss. Certain factors not directly related to income, such as consumption patterns, debt levels, budgeting and money management skills, or certain life events (e.g. loss of employment or death of a spouse) may also contribute to a person's likelihood of experiencing financial stress.<sup>29</sup>

3.41 The departments also outlined how payment arrangements are made more flexible for people having difficulty managing on low incomes. To demonstrate this flexibility, the joint submission described how allowance payments may be made weekly, instead of fortnightly, to 'alleviate the hardships faced by the most vulnerable people.' This flexibility in how payments are made:

...does not change entitlements but helps people to stabilise their circumstances, meet their expenses more readily and reduce their risk of financial crises and homelessness.<sup>30</sup>

### ***Cost of job hunting***

3.42 Submissions pointed in particular to the costs unemployed people faced when looking for work, concluding that many struggle to meet those costs after paying for essential living costs:

Many of these [unemployed] people find it difficult to pay rent, buy food and meet other essential costs. The costs of job hunting (making phone calls, travelling to and from interviews, and buying suitable interview clothes) are, for some people, simply untenable. The point is that finding a job requires resources, and these resources are not available to people who rely on Newstart for their income.<sup>31</sup>

3.43 The Business Council of Australia (BCA), for example, argued that the low payment rate of Newstart Allowance had in itself become a barrier to employment:

Trying to survive on \$35 a day is likely to erode the capacity of individuals to present themselves well or maintain their readiness to work.<sup>32</sup>

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28 *Submission 38*, p. 101.

29 *Submission 38*, pp 102–103.

30 *Submission 38*, p. 103.

31 Community Information & Support Victoria and Good Shepherd Youth & Family Service, *Submission 13*, p. 11.

32 Business Council of Australia, *Submission 46*, p. 4.

3.44 The BCA explained that people spending longer periods of time unemployed faced greater risks of homelessness, which in turn entrenches their poverty and unemployment:

While the combined Newstart and rental allowance may tide people through relatively short periods of unemployment, for those out of work for long periods of time, such low levels of support greatly increase the risk of homelessness. Once homeless, job seekers are severely disadvantaged in their ability to maintain active job search and present themselves decently for job interviews.<sup>33</sup>

3.45 The committee was interested to hear about the additional financial support available to allowance recipients for the purposes of seeking work. This is discussed in the next chapter.

### ***Housing affordability***

3.46 A common conclusion among submitters was that, at its present rate of payment, Newstart Allowance did not enable people to house themselves in a manner conducive to finding employment:

[Newstart Allowance] does not permit people to establish a sufficiently adequate or stable home as a base from which to engage in paid employment, associated vocational training, or other steps toward gaining employment.<sup>34</sup>

3.47 This, Homelessness Australia contended, places people in housing crisis – even at risk of homelessness.<sup>35</sup>

3.48 Most people on Newstart Allowance are people who do not own their own homes. Renters as a group are particularly vulnerable to sudden loss of income due to unemployment. As pointed out by ACOSS:

Only 18% of people on NSA own or are purchasing their home. Half rent privately and they have faced sharp increases in rents over the last five years. A single person on NSA receives up to \$60 a week in Rent Allowance, or \$71 per week if they have children, but this covers only a fraction of market rents. For example, the median rent for a two bedroom flat in Sydney is \$450 and that in Melbourne is \$295.<sup>36</sup>

3.49 The committee heard that housing affordability had decreased in recent years. VincentCare Australia provided the following graph<sup>37</sup> reflecting rental affordability in Melbourne to illustrate the point:

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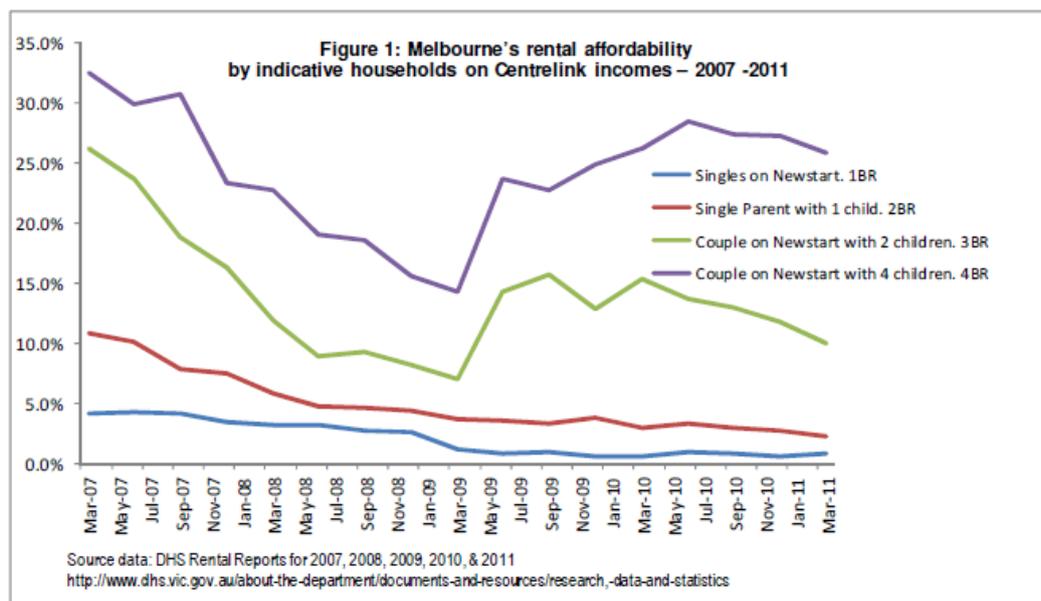
33 Business Council of Australia, *Submission 46*, p. 4.

34 VincentCare Victoria, *Submission 17*, p. 2.

35 Homelessness Australia, *Submission 31*, p. 3.

36 Australian Council of Social Service, *Submission 64*, p. 6.

37 VincentCare Victoria, *Submission 17*, p. 4.



3.50 Mr Dennis Trewin, discussing the conclusions of a 2011 expert roundtable looking at social security, suggested that raising the amount of rental assistance would be a good way of improving housing affordability:

Increasing the rent allowance especially for those renting privately might be an effective way of reducing the gap, as it ensures that additional money is actually spent on housing, which is of course an area of real need. All participants agreed that any revision of the arrangements for the Newstart allowance should not reduce the incentive to find work, and this has to be a special consideration in any redesign work on the scheme. The most common argument for keeping the Newstart allowance low is to increase incentives to find work, but there is no evidence that lowering of the real value of the allowance is resulting in a significant decrease in those seeking Newstart allowance.<sup>38</sup>

3.51 The joint submission addressed the standard of living of allowance recipients in detail, pointing out from the outset that judgements are inherently subjective:

Assessing living standards is highly complex and there is no agreed way to accurately quantify and compare living standards between individuals and households. The concept of ‘adequacy’ is problematic in that it relies on subjective judgements on an appropriate living standard and there is no conclusive measure of adequacy. It is also inappropriate to consider allowance payment rates in isolation as they are one component of a broader package of assistance that is targeted to the needs of the recipients.<sup>39</sup>

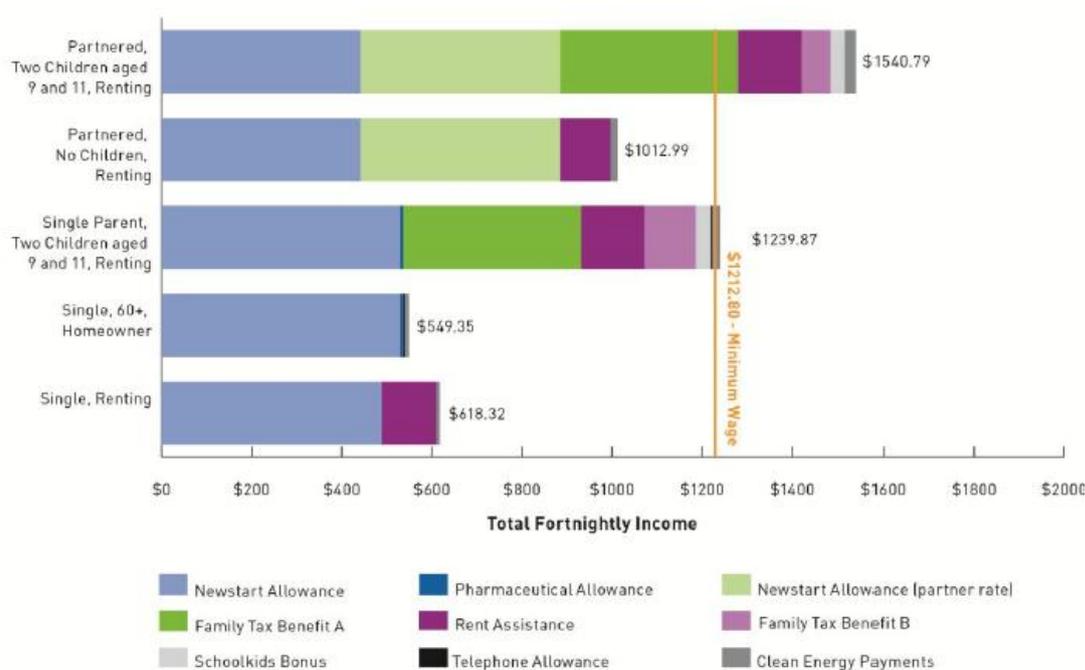
3.52 To explain how payment rates interact with changing living costs and specific concerns around housing affordability, the agencies described how payment levels

38 Mr Dennis Trewin, Chair, Policy and Advocacy Committee of the Academy of Social Sciences, *Proof Committee Hansard*, 24 October 2012, pp 1–2.

39 *Submission 38*, p. 96.

differ between household types by offering four different figures. The first of these<sup>40</sup> compares household types without any earned income.

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



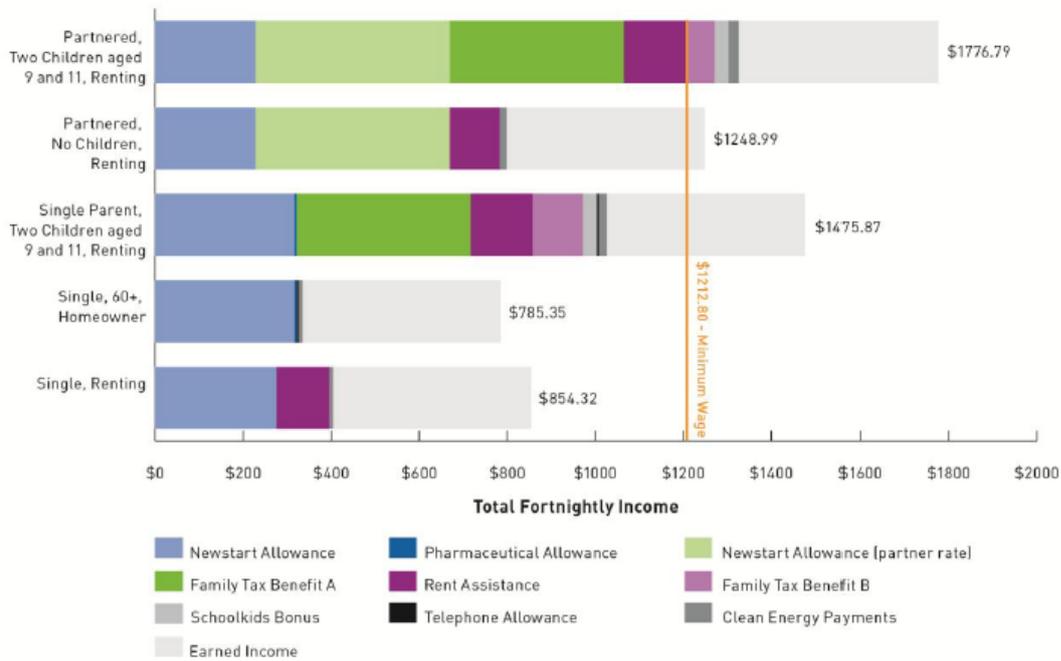
Source: DEEWR analysis based on rates at 1 July 2012.

3.53 The second figure<sup>41</sup> compares allowance payment rates for households with \$450 in earnings per fortnight:

40 *Submission 38*, p. 98. For data on the amount of income received by families who earn the minimum wage (once Family Tax Benefit A and B and other supplements are included), see paragraph 2.25 of this Report. Also, Department of Education, Employment and Workplace Relations, *Response to question taken on notice*, 17 September 2012 (received 24 October 2012).

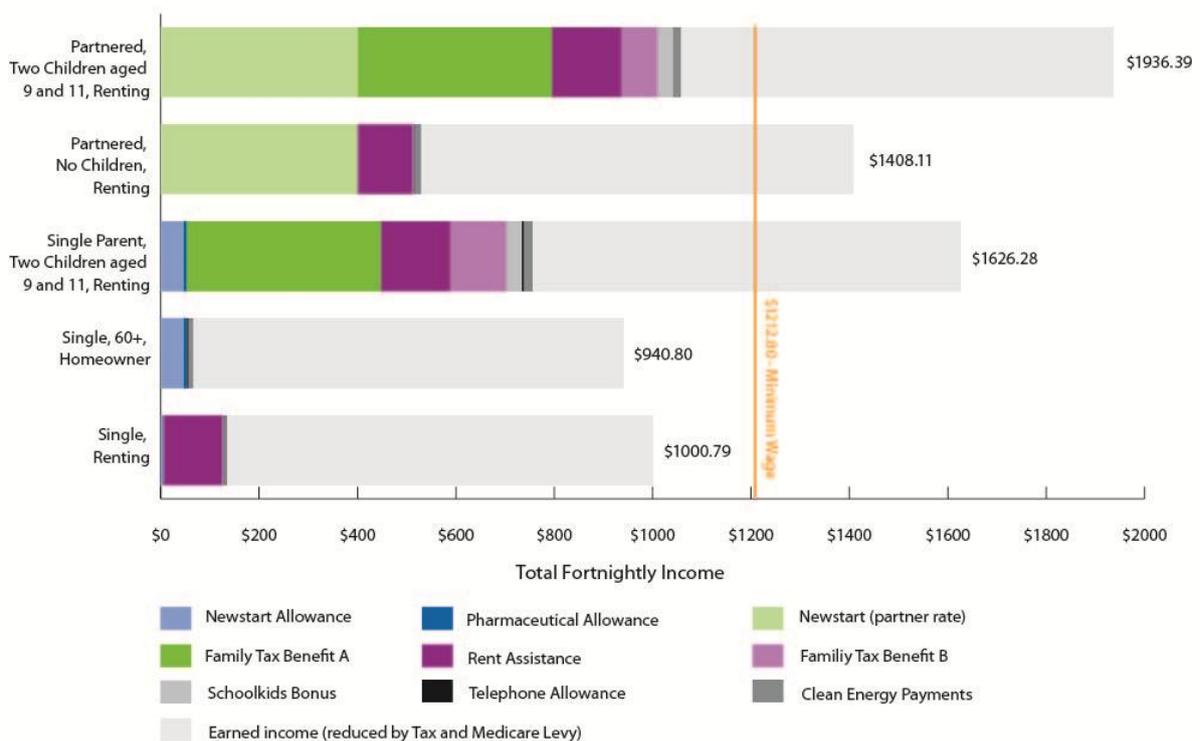
41 *Submission 38*, p. 99.

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



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

3.54 The final figure shows the package of assistance by type of household where income is \$900 per fortnight:



3.55 What the figures above illustrate is that different types of households have different living costs. So, for example, a household with dependent children has higher costs than a household without children. Similarly, 'a single person living alone cannot achieve the same economies of scale as a couple household, a sharer household or a family with children might.'<sup>42</sup>

### ***Food insecurity***

3.56 Food insecurity was described to the committee in the following way:

The experience of food insecurity involves not being able to afford enough food, and enough of the right kinds of food, which can be obtained in ways that are considered socially acceptable. It may involve worrying about food running out, cutting meal sizes, and going without meals.<sup>43</sup>

3.57 The committee was struck by the fact that, as of June 2012, approximately 50 per cent of Newstart recipients were receiving some form of food assistance from emergency relief centres run by Anglicare Sydney.<sup>44</sup> The same organisation completed a pilot study of 117 clients at its emergency relief centre in Wollongong, approximately a third of whom received Newstart Allowance as their principal source of income. The study revealed that 95 per cent of respondents were 'food insecure':

Outlining the experience of food insecurity in households revealed that 80% cut the size of their meals, 74% skipped meals, and 52% did not eat for a whole day. Amongst households with children, 67% of respondents could not afford to feed their children the variety of food they thought their children needed. Parents were forced to cut the size of their child's meal in 35% of cases and 14% of children skipped meals.<sup>45</sup>

3.58 A further study involving fifteen different Anglicare agencies was conducted in early 2012 and looked at 590 emergency relief clients from all states and territories. The final report, *2012 State of the Family: When there's not enough to eat*, was released in October 2012 and found that:

- 96% of respondents were food insecure with 3 in 4 (76%) experiencing severe insecurity.
- 3 out of 4 adults regularly ran out of food in the last three months and could not afford to buy more. 73% of adults were cutting the size of meals and 62% were regularly skipping meals altogether.
- 1 in 3 adults regularly did not eat for an entire day.
- Living in a food insecure household did not necessarily mean that children were food insecure.

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42 *Submission 38*, p. 100.

43 ANGLICARE Sydney, *Submission 21*, p. 8.

44 ANGLICARE Sydney, *Submission 21*, p. 8.

45 ANGLICARE Sydney, *Submission 21*, p. 8.

- 79% of children presented in the sample experienced some level of insecurity however more than 1 in 3 were severely food insecure.
- Surveyed adults appear to build in protection for children in those same households from the effect of food insecurity: 97% of adults living in households with children fell into either a more severe category than children in the household (55%) or the same (43%) food insecurity category.
- 65% of households with children said they regularly could not provide enough variety of food for their children,
- 38% said their children were regularly not eating enough and 29% of cases they said children were regularly going hungry.
- In 7% of households children did not eat for a whole day either weekly or some weeks.
- Children have been described as being ‘grumpy’, ‘upset’, ‘embarrassed’ and exhibiting behavioural problems.<sup>46</sup>

3.59 The committee received the following table from Jesuit Social Services,<sup>47</sup> showing how much individuals and families spend on food:

<b>Average fortnightly cost of a Victorian Healthy Food Basket</b>	<b>Family of 2 adults and children</b>	<b>Single parent family with 2 Children aged 5-12 years</b>	<b>Single adult</b>	<b>Elderly adult</b>
Disadvantaged areas (mean cost)	\$448.5	\$307.5	\$141	\$108
Comparatively advantaged areas (mean cost)	\$429.5	\$295	\$135	\$103.5
Disadvantaged areas – Major	\$422.5	\$289.5	\$133.5	\$101.5

46 *2012 State of the Family: When there's not enough to eat*, Anglicare Australia, factsheet available at: [http://www.anglicare.asn.au/site/sof12\\_notenoughtoeat.php](http://www.anglicare.asn.au/site/sof12_notenoughtoeat.php) (accessed 16 October 2012).

47 Jesuit Social Services, *Submission 27*, p. 9.

City				
Disadvantaged areas – Inner Regional	\$457.5	\$313	\$144.5	\$110
Disadvantaged areas – Outer Regional	\$484.5	\$333	\$151	\$117.5

3.60 The table below, also from Jesuit Social Services,<sup>48</sup> depicts typical allowance payment rates and the percentage of these payments taken up by the average cost of purchasing healthy food:

<b>Percentage of fortnightly income support to afford the Victorian Healthy Food Basket</b>	<b>Family of adults and 2 children aged 5 – 12 years</b>	<b>Single parent family with 2 children aged 5 – 12 years</b>	<b>Single adult</b>	<b>Single person receiving aged pension</b>
Income from allowance payments (net of Rent Assistance)	<b>\$1,418</b>	<b>\$1022.76</b>	<b>\$489.70</b>	<b>\$695.30</b>
Disadvantaged areas (mean cost)	31.6%	30%	28.7%	15.5%
Comparatively advantaged areas (mean cost)	30.3%	28.8%	27.6%	14.9%
Disadvantaged areas – Major City	29.8%	28.3%	27.3%	14.6%

Disadvantaged areas – Inner Regional	32.3%	30.6%	29.5%	15.8%
Disadvantaged areas – Outer Regional	34.1%	32.6%	30.8%	16.9%

### *Measuring changes in the cost of living*

3.61 The most commonly employed methods of measuring living costs were outlined in the Joint Agency submission. These include the Analytical Living Cost Indexes (ALCI), which reflects changes over time in household after-tax income purchasing power, and the Pensioner and Beneficiary Living Cost Index (PBLCI), which is a combination of the age pensioner and 'other government transfer recipient' indexes.<sup>49</sup>

3.62 ALCIs are produced by the Australian Bureau of Statistics. One particular index specifically measures cost of living changes for households whose principal source of income is a government payment (other than Age or Veterans' Affairs Pension). The difference between this ABS index and the CPI is twofold:

- ALCI is calculated by looking at a basket of goods reflecting typical spending patterns of allowance recipient households; and
- Since 1998 CPI has been based on goods acquired by households, while ALCI is based on households' actual outlays.<sup>50</sup>

3.63 The ACTU advised that allowance recipients' ALCI rose in line with the CPI between 1998 and 2005. In total, CPI has risen by 48.3 per cent since 1998, while the ALCI has grown by 55.4 per cent. CPI therefore, is not a good measure of the change in recipient households' cost of living. The ACTU concluded that the living standards of Newstart recipients have worsened over time despite the real, CPI-adjusted value of the allowance remaining constant:

When Newstart is adjusted for price changes over time by using a cost of living index based on the expenditure patterns or income support recipients rather than the CPI, it is apparent that the real purchasing power of the allowance has fallen over time. The absolute living standards of Newstart recipients have thus fallen.<sup>51</sup>

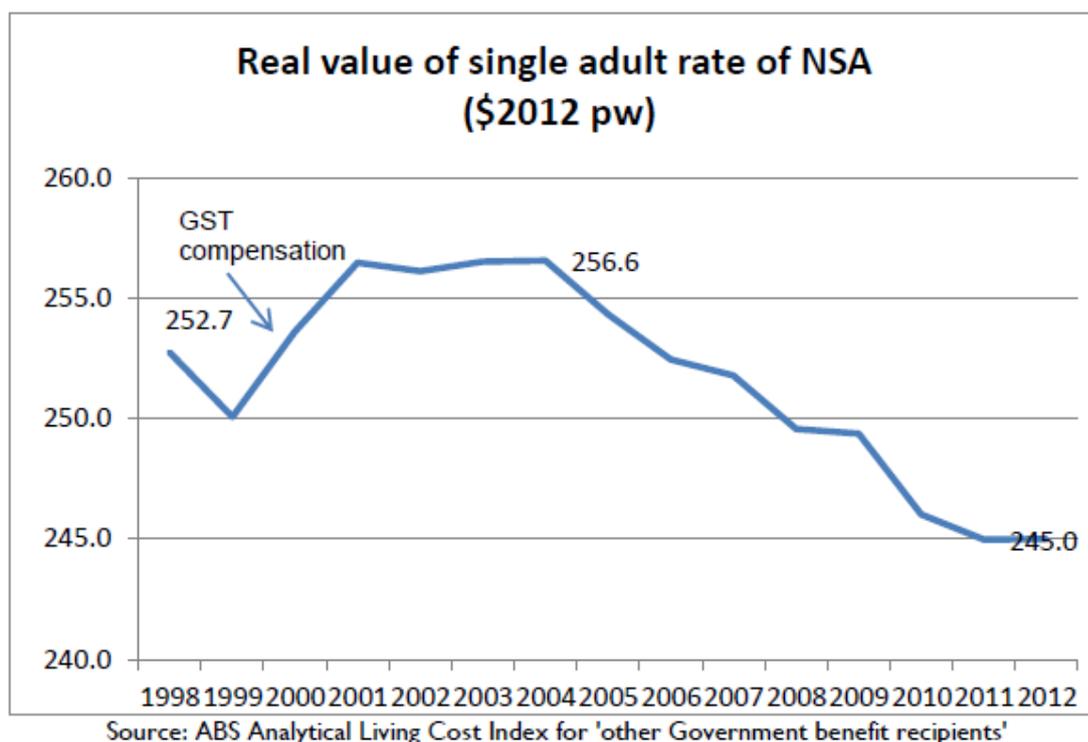
3.64 ACOSS provided the graph below, which adjusts trends in the single rate of Newstart Allowance to movements in the ALCI since 1998:

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49 *Submission 38*, p. 36.

50 The Australian Council of Trade Unions, *Submission 62*, pp 8–9.

51 The Australian Council of Trade Unions, *Submission 62*, p. 7.



3.65 The graph shows that the purchasing power of recipients of the single rate of Newstart Allowance has fallen by \$8 per week since 1998. This, ACOSS stated, effectively means that 'the living standards of people receiving NSA payments are likely to be lower now than those of their counterparts 15 years ago.'<sup>52</sup>

#### ***Committee view***

3.66 On the weight of evidence, the committee questions whether Newstart Allowance provides recipients a standard of living that is acceptable in the Australian context for anything but the shortest period of time. This being the case, the only conclusion the committee could reach was that one of two possible solutions must be pursued: either Newstart Allowance should be increased to raise the standard of living available to recipients, or more careful thought needs to be applied to how best to ensure that people spend as little time as possible on welfare in between jobs. For this reason, the committee sought evidence on both the cost of raising Newstart Allowance, which is covered later in this chapter, and on how policymakers can improve job services, a topic to which Chapter four of this report is devoted.

#### **Indexing Newstart**

3.67 One method of raising the amount of money recipients of Newstart Allowance receive would be to change how the allowance is indexed. There was a great deal of support for this among submitters.

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52 Australian Council of Social Service, *Submission 64*, p. 35.

3.68 Pensions are indexed twice per year 'by the greater of the movement in CPI and the PBLCI'.<sup>53</sup> Furthermore, the combined couple pension rate is also benchmarked to 41.76 per cent of Male Total Average Weekly Earnings (MTAWE).<sup>54</sup> This approach ensures that people reliant on pensions have their payments increased in line with current living costs.

3.69 As noted in Chapter 2, most allowances are increased on 20 March and 20 September in order to maintain the real value of payments over time. Unlike pensions, allowance increases occur each year in line with movements in only the CPI.<sup>55</sup>

By comparison, people who rely on allowances as their sole source of income live below the poverty line and are often unable to afford basic necessities such as accommodation, food and healthcare.<sup>56</sup>

3.70 This divergence in indexation methods between pensions and allowances can be traced back to 1997. From that point on, while allowances continued to be indexed to the CPI, 'pensions were indexed to CPI and benchmarked to 25 per cent of MTAWE'.<sup>57</sup>

3.71 Many submissions argued that the indexation of Newstart Allowance compounded its inadequacy, with some calling for the allowance to be indexed to the average male wage rather than CPI.<sup>58</sup>

3.72 ACOSS pointed out that wages had risen more than inflation over the past two decades. Given that allowance payments have been indexed to CPI over this same period, their value has fallen further behind other household incomes. ACOSS added:

From the time of the last increase in NSA in 1994 up to 2011, the single rate of NSA has fallen from 43% to 41% of the fulltime minimum wage, before tax. Over the same period, it fell from 26% to 21% of the fulltime median wage.

If the single NSA rate had been consistently indexed over that period to movements in median fulltime earnings, it would now be approximately \$45 per week higher.<sup>59</sup>

3.73 The committee discussed the issue of indexation with the departments, however notes that indexation methods can only be changed by a change in government policy.

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53 *Submission 38*, p. 18.

54 *Submission 38*, p. 21.

55 *Submission 38*, p. 21.

56 Community Information & Support Victoria and Good Shepherd Youth & Family Service, *Submission 13*, p. 9.

57 *Submission 38*, p. 18.

58 See for example Community Information & Support Victoria and Good Shepherd Youth & Family Service, *Submission 13*, p. 9.

59 Australian Council of Social Service, *Submission 64*, p. 34.

### The cost of raising Newstart

3.74 Having considered arguments from welfare agencies calling for the base rate of Newstart Allowance to be increased by \$50 per week, the committee examined the budgetary implications of such a move.

3.75 Giving a broad initial indication, representatives of the Department of Education, Employment and Workplace Relations (DEEWR) put the estimated cost of such an increase at \$2 billion over a full year.<sup>60</sup>

3.76 Offering to provide the committee with more detail, DEEWR looked at the cost of increasing the single rate of allowances by \$50 per week, starting from March 2014 and indexing payments to growth in MTAW. That cost, DEEWR estimated, would approach approximately \$8 billion over four years.<sup>61</sup> That estimate, DEEWR added, includes:

- a rate increase for around 670,000 single recipients of Newstart Allowance, Youth Allowance (Other, Student and Apprentice), Sickness Allowance, Special Benefit, ABSTUDY, Austudy, Parenting Payment Partnered, Disability Support Pension (DSP) under 21 without children, Widow Allowance and Partner Allowance each year;
- a change in indexation arrangements for around 1.2 million partnered and single recipients of the same payments;
- approximately 54,000 additional recipients each year receiving a part-rate of payment due to the increased income test cut-off points;
- costs for Job Services Australia, Disability Employment Services and Remote Jobs and Community Programs; and
- approximate costs associated with implementation by the Department of Human Services.<sup>62</sup>

3.77 The estimate does not include costs associated with changes to Department of Veterans' Affairs payments, nor does it include around '500,000 recipients each year who are predominantly partnered recipients for all payments', young people receiving Youth Allowance or ABSTUDY who are living at home, and DSP recipients under the age of 21 who do not have children and who are dependent. If DEEWR's estimates for increasing allowances by \$50 per week were expanded to include the

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60 Ms Jennifer Taylor, Deputy Secretary, Department of Education, Employment and Workplace Relations, *Proof Committee Hansard, 17 September 2012*, p. 3.

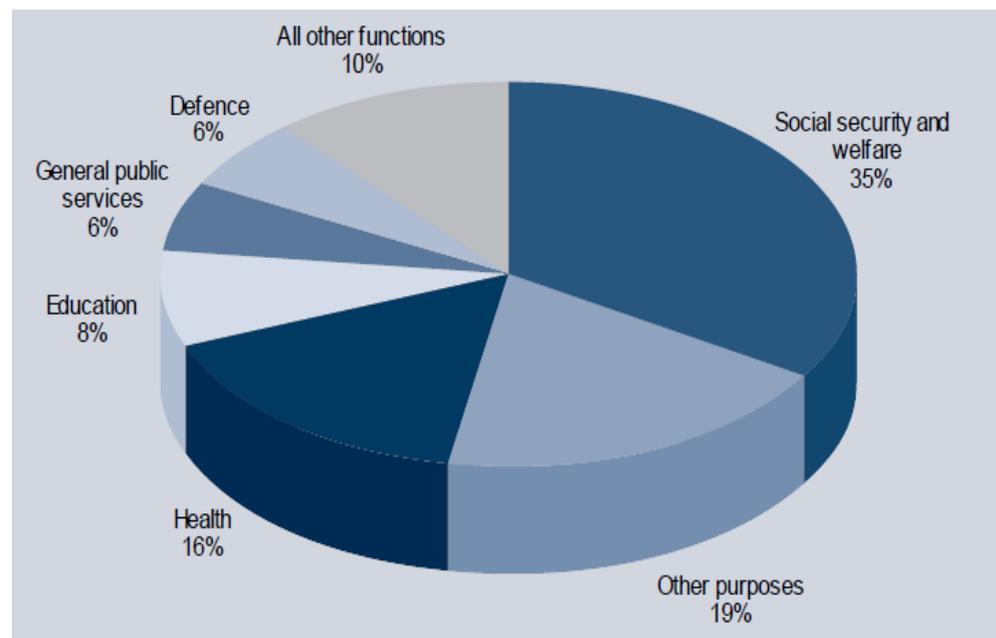
61 Department of Education, Employment and Workplace Relations, *Question on Notice 17*, received 24 October 2012, p. 1.

62 Department of Education, Employment and Workplace Relations, *Question on Notice 17*, received 24 October 2012, p. 1.

abovementioned groups, the cost of the increase would blow out to \$15 billion over four years.<sup>63</sup>

3.78 The committee sought to establish where the required savings for such an increase in expenditure on Newstart Allowance could be found.

3.79 The committee started by looking at projected expenditure in 2012–13,<sup>64</sup> illustrated in Budget Paper no. 1:



3.80 The chart above shows that approximately 35 per cent of the budget is already allocated towards social security. Given that the defence budget has been reduced in 2012 and will have to increase in following years, that improving the education system will also require growing expenditure, that health costs will continue to be pushed up by an ageing population, the committee struggled to identify where extra billions could be found to be put towards an increase in allowance payments.

3.81 In its efforts to determine where and how savings could be made in the social security sector, the committee approached a number of witnesses with this question, but was unable to find a satisfactory answer that did not involve raising the percentage of the national budget allocated to social security even higher.

3.82 Instead, the committee heard that improvements could be made to how existing money is utilised within the sector. As put by Jesuit Social Services:

I think maybe not savings, but I think definitely the money that is in there could probably be used to greater effect. The classic example is the JSA and the amount of time and resources that are put towards compliance and enforcing the rules. If there were more freedom and flexibility for those

63 Department of Education, Employment and Workplace Relations, *Question on Notice 17*, received 24 October 2012, p. 2.

64 Budget 2012–13, Budget Paper no. 1, Statement 6, p. 7. Available at: <http://www.budget.gov.au/2012-13/content/bp1/html/index.htm> (accessed 2 November 2012).

organisations that are delivering those services to put the time aside to work and work through the issues, then definitely—and, yes, I think within cross-working and partnerships. A big issue with the group of people that we work with is that their involvement is not just with the Commonwealth allowance payment system; it is with a range of services that are usually funded and delivered at a state level. There, as well, clearly duplication of processes and different points can result in costs such that probably, if you looked at more efficient ways of working in partnership, you could produce savings and then use the funding that is already there more effectively.<sup>65</sup>

### *Committee view*

3.83 The committee considered a great deal of evidence on the adequacy of allowance payments, most of which focused on Newstart Allowance. Understandably, submitters and witnesses turned their attention largely to the areas that were lacking, convincingly exposing how difficult it is to eke out an existence and secure paid employment while living on Newstart Allowance.

3.84 The committee agrees that Newstart Allowance does not allow people to live at an acceptable standard in the long term. It is important, however, to note that the allowance was never intended to be a long term solution to unemployment. The allowance has a strong history of directing available resources to the most needy. For this reason, the committee is forced to focus on how policymakers can best use the resources available to help move people from Newstart and into paid employment. The committee believes that in the long run, for both the individual and society, the best form of welfare is a job. Pouring money into policies which leave people floundering on prohibitively low welfare incomes instead of helping them stand on their own two feet would be a disgrace.

3.85 The current allowance payment system is, nevertheless, a system that can be improved, specifically through better, stronger investment in employment assistance. As noted by the Salvation Army, which called for an increase in Newstart Allowance, an increase alone is not a panacea:

The danger is that that will just be absorbed in the general depression and 'overwhelmingness' of the situation.

We certainly believe that alongside of that assistance has to come a rethinking and a retailoring and a recommitment to what will work best for people who are long-term unemployed, who have lived in this lifestyle and this sense of almost helplessness for so long.<sup>66</sup>

3.86 Helping people get on their own two feet is the committee's preferred means of poverty alleviation, and the subject of the next chapter of this report.

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65 Mr Michael Livingstone, Research, Policy and Media Officer, Jesuit Social Services, *Proof Committee Hansard*, 27 August 2012, p. 34.

66 Major Paul Moulds, Territorial Mission and Resource Director, Social, The Salvation Army, *Proof Committee Hansard*, 27 August 2012, p. 38.