

CHAPTER 1

Terms of reference

1.1 On 26 June 2012 the Senate referred the following matters to the Senate Education, Employment and Workplace Relations References Committee for inquiry and report by 1 November 2012¹:

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

(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.

Conduct of the inquiry

1.2 Notice of the inquiry was posted on the committee's website and advertised in *The Australian* newspaper, calling for submissions by 3 August 2012. The committee also notified a number of stakeholders of the inquiry and invited submissions. The committee received a total of 78 submissions, as listed at Appendix 1. This appendix also includes information on answers to questions on notice and documents tabled by the committee during the course of its hearings. A number of submissions were redacted prior to their publication to protect personal details.

1 On 29 August, the Senate agreed to amend the reporting date to 29 November 2012.

1.3 The committee conducted a number of public hearings: one in Melbourne on 27 August 2012, two in Canberra on 28 August and 17 September 2012 respectively, and one in Sydney on 24 October 2012. A list of witnesses who gave evidence before the committee is at Appendix 2.

1.4 Copies of the Hansard transcript from the committee's hearings can be accessed online at <http://aph.gov.au/hansard>.

Note on references

1.5 References in this report are to the proof Hansard. Page numbers may vary between the proof and the official transcript.

Acknowledgements

1.6 The committee extends its gratitude to the large number of individuals and organisations who made submissions to this inquiry, and to witnesses who offered their time to give evidence at public hearings. Both contributed greatly to shaping the committee's deliberations and report.

Structure of the report

1.7 Guided by evidence received over the course of the inquiry, this report focuses primarily on Newstart Allowance and the measures in place designed to create incentives for people to work.

1.8 This chapter offers a background to the inquiry by considering the economic outlook and past reviews, including the key recommendations emerging from Australia's Future Tax Review.

1.9 Chapter 2 provides an overview of the allowance payment system, outlining the allowance system broken down by payment type.

1.10 Chapter 3 focuses on Newstart Allowance, and examines whether the payment is fit for purpose.

1.11 Chapter 4 provides an analysis of how unemployed Australians are given incentives to find employment and the support provided through Job Services Australia.

Economic Outlook

1.12 It is important to consider the allowance payment system in the context of economic conditions such as inflation and cost of living. The Joint Agency Submission states that in simple terms, the Australian economy is strong, and unemployment and inflation are comparatively low.² Nonetheless, the committee notes that the 2012–13 budget forecast a rise in unemployment:

2 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. 35. (Referred to throughout this report as the 'Joint Agency Submission').

Employment is forecast to grow 1.25 per cent through the year to the June quarter of 2013 and 1.5 per cent through the year to the June quarter of 2014 (Australian Government 2012). The unemployment rate is forecast to drift up to around 5.5 per cent by the June quarter of 2013. It is then expected to remain broadly stable through to the June quarter of 2014.³

1.13 Added to this, the stability of national economies globally is uncertain and Australia must prepare itself to respond to challenges in the future arising from an aging population.⁴

1.14 Increases to cost of living, as measured by the Consumer Price Index, have stabilised:

The cost of living in Australia, as measured by CPI, has moderated over the past year. Headline CPI is 1.2 per cent higher through the year to the June quarter 2012, down from 1.6 per cent through the year to the March quarter 2012....

Both the underlying and headline inflation rates are then expected to ease to the middle of the RBA target band at 2.5 per cent through the year to the June quarter of 2014.⁵

1.15 Wages continue to increase, but not at the same rate as previous years, and growth is uneven across the economy. Wages growth is forecast to be modest over the next two years and will be offset by increases in unemployment and inflation:

Wages growth is currently below trend, and is expected to remain modest over the next two years in line with the tick-up in the unemployment rate and moderation in inflation. In the 2012-13 Budget, the Government forecasts WPI growth of 3.75 per cent through the year to the June quarter of both 2013 and 2014, with continued strong wages growth in resources-related industries expected to be offset on average by more modest wage increases in other parts of the economy.⁶

1.16 It is important that the cost of the allowance payment system is sustainable into the future. The Joint Agency submission refers to a 2010 study projecting that:

[Real] GDP growth per person is projected to grow at an average of 1.5 per cent per year over the next 40 years, compared with 1.9 per cent over the previous 40 years. At the same time the number of traditional working age people to support each retiree is expected to fall from 5 people in 2010, to 2.7 people in 2049-50.⁷

1.17 The committee notes this evidence, but observes that the Joint Agency Submission has overlooked increases to cost of living that are not accounted for by the

3 *Submission 38*, p. 35.

4 *Submission 38*, p. 34.

5 *Submission 38*, p. 36.

6 *Submission 38*, p. 37.

7 *Submission 38*, p. 37.

CPI. Increased cost of living pressures are also discussed in Chapter 3, in the context of the adequacy of income support payments.

Recent reviews of allowance payment rates

1.18 In October 2011, the National Tax Forum highlighted the low rate of income support payments as a key reason for increasing poverty and hardship across marginalised sectors of the community. Representatives from the business sector called for increasing allowance payment rates.

The Harmer Review

1.19 The Pension Review Report (the Harmer Review) was completed by Dr Jeff Harmer in February 2009. The review looked at the Age Pension, Carer Payment and Disability Support Pension with a view toward strengthening the financial security of seniors, carers and people with a disability. The review operated within the following terms of reference:

- the appropriate levels of income support and allowances, including the base rate of the pension, with reference to the stated purpose of the payment;
- the frequency of payments, including the efficacy of lump sum versus ongoing support; and
- the structure and payment of concessions or other entitlements that would improve the financial circumstances and security of seniors, carers and people with disability.⁸

1.20 The review concluded that the single pension rate was too low by international standards, and urged reform.

The Henry Tax Review

1.21 Established in 2008 to examine Australia's tax and transfer system, including state taxes, Australia's Future Tax Review made recommendations designed 'to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.'⁹ This section outlines the key elements of the final report which pertain to the committee's inquiry.

1.22 The final report defines the primary objective of income support systems as 'poverty alleviation through the provision of a minimum standard of living to people unable to support themselves through work, savings or other means,' and describes three avenues open to policymakers: negative income taxes, social insurance and category-based mean-tested social security.

1.23 Most countries, including Australia, provide assistance through category-based systems, the two main models being social insurance and general revenue-

8 See <http://www.fahcsia.gov.au/our-responsibilities/seniors/programs-services/the-pension-review> (accessed 15 October 2012).

9 See http://www.taxreview.treasury.gov.au/content/Content.aspx?doc=html/the_review.htm (accessed 10 October 2012).

financed, means tested support payments. The Australian system centres on category-based, means-tested financial assistance payments which are supplemented by private superannuation, including a mandatory component (the superannuation guarantee), industrial entitlements (such as sick leave) and workers' compensation schemes administered by state and territory governments.

1.24 Systems involving social insurance are based on income-related contributions and income-related benefits for individuals. Although the report does not rule out a major policy change in the future which would see a major shift towards social insurance, the authors see little scope for support for such a move in the near future. This is in part due to the underlying preference for payments to target poverty alleviation directly, rather than for income maintenance, and partly due to the high transition costs which would likely be required. This high cost would necessitate higher taxes on those in the workforce regardless of insurance payment levels.

1.25 Currently, Australians wishing to pay for insurance against possible unemployment can opt to do so.

1.26 A negative income tax system can be based on a single basic level of income paid to all and taxed at a single rate, or on a number of category-based, minimum income levels taxed at different rates. A pure negative tax system of this kind, the report states, would require a very high income tax rate since every single person would be paid a transfer by the state, regardless of need or behaviour. No country to date has introduced such a system.

Section F1 – Income support payments

1.27 The report held that current policy settings failed to adequately reflect evolving employment patterns and changes in the composition of Australia's working-age population.

1.28 The authors of the report saw potential for the large differentials in allowance and pension payment rates to incentivise people to switch to more generous allowances, which carry greater risk of long-term welfare dependency. To help combat this, the report supported restructuring income support within three categories (pension, participation and student) in order to balance allowance payment adequacy and incentives to work or study, while at the same time recognising that the payment rate for pensions should be higher in recognition of the fact that pension recipients were not expected to work.

1.29 The report recommended reducing the overall difference in payment rates between the three categories, particularly for singles. To achieve this, the report advocated establishing 'proper payment relativities' by increasing payment rates for the participation and student categories. The payment relativity would be maintained by applying a consistent approach to indexation across the three payment categories.¹⁰

10 Australia's Future Tax System, Chapter 12, List of Recommendations, available at: http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final_Report_Part_1/chapter_12.htm (accessed 15 October 2012).

Section F2 – Means testing

1.30 Australia's social security means testing protocol is a two-part means test, consisting of an income test and an assets test. Some assets are assessed under both tests, while others are only assessed under the assets test. This, the report concluded, produced inequitable and unfair results, with people with like needs and like means receiving different rates of support. People were therefore being incentivised and indirectly rewarded for strategically confining wealth to particular types of assets. To address and correct this, the report recommended broadening the means test to include returns on a greater range of assets.¹¹

Section F3 – Assistance for families and young people

1.31 Family assistance payments are designed to ensure that all children have access to a basic acceptable living standard. Whilst primary responsibility for the financial support of children rests with their parents, the system must account for the fact that some people do not have a high enough income to provide the necessary support for their children. In cases where parents already receive income support themselves, family assistance payments are quite distinct from allowance payments. The former are designed to be adequate only for the recipient, necessitating further financial assistance where allowance recipients have children.

1.32 The authors of the Henry Tax Review concluded that current family financial assistance arrangements were complex, due in part to the number of different payments available, and in part to the design of those payments and their interaction with the tax system. The final report also concluded that current rates of assistance, whilst adequate for very young children and larger families (because the rate increases with each additional child), did not sufficiently cover the cost of older children. The report recommended establishing a single, simple family assistance payment which would rise as children grow older.

1.33 The Review held that family payments should comprise the main form of assistance until children turn eighteen or complete secondary school, after which youth payments should be available to the young person and should be designed to encourage study, training or transition to employment. In all, the report made eight recommendations designed to improve assistance for families and young people.¹²

Section F4 – Child care assistance

1.34 Child care assistance works on the premise that payments should facilitate parents' workforce participation and support the development needs of children.

11 Australia's Future Tax System, Chapter 12, List of Recommendations, available at: http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final_Report_Part_1/chapter_12.htm (accessed 15 October 2012).

12 Australia's Future Tax System, Chapter 12, List of Recommendations, available at: http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final_Report_Part_1/chapter_12.htm (accessed 15 October 2012).

1.35 As with family payments, the authors of the review suggested that child care payments would benefit from simplification and increased transparency. Three recommendations were made to improve child care assistance.¹³

1.36 Over the course of this inquiry the committee was cognisant of the recommendations emerging from the Henry Tax Review, and bore them in mind during its own deliberations.

1.37 In the following chapter the committee provides an overview of the allowance payment system in Australia.

13 Australia's Future Tax System, Chapter 12, List of Recommendations, available at: http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final_Report_Part_1/chapter_12.htm (accessed 15 October 2012).