

GOVERNMENT SENATORS' ADDITIONAL COMMENTS

1.1 Labor senators support the seven recommendations made by the committee. These additional comments elaborate further on Labor senators' views.

Labor government investment in skills and education

Policies to support jobs and job seekers

1.2 Since 2007 the Labor government reformed job support services to ensure that job seekers receive adequate support and participate in activities and develop skills that will assist them to find work and sustainable employment.¹

1.3 Job Services Australia (JSA) is the employment services system administered by the Department of Education, Employment and Workplace Relations (DEEWR). Over the past three years the Labor government has invested \$4.5 million in assisting job seekers find work. During this period more than 1.2 million job placements have been made (39 per cent of which have been for disadvantaged job seekers in streams 3 and 4).²

1.4 Over March 2011–March 2012 nearly 50 per cent of all job seekers who received assistance from JSA were employed within three months of obtaining assistance – 41 per cent in full time employment.³ The table below illustrates this success rate⁴:

	Employed			Unemployed	Not in the labour force
	Full-time	Part-time	Total		
Newstart Allowance	20.7%	27.3%	48.0%	36.0%	16.0%
All job seekers	20.2%	28.8%	49.0%	34.8%	16.2%

Note: the income support types refer to the job seekers' income support type at the commencement of assistance.

1 Joint Agencies, *Submission 38*, p. 9. (Submitters are 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).

2 Joint Agencies, *Submission 38*, p. 71.

3 Joint Agencies, *Submission 38*, p. 71.

4 Joint Agencies, *Submission 38*, p. 71.

1.5 Disability Employment Services (DES) is the primary employment program to assist people with a disability. As the support provided by DES is uncapped, every eligible job seeker may have immediate and ongoing access to job support services.⁵

1.6 The DES program has also experienced success. Since DES was implemented in March 2010, more than 102,000 job seekers have obtained employment. ⁶More than a third of participants assisted by DES over March 2011–March 2012 were employed within 12 months, of which 26 per cent obtained full time employment, as the table below illustrates.⁷

DES	Employed			Unemployed	Not in the labour force
	Full-time	Part-time	Total		
Newstart Allowance	11.1%	26.3%	37.3%	36.4%	26.3%
All job seekers	9.8%	28.1%	37.9%	35.6%	26.5%

Note: the income support types refer to the job seekers' income support type at the commencement of employment assistance.

1.7 The successful job placement outcomes obtained by JSA and DES are more cost effective than the previous services established by the Howard government. The Joint Agency submission explained that:

For 2010–11, each employment outcome in Streams 1-3 was achieved at an average cost of \$2,332 (this equates to approximately 9.5 weeks of Newstart Allowance) and \$8,524 for Stream 4 (17.5 weeks of Newstart Allowance). For Job Network, which assisted a similar cohort of job seekers to those assisted in Streams 1-3 under JSA it reported a higher cost per employment outcome of \$3,933 for 2008–09. Similarly, the former Personal Support Programme (PSP) assisted the most disadvantaged job seekers, a comparable cohort of job seekers those now serviced in Stream 4. The estimated average cost per employment outcomes under PSP was \$11,503.⁸

1.8 In addition to the support provided by DES and JSA, the Labor government has also developed a number of initiatives to support jobseekers as they look for work. For example:

- Through the Harvest Labour Services program job service providers collect vacancies in harvest labour and provide workers to the employer.

5 Joint Agencies, *Submission 38*, p. 137.

6 Joint Agencies, *Submission 38*, p. 138.

7 Joint Agencies, *Submission 38*, p. 72.

8 Joint Agencies, *Submission 38*, p. 72.

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- The New Enterprise Incentive Scheme program provides assistance to up to 6300 eligible job seekers who want to start up and run a small business. Support includes accredited small business training, business advice and mentoring, as well as income support for up to a year.
 - The Wage Connect program is designed to find sustainable and ongoing employment for jobseekers who have been unemployed for more than 2 years. Employers who employ a job seeker through this scheme may offset some of the costs associated with wages and training in the first six months that the person is employed. This subsidy is around \$5900 for each job placement.
 - Connecting People with Jobs is a government initiative to promote labour mobility across Australia. The \$29.2 million program provides up to \$9000 to 4000 unemployed jobseekers who move for work.⁹

1.9 The Labor government has invested heavily in additional support to jobseekers – on top of allowance payments and JSA. For example, in the 2012–13 budget the government announced new measures such as:

- \$225 million to improve child care assistance so that unemployed parents can obtain training and skills to enter or return to work
- A new supplementary annual allowance, to assist recipients meet unexpected cost of living expenses (\$210 for singles and \$175 for members of couple).¹⁰

1.10 Other Labor government policy initiatives that support jobs and grow the productive capacity of the economy include:

- tripling the tax-free threshold, increasing the returns from work for low and middle income earners;
- significant new investment to lift the overall educational achievement and skill level of the community to meet the labour market needs of the future, including a new national entitlement which will ensure that everyone who wants training can get it, with expanded access to HECS-style income contingent loans;
- support to help job seekers adapt to an economy in transition through reforms to the national training system and delivering the most effective employment services possible;
- intensive support for mature aged job seekers through a new Mature Age Participation Job Seeker Assistance Package, announced in Budget 2012–13 and funded to commence from 1 January 2013, to provide job seekers aged over 55 with more intensive job seeker assistance including

9 Joint Agencies, *Submission 38*, p. 137.

10 Joint Agencies, *Submission 38*, p. 10.

refresher training in information technology, skills reviews and peer support;

- targeted labour market programs in areas of high unemployment including the Priority Employment Area program, introduced as a response to the GFC and continuing to June 2013, which identifies and implements locally relevant employment development initiatives in 20 areas experiencing the most acute rates of unemployment or vulnerable to unemployment due to their location, demographics or industry structure and economic circumstances;
- additional services for jobless families through a trial of new approaches to tackling entrenched disadvantage and roadblocks to work in 10 locations (Kwinana (WA); Playford (SA); Hume and Greater Shepparton (Vic); Burnie (Tas); Bankstown, Shellharbour and Wyong (NSW) and Logan and Rockhampton (Qld)); and
- investing around \$3.4 billion over ten years to work in partnership with Aboriginal people and the Northern Territory Government to continue efforts to close the gap in Indigenous disadvantage through the Remote Jobs and Communities Program, announced in Budget 2012–13 and commencing from July 2013, which will deliver important reforms including integration of community development, economic development and employment initiatives and stronger job seeker support.¹¹

Labor government reforms to the aged pension

1.11 Following the findings of the Harmer Pension Review of 2009, the Labor government implemented the \$14.2 billion Secure and Sustainable Pensions package in the 2009–2010 budget.¹² A significant measure was the increase of the single rate pension rate to approximately two thirds of the partnered pension rate. This ensures that that single pensioners can maintain a comparative standard of living as partnered pensioners.¹³ Other measures included new indexing arrangements and cost of living benchmarks (which are used to determine future increases to the pension).

1.12 However, no such reforms have been set for Newstart recipients who did not enjoy the same indexing or bench marking arrangements, and in the case of single recipients of Newstart Allowance, only receive 55 per cent of the partnered rate.

11 Joint Agencies, *Submission 38*, p. 10.

12 Dr Jeff Harmer, *Pension Review Report*, February 2009. Available online: <http://www.fahcsia.gov.au/about-fahcsia/publications-articles/corporate-publications/budget-and-additional-estimates-statements/pension-review-report> (accessed 14 November 2012). For more information about the 2009-2010 budget pension reforms see: http://www.budget.gov.au/2009-10/content/glossy/pension/html/pensions_overview_01.htm (accessed 14 November 2012).

13 Joint Agencies, *Submission 38*, p. 100.

Newstart Allowance

Payment rate

1.13 As well as helping people in immediate need, designing an adequate allowance payment system is also about recognising that in spite of the best intentions and efforts, policies and services, unemployment will always exist. People will always lose their jobs. Some will find new jobs quickly, others will take longer and need assistance. No Australian government has achieved or even promised zero unemployment—no government could. Social security is a safety net for all Australians, not only the ones currently reliant on government assistance.

1.14 Labor senators took note of and were impressed with the quality of evidence presented on the inadequacy of Newstart Allowance throughout this inquiry. Multiple respected welfare groups and professionals with extensive experience in the social security field presented the committee with a clear, well-argued message which could not be ignored: the real value of Newstart Allowance has receded so significantly that it is exacerbating poverty and becoming an impediment to employment for many.

1.15 The Benevolent Society, as one example, provided a succinct explanation of how unemployment can be difficult to overcome, pointing out that while the majority of people who lose their jobs remain unemployed for under one year, approximately 19 per cent are classified as long-term unemployed, and half of them remain unemployed for two years or more.¹⁴ There are many and multifaceted reasons for long-term unemployment:

Those who are unemployed for more than a year find it increasingly difficult to find work and are 50% more likely to remain unemployed for a further year. Low education levels are a contributory factor, as almost half of those who are long-term unemployed did not complete secondary school. Other barriers faced by this group, as reported by the Australian Bureau of Statistics (ABS), include ill health and disability; lack of skills and education; not enough or not recent enough work experience; age discrimination against older workers; and, simply, too many applicants for each available job. Older people, people with disabilities and Aboriginal and Torres Strait Islander peoples are overrepresented amongst the long-term unemployed.¹⁵

1.16 It is also not helpful to start with the assumption that people who are long-term unemployed do not want to work, and can somehow be 'encouraged' to work by being driven into poverty. This, the Benevolent Society said, is not the case for the vast majority of people in this difficult and complex situation:

There is no reliable evidence that people who are in receipt of allowances do not want to work, as appears to be implied by the term 'incentive into work'. On the contrary, the low level of payment, combined with the extremely low income test free area and stringent participation

14 The Benevolent Society, *Submission 23*, p. 9.

15 The Benevolent Society, *Submission 23*, pp 9–10.

requirements, are frequently a hindrance to an individual's attempts to find work.¹⁶

1.17 While Labor senators maintain that keeping social security payments below minimum wage is an important lever to incentivise people to work, there must be limits to how low payments are allowed to fall. If payments are so low that welfare agencies and social security experts tell us that being reliant on Newstart Allowance actually impedes people's ability to gain employment, then this is counterproductive to the very objective of the allowance payment, which is to support people temporarily as they transition into paid employment. Labor senators support the policy objective of Newstart Allowance as a transitional payment, but draw attention to the fact that, for a proportion of recipients, Newstart Allowance has become a long-term support payment.¹⁷

1.18 Labor senators lend their in-principle support to an increase in Newstart Allowance, and note that many in the welfare sector advocate an increase of \$50 per week, as explained in the committee report.

1.19 Such an increase would ensure that the same ratio is applied between single and partnered payment rates for Newstart Allowance as for pensions, as advocated by the authors of the Australia's Future Tax System report (the Henry Tax Review).¹⁸ It would also restore the allowance to the same proportion of the minimum wage as in 1996, and the same proportion of average wages as in 2002.¹⁹

The Henry Report [Australia's Future Tax System Final Report] therefore recommended that the formula applied by the Harmer Report to pensions – a single rate equal to 66.3% of the combined partnered rate – should apply to Allowance payments. Currently, that would require an increase of approximately \$50 per week in the single rate of the relevant Allowance payments. It also recommended that allowance payments be indexed in similar fashion to pensions to prevent the payment gap from growing further. That implies indexation of allowances to a measure of wages as well as the CPI [Consumer Price Index], though the Report did not specify exactly how this should be done.²⁰

1.20 Labor senators agree that a more consistent approach to payment relativities within allowance and pension payment categories is desirable. The committee did not conduct an in-depth analysis of methods of achieving this consistency and Labor senators agree that it is difficult to assess what the quantum of an increase should be given the different supplementary payments that individuals and couples may receive

16 The Benevolent Society, *Submission 23*, p. 9.

17 For example, for Principal Carer Parents: National Council of Single Mothers and their Children, *Submission 55*, p. .

18 See Recommendation 83, Australia's Future Tax System, Chapter 12, available at: http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final_Report_Part_1/chapter_12.htm (accessed 23 November 2012).

19 Australian Council of Trade Unions, *Submission 62*, p. 3.

20 Australian Council of Social Service, *Submission 64*, p. 22.

depending on their particular circumstances. Nevertheless, Labor senators believe that Newstart Allowance Single should be promptly increased, while more detailed assessments are conducted.

Indexing

1.21 Labor senators agree with the premise that Newstart Allowance should be set below the minimum wage to ensure that adequate incentives to work are built into the payment system. However, as pointed out in the committee report, evidence suggests that each year Newstart Allowance decreases in real terms due to inflation and cost of living pressures.

1.22 The committee report outlined the key differences in how allowances and pensions are adjusted to ensure that their buying power is not lost over the years. Whereas Newstart Allowance is indexed to the Consumer Price Index (CPI) and therefore does not rise automatically in real terms, the Disability Support Pension is maintained at a fixed proportion of, and therefore moves with, male total average weekly earnings (MTAWE). Clearly, many submitters and witnesses before the committee were of the view that reforms were needed to indexing arrangements for Newstart Allowance. As put by the Australian Council of Trade Unions (ACTU):

The adequacy of an income support payment should be defined with reference to the standard of living generally prevailing in the community, and thus the payment rate should rise in line with community standards. The current indexation arrangements for Newstart Allowance do not satisfy this test. Because real wages are growing over time, Newstart Allowance will fall further behind community standards and behind the DSP unless the indexation arrangements are changed.²¹

1.23 The Australian Council of Social Service (ACOSS) explained the impact of the different indexing arrangements for allowances such as Newstart:

Due to the different indexation arrangements for pensions and allowances, the gap between the single pension and Newstart Allowance payments rose from \$55 per week in September 2008 to \$133 per week today. On current trends, by 2040 the single Newstart rate will be just half that of the pension.²²

1.24 Labor senators believe that the question of indexing is a serious matter worthy of further exploration and analysis. It is highly likely that, without changes to the indexing arrangements for Newstart Allowance, the real value of the payment will again fall over time despite any increase applied today, necessitating further increases down the track.

21 Australian Council of Trade Unions, *Submission 62*, p. 34.

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

Changing nature of the labour market

1.25 The committee report provides an overview of the changing nature of the labour market, with a particular focus on the increase in part time, casual and insecure work.²³

1.26 The proportion of workers who are employed part-time (rather than full time) has increased since 1982. For example, in 1982 only 16.3 per cent of employment was part-time, thirty years later this has increased to 29.7 per cent in 2012.²⁴ Some workers are also returning to Newstart Allowance after finding employment and others are remaining on Newstart Allowance for years. For example, since 2007 around 15 per cent of recipients at that time have remained on, or returned to, Newstart Allowance.

1.27 It is important that Newstart Allowance is structured to recognise these practical realities and that appropriate work incentives and support are present as job seekers commence casual and part time work.²⁵ The recommendations contained in the committee report go some way to addressing these concerns. However Labor senators believe that more needs to be done to support people as they return to work. In particular, recommendation 4 in the committee report should be expanded to include all Newstart Allowance recipients (including principal carer parents) and the income free threshold should be increased to the equivalent of 8 hours work per a fortnight at the minimum wage.

Time for review

1.28 The McClure Review on welfare in Australia was provided to the government in August 2000, and substantial reforms were initiated.²⁶ Throughout this inquiry the committee has heard that it is timely to revisit the fundamentals of the allowance payment system and conduct a fresh review.

1.29 For example, the Australian Council of Social Services submitted that 'the system of social security payments and employment supports for people of working age be independently reviewed'.²⁷ ACOSS advised that the terms of reference of the review should include:

- recent labour market trends and future employment prospects for people on working-age income support payments
- trends in reliance on income support including the current and likely future profiles of people on social security

23 See Chapters 2 and 4. See also, for example, Australian Council of Trade Unions, *Submission 62*; The Australian Institute, *Submission 28*, p. 4.

24 *Submission 38*, p. 40.

25 *Submission 38*, p. 68.

26 Australian Government Reference Group on Welfare Reform, *Participation support for a more equitable society*, 2000 (Commonly referred to as the 'McClure Report', named after the Deputy Chair of that committee, Mr Patrick McClure). See further, Australian Council of Social Service, *Submission 64*, p. 8.

27 Australian Council of Social Service, *Submission 64*, p. 9.

- the adequacy, targeting and employment effects of income support payments for people of working age, and options for reform to facilitate transitions to employment, improve fairness and simplify the system
- the effectiveness of employment services for disadvantaged jobseekers (Job Services Australia and disability employment services), including how these might be better integrated with vocational training, work experience, and social support services.²⁸

1.30 Support for a review also came from the Australian Council of Trade Unions, who called for the review to focus on:

- Current trends in the labour market, including insecure employment, and the implications of these trends for the income support system.
- The movement towards a common base payment for people of working age, with supplements for people who face additional costs or barriers, such as those associated with disability or caring responsibilities.
- The appropriate level of income for allowances to be withdrawn completely, as well as the taper rates and thresholds that apply as the allowance is withdrawn.
- The operation of a range of technical and administrative aspects of the allowance system, outlined in detail in this submission.
- The operation of the Job Services Australia system, including the efficacy of the structure of payments to providers and the interactions between JSA agencies and other aspects of the income support system.²⁹

1.31 General support for a review was offered by a number of other submitters.³⁰

Conclusion

1.32 While the recommendations in the committee's report go some way to address the immediate concerns of Labor Senators, it is plain that Newstart Allowance is too low, particularly for single recipients. For this reason Newstart Allowance Single should be increased, taking into account other potential increases consequential to recommendations made in the committee's report. Labor Senators believe that indexing arrangements for Newstart Allowance need to be reviewed, with consideration given to whether, like pensions, the payment should not decrease in real terms each year.

28 Australian Council of Social Service, *Submission 64*, p. 11. These terms of reference were endorsed by a number of organisations, for example, UnitingCare Australia, *Submission 66*, p. 9; Anglicare Australia, *Submission 70*, p. iii;

29 The Australian Council of Trade Unions, *Submission 62*, p. 3.

30 See for example, National Welfare Rights Network, *Submission 68*, p. 3–4; Brotherhood of St Lawrence, *Submission 65*, p. 4; Professor Andrew Podger, *Submission 60*, pp 1–2; Business Council of Australia, *Submission 46*, p. 1 (*Note: The BCA calls for a review into income support payments as part of a review of taxation arrangements*).

1.33 Labor senators note that recommendations 4, 5 and 6 in the committee report are targeted at increasing incentives for Newstart recipients to engage with the workforce as they transition away from the payment. These recommendations are a good beginning. However Labor senators believe that it is more appropriate that the income free threshold for all Newstart Allowance recipients should be increased to the equivalent of 8 hours per fortnight at the minimum wage.

1.34 Twelve years on from the McClure Review, it is timely to conduct another comprehensive review, with a particular focus on Allowance payments. Such a review should consider indexing arrangements, adequate payment rates, participation requirements, incentives and support to work, supplements such as rent assistance, job support services (including the Job Services Australia incentives framework for providers) and the changing nature of the labour market. The review should also consider how tailored assistance can be better provided to people who face particular barriers to employment. For example: young people, sole parents, people with a partial capacity to work and people who have been unemployed for more than a year.

Recommendation

1.35 Labor senators recommend that the government increase Newstart Allowance Single, taking into account the relationship to the base rate and other payment design changes recommended by the committee.

Recommendation

1.36 Labor senators recommend that the government review the indexing arrangements for Newstart Allowance and other Allowance payments.

Recommendation

1.37 Labor senators recommend that the government increases the income free threshold for Newstart Allowance recipients to the equivalent of 8 hours work per fortnight at the minimum wage.

Recommendation

1.38 Labor senators recommend that the government commission a comprehensive review of Newstart Allowance and other allowance payments.

Senator Gavin Marshall
Deputy Chair

Senator Alex Gallacher