

## Chapter 6

### **The principles that should underpin social security payments and practical measures to address inequality**

- 6.1 The final chapter of this report addresses the last two terms of reference:
- the principles that should underpin the provision of social security payments in Australia; and
  - the practical measures that could be implemented by Governments to address inequality, particularly appropriate and adequate income support payments.

#### **The principles underpinning the provision of social security payments**

6.2 Since the Asprey Taxation Review of the 1970s, there has been consensus in Australia that the principles of efficiency, equity (fairness) and simplicity should inform a well-designed taxation system. What should be the principles that inform a well-designed system of social security payments?

6.3 Some submitters identified the following three principles as important in the provision of social security payments in Australia:

- first and foremost, payments must be adequate. The payment must provide the recipient with a basic standard of living in the context of prevailing living standards;
- second, the payment should be set at a level that provides an incentive for recipients to be employed where they are able to do so; and
- third, and relatedly, payments should be means-tested to ensure they are directed to those most in need.<sup>1</sup>

6.4 The Australian Council of Social Service (ACOSS), COTA Australia (COTA) and other peak organisations have identified the following six principles that should underpin the provision of social security payments in Australia:

#### **Adequacy:**

The base rates of social security payments for singles and couples should be adequate to meet socially accepted essential living costs; that is, to prevent poverty;

The safety net should be there when it is needed, including for young people who are unemployed.

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1 See, for example, Australian Council of Trade Unions (ACTU), *Submission 46*.

Income support should be benchmarked to broader community living standards; - and indexed to movements in wages as well as prices affecting social security recipients.

Supplements should meet additional major non-discretionary costs; - including housing rents, costs of disability, costs of sole parenthood, costs of caring, and retention of a separate system of family payments for the costs of children.

**Fairness:**

People with the same financial needs should receive the same level of income support.

Maximum payment levels should be based on current financial need rather than 'deservedness'

No group should be financially worse off as a result of reform, and those facing the greatest hardship should be better off. - People should not be moved from higher to lower payments when their financial needs are the same, and the system should be redesigned to prevent this happening.

**Housing affordability:**

Comprehensive action should be taken to make housing affordable for people on low incomes, including in places where jobs are available. - Rent Assistance should be adequate and indexed to movements in rents. - Improvements in Rent Assistance should complement, not replace, adequate public investment in social housing and reform of incentives for private investment in affordable housing.

**Employment incentives:**

To improve employment incentives for people with barriers to employment, maximum payment levels should be based on an individual's current financial need rather than their future employment prospects. - Payments should not reduce the closer a person with a disability or caring responsibility comes to securing paid employment.

Base rates of social security payments should be targeted to people in financial need through income and assets tests which ignore modest levels of private income and assets, ensure a fair return to paid work, and can be readily understood and complied with. Supplements should be less strictly income tested, in accordance with their purpose (for example to assist with the extra costs associated with a disability, which do not reduce once a person gains employment).

**Simplicity:**

The payment system to be as simple and understandable as possible. The main goal of simplification reforms should not be to reduce the number of payments, but to: - streamline the system so that people in similar circumstances receive the same level of payments with the same or similar eligibility requirements; - remove the hurdles the present system throws up for people undergoing common life transitions such as employment, unemployment, different stages in the care of children or other family members.

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**Administration:**

Social security should be paid as a legislative entitlement without restriction on its use, unless the recipient or local community elects to receive payments in a different form (for example, to pool payments to provide employment in a remote community). - Entitlements and compliance with any participation requirements should be assessed by a single statutory agency that is accessible to all. - 'Income Management' should not be compulsory and should not apply automatically to categories of people based on benefit type, location, or race.<sup>2</sup>

***Committee comment on these principles***

6.5 The committee considers that the ACOSS and COTA principles are fundamental to the integrity of Australia's social security payment system. They are properly centred on the financial need of an Australian citizen, and his or her *entitlement* to access a payment when they are in financial need.

6.6 In light of the evidence presented in chapter 5 of this report, the committee is deeply concerned that the proposed 2014 federal budget measures relating to social security payments abrogate the ACOSS and COTA principles.

6.7 The following section on 'principles' begins by presenting the committee's evidence on the principles of 'adequacy', 'incentives to work' and 'means-testing'. In the course of this discussion, the committee considers and comments on the ACOSS / COTA principles of 'employment incentives', 'fairness', 'simplicity' and 'administration'.

***The first principle: the adequacy of payments***

6.8 The principle of payment adequacy is fundamental and generally undisputed. The obvious questions arise however: what is an adequate payment and how best to determine this level? There are several methods of responding to these questions. Australia's Future Tax System Review ('the Henry Review') identified four common measurements of the adequacy of income support payments. These are:

- replacement rates, which compare the income of a payment recipient with that of a worker (such as a minimum wage worker or the median worker);
- poverty lines, to which the disposable incomes of payment recipients are compared;
- budget standards, which estimate the amount of income necessary to sustain a particular standard of living; and

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2 COTA Australia, *Submission 38*, Attachment 1, pp 21–22.

- financial stress indicators, which enable a comparison of the financial wellbeing experienced by payment recipients with that of the community as a whole.<sup>3</sup>

6.9 All four measures seek to define adequacy in relative terms. This is a long-established and accepted approach.<sup>4</sup> As the 2009 Harmer Pension Review stated:

The central question for the Review was the level at which the full rate of pension should be set.

The Review's approach to this question was to test whether current rates of pension are providing a basic acceptable standard of living, accounting for prevailing community standards. The Review considered that the full rate of pension should provide a basic acceptable standard of living for those who are wholly reliant on it, often for extended periods, without any assumptions about access to private income or assets. In adopting this approach, the Review notes that while the question of adequacy can be conceived of in both absolute and relative terms, ultimately it needs to be answered in the context of contemporary society, and the living standards of others.<sup>5</sup>

### *Replacement rate*

6.10 The Australian Council of Trade Unions (ACTU) noted in its submission to this inquiry that the replacement rate of Australia's unemployment benefit is the lowest of any advanced economy. As it explained:

An Australian worker on average wages who loses his or her job and claims Newstart Allowance will suffer a larger negative income shock than his or her counterparts in any other [Organisation for Economic Co-operation and Development (OECD)] country...

The Australian replacement rate is also at its lowest level in several decades. The indexation of allowances to [Consumer Price Index (CPI)], while wages rise in real terms, ensures that these replacement rates will continue to fall.<sup>6</sup>

6.11 The ACTU presented a chart showing that the ratio of Newstart payment to the full-time minimum wage is currently at 40 per cent. The ratio has essentially been

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3 Australia's Future Tax System Review, 'Section 7.3: Important impacts of the personal tax-transfer system', Architecture of Australia's Tax and Transfer System, Commonwealth of Australia, Canberra, 2009; ACTU, *Submission 46*, p. 39. The ACTU's submission to this inquiry provides a considered assessment of current Newstart payment levels against each of these four measurements.

4 ACTU, *Submission 46*, p. 39.

5 Dr Jeff Harmer, *Pension Review Report*, 27 February 2009, pp xii–xiii, [https://www.dss.gov.au/sites/default/files/documents/05\\_2012/pensionreviewreport.pdf](https://www.dss.gov.au/sites/default/files/documents/05_2012/pensionreviewreport.pdf) (accessed 17 November 2014).

6 *Submission 46*, p. 40.

falling (from around 45 per cent) since the mid-1990s. The ratio of Newstart payment to average full-time earnings is now at around 17 per cent. It too has progressively fallen since the mid-1990s (when the ratio was around 24 per cent).<sup>7</sup>

*Payments and the 'budget standards approach'*

6.12 In 1998, Professor Peter Saunders of the Social Policy Research Centre at the University of New South Wales derived a monetary amount that aligned to two standards of living: a 'modest but adequate budget standard' and a 'low cost budget standard'.<sup>8</sup> The former was described as:

One which affords full opportunity to participate in contemporary Australian society and the basic options it offers... lying between the standards of survival and decency and those of luxury as these are commonly understood...(falling) somewhere around the median standard of living experienced within the Australian community as a whole.<sup>9</sup>

The 'low cost budget standard' was described as:

A level of living which may mean frugal and careful management of resources but would still allow social and economic participation consistent with community standards and enable the individual to fulfil community expectations in the workplace, at home and in the community... corresponding to a standard of living which is achievable at about one-half of the median standard.<sup>10</sup>

6.13 Professor Saunders and his colleagues found that the low cost budget standard equated to \$302.80 in February 1997 for single adults in the private rental market. The ACTU adjusted this figure for the growth in the CPI unto the June 2012 Quarter. The adjusted amount is \$481, which is \$163 more than the current Newstart payment of \$318 a week.<sup>11</sup>

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7 *Submission 46*, p. 41.

8 P Saunders, J Chalmers, M McHugh, C Murray, M Bittman & B Bradbury, 'Development of Indicative Budget Standards for Australia', *Research paper No. 74*, Social Policy Research Centre (SPRC), University of New South Wales, March 1998, p. iv.

9 P Saunders, J Chalmers, M McHugh, C Murray, M Bittman & B Bradbury, 'Development of Indicative Budget Standards for Australia', *Research paper No. 74*, SPRC, University of New South Wales, March 1998, pp iv-v.

10 ACTU, *Submission 46*, p. 43.

11 *Submission 46*, p. 43. The ACTU noted that it had taken one of three possible measures mentioned in the SPRC report to update standards over time. The other two measures were repricing the elements of the baskets of goods on a regular basis and conducting the exercise afresh. The ACTU argued that re-conducting the exercise was the best way to update the standards.

*Payments and poverty lines*

6.14 Another way of looking at the issue of payment adequacy is to compare payment rates with the Henderson Poverty Lines (HPL) and the 50 per cent of median income poverty line. The poverty line is based on a benchmark income of \$62.70 for the December Quarter 1973. For a single person not in the workforce, the poverty line for the June 2012 Quarter was \$384.51 per week (including housing).<sup>12</sup> This was \$66 higher than the level of Newstart payment.

6.15 With reference to the figures below, the ACTU highlighted that the income of a single, adult Newstart recipient is now more than \$100 per week below both the HPL and the 50 per cent of median income poverty line. It added:

The gap between Newstart and the poverty line (be it the Henderson line or the 50% of median income line) is large and growing. This is a strong indication that the payment rate is inadequate. A basic function of the safety net is to protect households from poverty. Although the choice of any particular poverty measure involves some degree of subjectivity and value judgement, a payment rate that is less than two-thirds of the level of either of the main relative poverty lines for a single adult is clearly inadequate.<sup>13</sup>

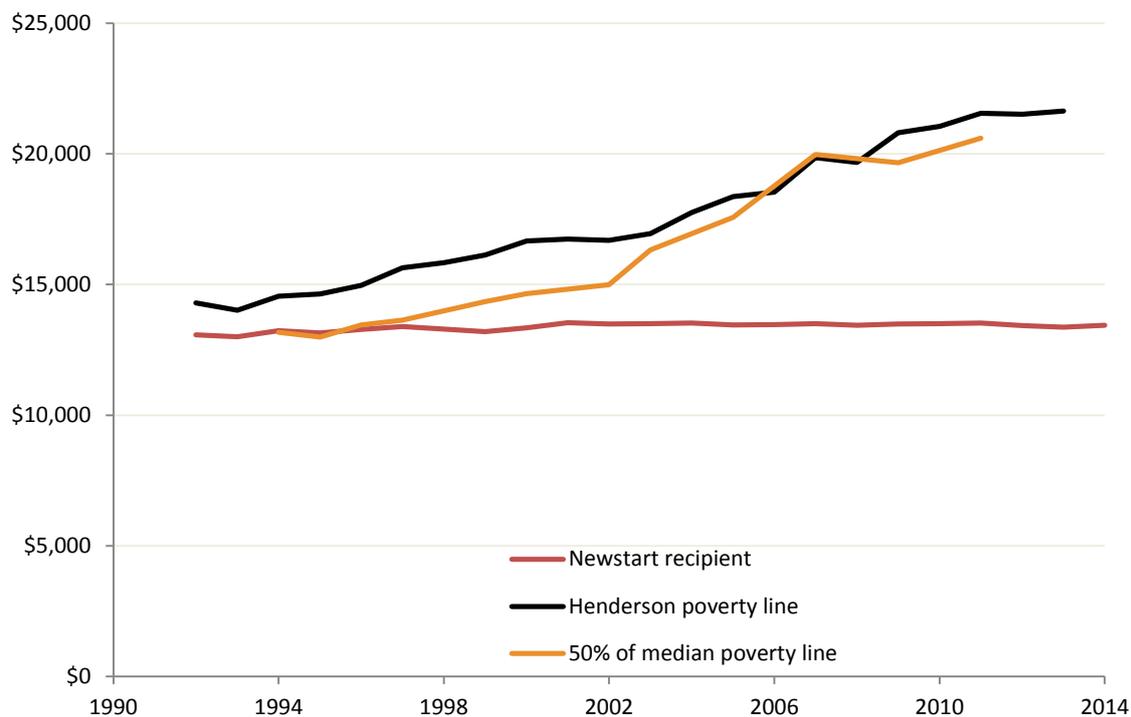
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12 Melbourne Institute of Applied Economic and Social Research, *Poverty lines: Australia ISSN 1448-0530, June Quarter 2012*, <https://melbourneinstitute.com/downloads/publications/Poverty%20Lines/Poverty-lines-Australia-June2012.pdf> (accessed 18 November 2014).

13 *Submission 46*, p. 42. See also Mr Matt Cowgill, Economic Policy Officer, ACTU, *Committee Hansard*, 18 September 2014, p. 7.

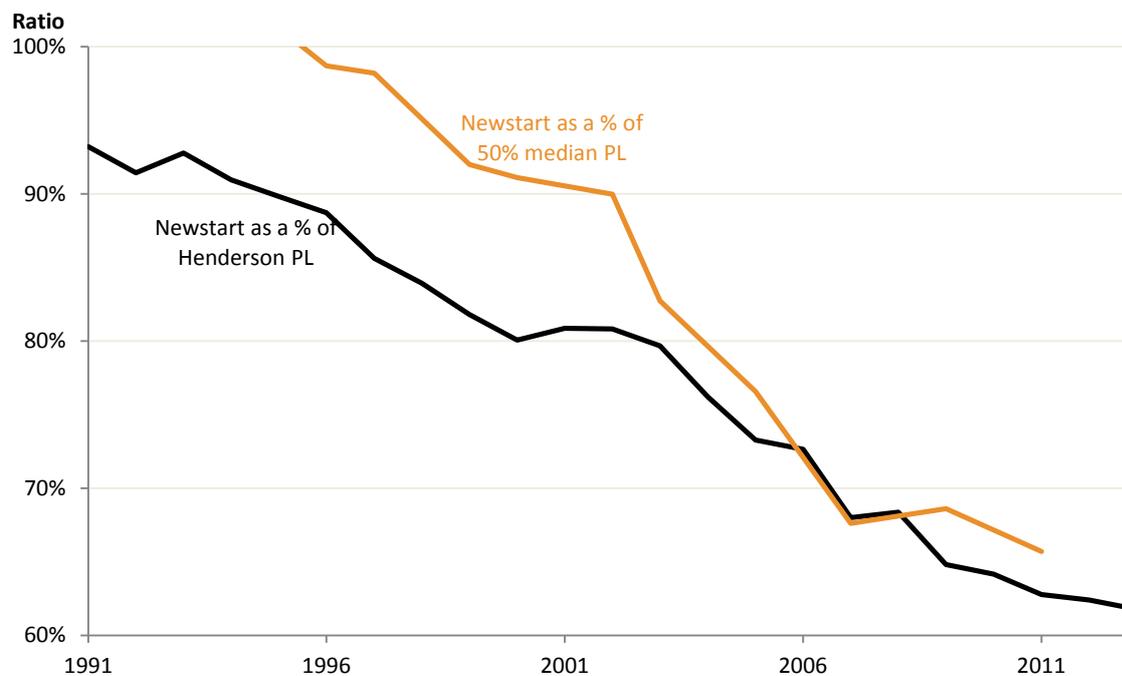
**Figure 6.1: Newstart, the HPL and the 50% of median income poverty line**

Real 2014 dollars



Source: Provided to the committee by the Australian Council of Trade Unions, 25 November 2014.

**Figure 6.2: Newstart as a proportion of two poverty lines**



Source: Provided to the committee by the Australian Council of Trade Unions, 25 November 2014.

6.16 Professor Peter Whiteford of the Australian National University told the committee that the relative financial position of a person living on the *Newstart* allowance today is lower than what it was in the early 1990s. As he put it:

the poorest 10 per cent are 40 per cent better off than they were in the early nineties...But if you are on Newstart the real increase in your payment is negligible...

...somebody who is at the 10th percentile...is 40 per cent better off but a person on Newstart, compared to somebody who was on Newstart in the early nineties, is not 40 per cent better off. The reason is that people on those payments are moving down the income distribution. Back in the early nineties if you were a single person on Newstart you were about \$6 to \$10 a week below this 10th percentile point. You are now about \$160 a week below that point. People on those payments are falling down, so to speak...

I would have thought that a person on Newstart or youth allowance is now right at the bottom, the real bottom, of the income distribution.<sup>14</sup>

### *Financial hardship approaches*

6.17 The 'deprivation approach', a fourth way of assessing the adequacy of payments, is more qualitative in approach. Professor Saunders has explained that:

The deprivation approach seeks to identify who is unable to afford items that are widely regarded as essential. In order to achieve this, it is necessary to conduct a survey in which people are asked which of a list of items they regard as essential, where that term is defined as covering 'things that no-one should have to go without in Australia today' — thus, they are asked which items are essential for people in general, not just for themselves. The items included in the list should not be arbitrarily selected but should reflect the experiences of those living in, or close to, poverty.<sup>15</sup>

6.18 The figure below is from Professor Saunders' research on deprivation. It compares the values of two deprivation measures across seven income groups. Professor Saunders summarises the findings shown in this figure as follows:

On average, those reliant on the Age Pension were deprived of about one essential item, similar to the level of deprivation among service pensioners. In contrast, there was almost no deprivation among the self-funded retiree group, a finding which provides reassuring evidence that the pension income and assets test are doing their job, and that the mean deprivation scores do indeed track the living standards of each group. However, the most striking aspect of the results in Figure 1 is the high levels of deprivation among the other groups included in the analysis. Thus, in round terms, low-wage workers were deprived of around two essential items, disability pensioners of around three items, Newstart allowees of around

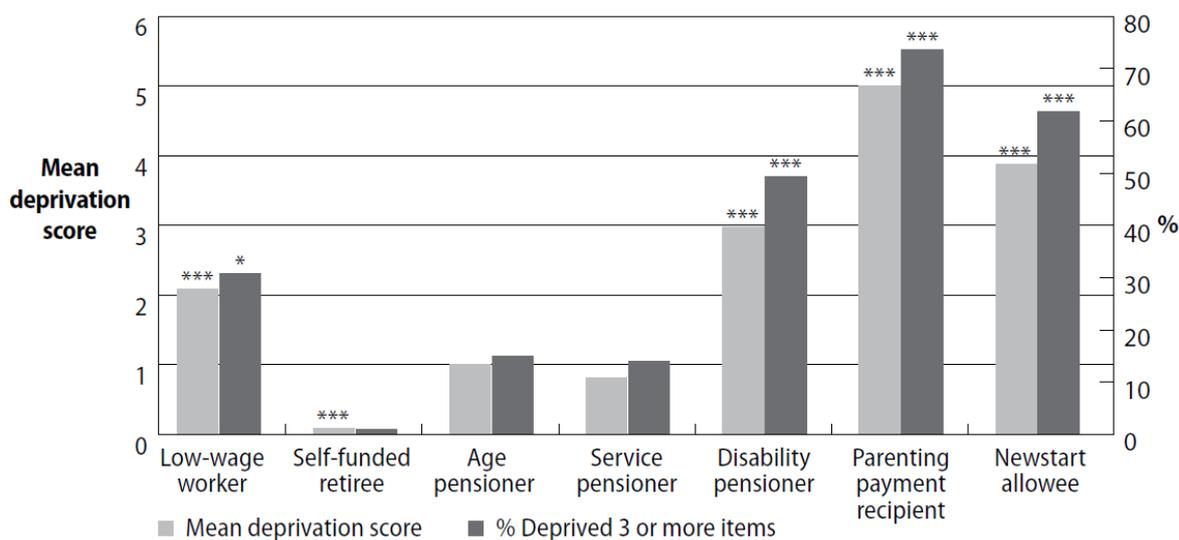
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14 Director, Social Policy Institute, *Committee Hansard*, Canberra, 16 October 2014, pp 27–28.

15 Peter Saunders and Melissa Wong, 'Pension adequacy and the Pension Review', *The Economic and Labour Relations Review*, Vol. 22, No. 3, 2011, pp. 12–13.

four items, and sole parents of close to five items. All of these latter levels of deprivation are significantly higher than that experienced on average by the age pensioner group.<sup>16</sup>

**Figure 6.3: Deprivation by income source, 2006<sup>17</sup>**



Source: CUPSE survey (see text).

Note: Asterisks indicate that the difference between the group measures and those for the age pensioner group was statistically significant: \*denotes significance at 10%; \*\*denotes significance at 5%; \*\*\*denotes significance at 1%.

6.19 Noting Professor Saunders' work among other 'financial stress' research findings, the ACTU concluded that they 'confirm the conclusion suggested by replacement rates, poverty lines and budget standards: the current Newstart payment rate is inadequate'.<sup>18</sup>

#### *Submitters' and witnesses' concerns with the level of payments*

6.20 Several submitters and witnesses to this inquiry shared the ACTU's criticism of the inadequate level of current payments. In particular, there was concern that payment rates for the unemployed, single parents and students are simply inadequate. The Australia Institute commented that for those at the bottom of the income ladder:

...the issue is one of adequacy. I think Youth Allowance and unemployment benefits are too low, and I note that the Business Council of

16 Peter Saunders and Melissa Wong, 'Pension adequacy and the Pension Review', *The Economic and Labour Relations Review*, Vol. 22, No. 3, 2011, p. 17.

17 Peter Saunders and Melissa Wong, 'Pension adequacy and the Pension Review', *The Economic and Labour Relations Review*, Vol. 22, No. 3, 2011, p. 17.

18 *Submission 46*, p. 44.

Australia and a wide range of conservative economists agree with that assessment.<sup>19</sup>

6.21 ACOSS wrote in its submission:

The main weakness of our social security safety net is the inadequacy of ‘allowance’ payments for unemployed people, single parents and students. Recent increases in pensions for older people have sharply reduced poverty but these were not extended to allowance recipients and the gap in payments between pensions and allowances is now \$166 per week for a single adult. Policy makers should end the pretence that employment and activation policies alone can prevent poverty among people of working age. This has not happened in any OECD country. Clearly the social security system needs to carry its share of the load, starting with implementation of the ‘Henry Report’ proposal to extend recent pension increases to those on the lower allowance payments.<sup>20</sup>

6.22 The committee was concerned to hear of some speculation in recent months that the issue of payment levels had not been raised in roundtable discussions held as part of the McClure Review process. However, several submitters to this inquiry stated that this was not the case. The St Vincent de Paul Society and UnitingCare Australia both noted that they had made verbal submissions to the McClure Review where they—among many others—drew attention to the inadequacy of income support payments, particularly the Newstart payment. Both organisations suggested that the Review was not focussed on this issue of payment levels. Conversely, Dr John Falzon of St Vincent de Paul Society National Council told the committee that among those giving evidence to the Review, the ‘essential starting position’ was that people on social security benefits should not be forced to live below the poverty line.<sup>21</sup>

6.23 UnitingCare Australia argued there should be clearly established criteria to determine the appropriate level of payment. It emphasised that:

...it is appropriate that the criteria for assessing the adequacy of a single base payment and supplements [should] include that the payment levels protect against poverty, deprivation and homelessness and enable the transition to employment and access to affordable and appropriate housing.

The establishment of an adequate base payment will bolster current payments that expose recipients to deprivation and homelessness, reduce their ability to secure and retain employment and cause serious disadvantage for their families.

We expect that a determination of adequacy would be the subject of comprehensive research that considered the usefulness of various approaches and measures, including:

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19 Dr Richard Denniss, Executive Director, *Committee Hansard*, Melbourne, 16 October 2014, p. 13.

20 *Submission 29*, p. 3.

21 Chief Executive Officer, *Committee Hansard*, Canberra, 16 October 2014, p. 45.

- a combination of movements in wages and prices;
- the budget standards approach (currently under revision) originally produced by the Social Policy Research Centre at UNSW and commissioned by the then Department of Family and Community Services (see Saunders 2004).<sup>22</sup>

*Committee view on the adequacy of payments*

6.24 The committee emphasises the importance of a social security system that ensures that people are not living in poverty. Put simply, payment levels for working age benefits must be adequate to ensure that people are not living in poverty. The committee considers that there should be a review of the level of working age payments (see recommendation 3).

***The second principle: incentives to work***

6.25 The second principle emphasises the importance of setting payment rates at levels that encourage people to work. The federal government has signalled that it believes the current system of support payments for working age people who are able to work needs to be reformed. Chapter 1 noted that a review has been commissioned. In November 2014, the Minister for Social Services, the Hon. Kevin Andrews MP (Minister), stated:

...the present system fails to provide clear incentives, opportunities and rewards for working age Australians wanting to leave income support, even among those who desperately wish to do...

...perverse incentives have grown over time, encouraging people to take actions that are detrimental to their own long term interests.

The \$260 a fortnight gap in the rate of payment between the Disability Support Pension and the Newstart Allowance, for example, has created a perverse incentive for people on unemployment benefits to test their eligibility for the DSP which has historically had no requirements to look for a job.<sup>23</sup>

6.26 The ACTU took issue with the argument that lower payment rates relative to wages (ie. lower replacement rates) will promote workforce participation. This is the view that the smaller the replacement rate, the greater the amount by which an individual can increase his or her income by becoming employed, and therefore the greater the immediate financial incentive to seek employment.<sup>24</sup>

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22 *Submission 30*, p. 8. Saunders, Peter 2004, Updated budget standard estimates for Australian working families in September 2003, Final Report, SPRC Report 1/04, University of New South Wales, Sydney.

23 The Hon. Kevin Andrews MP, *Keynote Address to the Committee for Economic Development of Australia*, 10 November 2014, <http://kevinandrews.com.au/latest-news/2014/11/10/keynote-address-committee-economic-development-australia-ceda/> (accessed 17 November 2014).

24 *Submission 46*, p. 48.

6.27 The ACTU put the following position:

At some point, it is likely to be true that increased payment rates would reduce the incentive to participate in the workforce. However, the relationship between the adequacy of the replacement rate and the effectiveness of recipients' job search activities is not monotonic. Increasing the replacement rate to 100 would eliminate the immediate financial incentive to seek work, but reducing the replacement rate to 0 (ie. abolishing unemployment assistance) would leave unemployed people socially excluded, unable to subsist, and unable to meet the costs of searching for work. Unemployed people need a sufficient income to allow them to maintain a stable home, meet all necessary costs of living, purchase appropriate clothing for interviews and employment, and pay for transport to and from job interviews and potential places of employment. Very low incomes can also lead to a decline in physical and mental health that can reduce a person's likelihood of finding employment.<sup>25</sup>

6.28 Other submitters to the inquiry also cautioned that incentives to work should not mean setting payments at levels that drive people into poverty. They indicated that current payment levels were so low that they jeopardised the ability of people to find work. Ms Therese Edwards of the National Council of Single Mothers and their Children told the committee that a payments system should serve as a 'springboard for parents' to give them 'a solid footing and chance to gain a start in the labour market'.<sup>26</sup> In particular, she criticised the current threshold arrangements with when a single parent's child turns eight and is shifted to Newstart:

...a mum with three children on parenting payment single can earn and keep about \$113 per week. Once her little one turns eight, she is allowed to keep \$50 per week. These losses are unrecoupable. National Welfare Rights estimates that a mum working 15 hours per week on the minimum wage will have to work 28 hours once she has moved across to Newstart just to retain that same amount. We question whether there is the capacity and whether those hours are available.<sup>27</sup>

6.29 UnitingCare Australia's National Director, Ms Lin Hatfield Dodds, told the committee:

The establishment of an adequate base payment would bolster current payments that expose recipients to deprivation and homelessness, reduce their ability to secure and retain employment, and cause serious disadvantage for their families.<sup>28</sup>

6.30 Anglicare Australia emphasised that obligations regarding employment and training:

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25 *Submission 46*, p. 48.

26 Chief Executive Officer, *Committee Hansard*, Melbourne, 18 September 2014, p. 17.

27 *Committee Hansard*, Melbourne, 18 September 2014, p. 18.

28 *Committee Hansard*, Melbourne, 16 October, p. 43.

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...need to be framed around the capacities of those people, and need to recognise their strengths and their circumstances. They need to take on board the reality of the job market in which people find themselves. And there are also responsibilities that the wider society has, above and beyond ensuring adequate income for people out of work. Leadership, employment creation and respect for those who are doing it tough are the starting points.<sup>29</sup>

6.31 The ACTU argued that income support recipients should receive 'a decent increase' in their take-home pay if they move into work, or increase their hours of work. It argued that to do this, effective tax rates should not be prohibitively high and the rate at which payments are withdrawn as earnings rise (the taper rate) should not be excessive.<sup>30</sup>

6.32 In this context, the ACTU criticised the National Commission of Audit's (NCOA) recommendation to apply a taper rates for various payments of 75 per cent, arguing that this setting would discourage workforce participation. It noted that at this rate, an income support recipient who chooses to earn an extra \$20 from work will lose \$15 of income support and may also pay income tax out of the remaining \$5. The ACTU concluded:

Prohibitively high taper rates such as those recommended by the NCOA would be at odds with the principle of promoting workforce participation.<sup>31</sup>

***Committee comment on the incentive to work principle***

6.33 The committee notes that that ACOSS / COTA 'employment incentives' principle emphasises that these incentives should emphasise a person's financial need rather than rigid compliance with income and assets tests. This is a point that is often overlooked in efforts to design a payment system to encourage people into work. Many submitters and witnesses to this inquiry emphasised the importance of providing working-age people with a payment that is adequate for them to gain employment. It is of real concern to the committee that this is currently not the case.

6.34 The committee strongly agrees with the ACOSS / COTA principle on employment incentives. Maximum payment levels must be based on an individual's current financial need rather than their future employment prospects, and payments should not be reduced the closer a person with a disability or caring responsibility comes to securing paid employment.

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29 *Submission 33*, p. 13.

30 *Submission 46*, p. 47.

31 *Submission 46*, p. 47.

***Means-testing benefits: a third principle?***

6.35 The Australian system of social security establishes a number of criteria that determine a person's eligibility for benefit payments. One of these criteria is a means-test which applies either an income or assets test (or both) to determine eligibility. Under a set threshold, a person will typically be eligible for the full benefit; for each dollar earned over the threshold, there is a commensurate reduction in the rate of the benefit.

6.36 Australian governments have viewed means-testing as important not only to assisting those most in need, but to keep the cost of welfare under control. The Minister said in May 2014:

Australia needs a well-targeted means-tested income support system, which provides financial assistance to those most in need, while encouraging self-provision whenever possible.<sup>32</sup>

6.37 The Australian social security system is tightly means-tested. A 2009 paper published by the Parliamentary Library explained:

Australia is unique among Western countries for the extent to which its social welfare programs are means tested. Income support is extended across a range of categories, including the old, people with a disability, the unemployed and people caring for children. This support is provided on a flat rate basis and funded from general taxation, rather than from contributions from workers. The Australian system of income support differs from those in most other welfare states in that it is not based around social insurance, whereby, for example, the old, unemployed and sick are protected by earnings related income replacement schemes. Consequently, Australian welfare benefits are generally lower than in other welfare states.<sup>33</sup>

6.38 Even with low benefits, the means-tested Australian social security system creates a significant redistributive shift from the top to the bottom 20 per cent of the population. As Treasury noted:

The Australian tax and transfer system overwhelmingly directs assistance towards low income earners. According to the latest ABS Household Expenditure Survey, the poorest 20 per cent of Australian households, on average, receive cash transfers and social services benefits worth more than eight times what they pay in taxes. By contrast, the richest 20 per cent of

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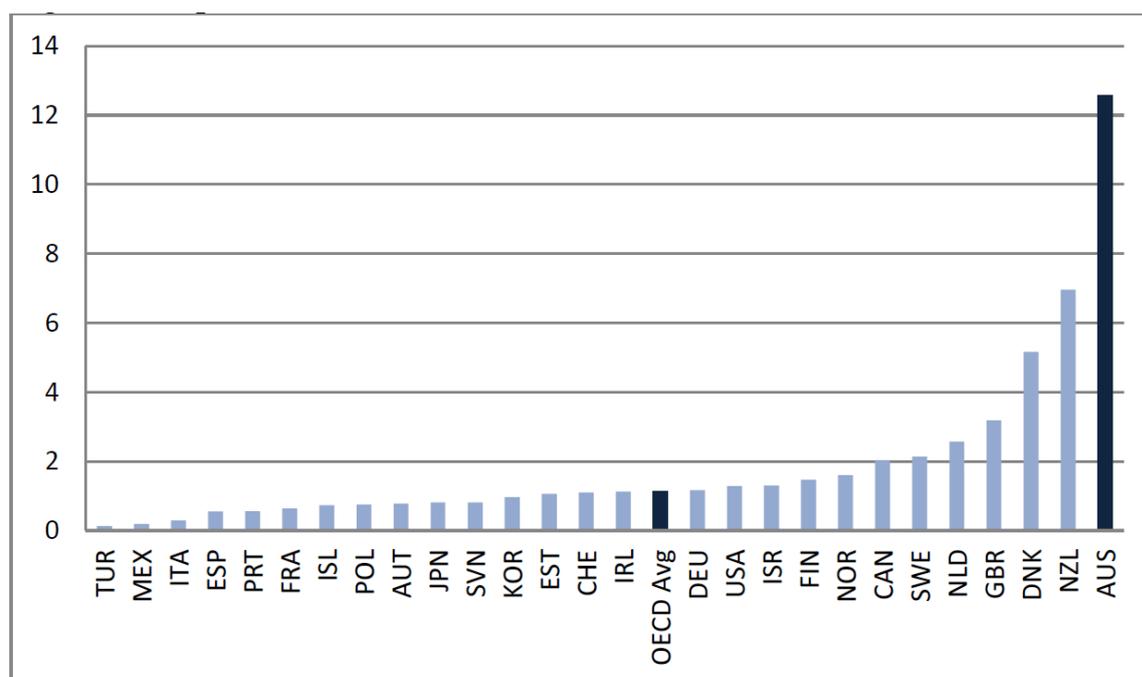
32 'Delivering on our commitments to Australian seniors', *Media releases*, 13 May 2014, <http://kevinandrews.dss.gov.au/media-releases/88> (accessed 18 November 2014).

33 Dr Luke Buckmaster, *Money for nothing? Australia in the global middle class welfare debate*, *Research Paper No. 31*, Parliamentary Library, 2008–09, [http://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/rp/rp0809/09rp31#\\_ftn33](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp0809/09rp31#_ftn33) (accessed 18 November 2014).

households, on average, pay more than four times as much tax as they receive in benefits.<sup>34</sup>

6.39 Figure 6.4 below shows that Australia transfers 12.1 times as much to the poorest 20 per cent of the population, compared to the richest 20 per cent of the population. The OECD average is a ratio of 1.1.

**Figure 6.4: Top and Bottom Income Quintiles: Ratio of Transfers to each**



Source: Department of Social Services, *answer to question on notice*, received 13 November 2014, p. 2.

### *Middle class welfare*

6.40 As in other countries, there has been debate in Australia about whether benefits should be distributed to those on middle incomes. The political argument in favour of these benefits is that governments should provide assistance to the cost of raising a family. The contrary position is that payments to middle and upper income earners are not efficient and do not meet the basic test of a system that provides for those most in need.

6.41 Research by Professor Whiteford, Professor Gerard Redmond and Elizabeth Adamson found that while there was an increase in middle class welfare between 1982 and 2007–08, the increase was 'relatively modest and focussed on families not far above the second decile'. They conclude:

Overall what appears to have happened over the period since 1982 is that benefit spending has become less targeted on the poorest 20 per cent of the

34 Mr Nigel Ray, Executive Director, Fiscal Group, Treasury, *Committee Hansard*, Canberra, 17 November 2014, p. 2.

population but has been shared more widely with individuals and families below the median. Persons in these income ranges may not be poor, but it is difficult to characterise them as rich...<sup>35</sup>

### ***Committee comment on means-testing***

6.42 The committee believes that the means-testing of benefits should principally be viewed as a design feature of Australia's social security system, as opposed to a principle underpinning social security payments. The committee notes that a tightly means-tested system of income support payments can compromise the system's ability to deliver on the principles of adequacy and providing incentives to work. Applying stringent means-tests can result in poverty traps high effective marginal tax rates, both of which discourage people from participating in the workforce.<sup>36</sup>

6.43 The committee agrees with ACOSS / COTA principle relating to employment incentives that 'modest levels of private income and assets' should be ignored in determining eligibility for base rate payments. It also agrees that supplements should be less strictly income tested given that their purpose is to assist with extra costs of an employed person.

6.44 The committee considers that in determining eligibility for social security payments, the principle of 'fairness' is crucial. As noted above, 'fairness' relates to providing payments based on *financial need*. It also stresses that people should not be moved from higher to lower payments when their financial needs are the same (see paragraph 6.3).<sup>37</sup>

### **A benchmarking process for setting payment levels**

6.45 UnitingCare Australia, The Salvation Army, Anglicare Australia, Catholic Social Services Australia and Baptcare Australia all support a benchmarking process to set adequate minimum payment levels for social security benefits in Australia.<sup>38</sup> The committee agrees that this approach is necessary. It is concerned with

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35 'Middle Class Welfare in Australia: How has the distribution of cash benefits changed since the 1980s?', *Australian Journal of Labour Economics*, Vol. 14, No. 2, 2011, pp 81 and 100.

36 See Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 28, pp 72–73; ACTU, Submission 46, p. 39; Dr Luke Buckmaster, Money for nothing? Australia in the global middle class welfare debate', *Research Paper No. 31*, Parliamentary Library, 2008–09.

37 It has been reported that the McClure Review is 'keen to report that "no one is financially disadvantaged" by the radical welfare changes in the short-term'. See Patricia Karvelas, 'Macklin: McClure dole plan will leave welfare recipients worse off', *The Australian*, 9 October 2014.

38 Ms Lin Hatfield Dodds, Chief Executive, UnitingCare Australia, *Committee Hansard*, Canberra, 16 October 2014, pp 43–44; UnitingCare, *Submission 30*, p. 4; Anglicare Australia, *Submission 33*, p. 12; St Vincent de Paul Society, *Submission 19*, p. 13.

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the evidence presented in submissions that across a range of measurements, the payment level for Newstart recipients has failed to keep pace with community standards.

### **Recommendation 3**

**6.46** The committee recommends that the Australian Government review the level of working age payments to examine the rate of payment to the poverty line.

### **Recommendation 4**

**6.47** The committee recommends that the Australian Government establish a consultation process to engage key stakeholders in discussions on how to set minimum levels for social security payments in Australia, including Commonwealth Rent Assistance payments and student assistance payments. In determining the optimal basis for benchmarking payment levels, these discussions should consider the merit and weight to be placed on each of the following measurements:

- replacement rates;
- poverty lines;
- budget standards; and
- financial stress indicators.

#### *Emergency relief*

6.48 Chapter 2 of this report noted that emergency relief funding had been reduced in 2014–2015 by \$7 million. The Department of Social Services explained this reduction in funding in terms of reduced need for emergency funding. The Deputy Secretary told an Estimates hearing in June 2014:

In 2011-12 there were just over a million requests for assistance. In 2012-13 there were 864,000 requests for assistance. Last year there were, to date for a half year, 374,000.<sup>39</sup>

6.49 The committee questions this data and the government's proposed cut to emergency funding assistance. The evidence that the committee has received from various welfare agencies on the level and severity of hardship in recent years indicates that there is a need for more, not less, emergency relief funding (see chapter 2).

### **Recommendation 5**

**6.50** The committee recommends that the Australian Government urgently review the amount of funding allocated to Financial Crisis and Material Aid including for the provision of Emergency Relief and Food Relief (including over

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39 Ms Barbara Bennett, Deputy Secretary, Department of Social Services, *Committee Hansard*, Community Affairs Budget Estimates 2014–15, 5 June 2014, pp 47–48.

**the forward estimates), to ensure that vulnerable Australians in need are able to access assistance.**

***Should an independent body set payment levels?***

6.51 The preceding discussion raises the question of who should set the base level for payment. Should it be the government or should an independent body be charged with setting payment levels based on a transparent benchmarking process. Anglicare Australia noted in its submission that it has twice conducted a national survey to test public support for an independent body to set payment levels. It said:

On both occasions, around 60% of respondents, across all population groups, were in favour of an independent body setting payment levels, and about 20% favoured the government. Governments of all persuasions, however, have not responded well to this idea. That is why Anglicare Australia is calling for, at the very minimum, an independent and transparent benchmarking process that informs – and be seen to inform – government decision makers.<sup>40</sup>

6.52 UnitingCare Australia put a different argument. Ms Hatfield Dodds told the committee:

We are not proposing that an independent process is set up that binds government. We are proposing a transparent benchmarking process under which government can then make its own decision about how it wants to deal with that in a budget context.<sup>41</sup>

6.53 The committee notes that under the ACOSS / COTA principle of 'administration', 'entitlements and compliance with any participation requirements should be assessed by a single statutory agency'. However, the committee is not convinced that an independent statutory body should be setting payment levels. It believes that this is the role of government. However, it is important that governments follow a clear and transparent process for measuring, setting and indexing working-age payment levels. The committee reiterates the need for proper consultation with stakeholders to establish this process.

***A tiered system of payments***

6.54 One option aimed at simplifying the current payments structure and prioritising work incentives in social security payments is to categorise payments and alter payment levels according to a recipient's prospects of returning to work. The Interim Report of the McClure Review Reference Group (see chapter 1) proposed:

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40 *Submission 33*, p. 13.

41 *Committee Hansard*, Canberra, 16 October 2014, p. 44.

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...a simpler architecture for the income support system consisting of the following payment types: a tiered working age payment; a Disability Support Pension; an Age Pension and a child payment.<sup>42</sup>

6.55 The Interim Report proposed that the working age payment be tiered to 'take account of individual circumstances, such as partial capacity to work, parental responsibilities or limitations on availability for work because of caring'. The Disability Support Pension (DSP) would only be available for people with a permanent impairment. The Interim Report also proposed a tiered working age payment for those currently on the DSP with a capacity to work.<sup>43</sup> In terms of child payments, the Interim Report proposed 'a simpler child payment structure' which could bring together Family Tax Benefit Part A, Youth Allowance, ABSTUDY and other payments for dependent children and young people.<sup>44</sup>

6.56 Interestingly, the Interim Report suggested that single parents and others with a significant barrier to full-time employment could be given a higher rate. It stated:

In moving towards a new working age payment, consideration should be given to reducing the current gap between pensions and allowances, particularly for people with limited work capacity, or with significant labour market disadvantages.

Within a tiered working age payment structure, consideration should be given to when a higher rate should be paid. Recipients of higher rates could include single parents, people with disability and a partial capacity to work, and others with a significant barrier to full-time employment. Recipients of the lower payment rates could include students and single unemployed, particularly those of younger age.<sup>45</sup>

6.57 The 2009 Henry Review proposed a broadly similar structure. It suggested that payments should fall into one of three tiers, dependent on the recipient and the purpose of the payment. The first category should be pensions for those people not expected to work (the elderly, those with disability). These payments should be 'sufficient to provide an adequate standard of living, based on an accepted community standard'. The second category he termed 'participation payments'. These are provided to people 'who are able to work and expected to work' (the unemployed, single parents). The rates of payment here 'should provide a basic level of adequacy'.

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42 Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 6, [https://www.dss.gov.au/sites/default/files/documents/06\\_2014/dss001\\_14\\_full\\_report\\_27\\_june\\_tagged.pdf](https://www.dss.gov.au/sites/default/files/documents/06_2014/dss001_14_full_report_27_june_tagged.pdf) (accessed 17 November 2014).

43 Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 6.

44 Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 6.

45 Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 7.

The third category is student assistance which should be a lower payment rate than the participation rate.<sup>46</sup>

### ***Reform and simplicity***

6.58 In the context of the preceding discussion, the committee draws attention to the ACOSS / COTA principle of 'simplicity'. The committee understands that a key theme of stakeholders' discussions as part of the McClure Review is to simplify the payment system. Consistent with the ACOSS / COTA principle, the committee emphasises that reform to simplify the current system must:

- ensure that people in similar circumstances receive the same level of payments with the same or similar eligibility requirements; and
- remove the hurdles for people undergoing common life transitions such as employment, unemployment, different stages in the care of children or other family members.

6.59 In the context of the current reform process, the committee also reiterates its concern that any changes to the current system are consistent with the principle of fairness. Payments must be based on financial need and no recipient should be financially worse off as a result of the reforms.

### **Recommendation 6**

**6.60 The committee recommends that in its response to the findings of the Review of Australia's Welfare System, the Australian Government ensure that those facing the greatest hardship are better off.**

### **Other practical measures to address income inequality**

6.61 The previous section identified the need to increase the level of social security payments, and index these payments on a consistent basis to ensure that payment levels reflect current community standards. This section identifies some other specific measures that Australian Governments could pursue to alleviate income inequality. These could include:

- improving housing affordability for people on low incomes, and in particular:
  - increasing the level of Commonwealth Rent Assistance;
  - indexing this assistance to market rents rather than the CPI; and
  - setting aside a percentage of all new housing developments for public housing;

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46 *Australia's Future Tax System Review*, 'Section 7.3: Important impacts of the personal tax-transfer system', *Architecture of Australia's Tax and Transfer System*, Commonwealth of Australia, Canberra, 2009, pp 59–60.

- mentoring young people who are disengaged (or at risk of dropping out) from school, including 'hands-on' training programs and initiatives to connect young people with employers;
- retraining programs for older workers and case management to help the long-term unemployed find work;
- targeted assistance for low income groups to assist with the cost of childcare;
- strengthening taxation compliance;
- taxation reform including proposals to:
  - further increase the tax-free threshold;
  - limit the use of negative gearing as an investment strategy; and
  - progressively increase the rate of taxation on superannuation contributions, fund earnings and payouts.

### ***Housing affordability and Commonwealth Rent Assistance***

6.62 The ACOSS / COTA principles outlined above contain a principle on 'housing affordability' which says:

...comprehensive action should be taken to make housing affordable for people on low incomes...

Rent Assistance should be adequate and indexed to movements in rents.

Improvements in Rent Assistance should complement, not replace, adequate public investment in social housing and reform of incentives for private investment in affordable housing.<sup>47</sup>

6.63 In its submission, COTA noted that Commonwealth Rent Assistance (CRA) payments are often 'the difference between having and not having a home'. However, CRA payments have not kept pace with increases in private rents, particularly in metropolitan areas. COTA argued that while long term solutions for increasing the supply of affordable housing are critical:

...an increase in the CRA for the lowest income groups is an important measure as it would start to reduce the gap between the level of subsidy received by people in public housing and people in private rental who may have similar incomes and needs.<sup>48</sup>

6.64 COTA also argued the need to index payments to the private rental market to ensure the value of assistance does not erode over time.<sup>49</sup>

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47 See COTA, *Submission 38*, Attachment 1, p. 21.

48 *Submission 38*, p. 11.

49 *Submission 38*, p. 11.

6.65 This inquiry has received some evidence that CRA should be increased (see paragraph 3.85–3.86). Ms Mary D'Elia, the State Operations Manager of Baptcare in Tasmania, told the committee:

In a situation of increasing income inequality, it is low-income households living in private rental that face the greatest financial stress. Baptcare calls for the Commonwealth rent assistance to be increased and for it to be indexed to the rental component of the CPI. It is also disappointing that the Commonwealth has suspended NRAS initiatives for the construction of new housing developments for low-income renters. Baptcare encourages the Commonwealth to work with the social housing sector to establish viable, long-term strategies in this field so that housing does not increasingly exacerbate the impact of income inequality.<sup>50</sup>

6.66 The Queensland Department of Housing and Public Works told the committee that there are approximately 200 000 low-income Queensland households that currently receive CRA. Of this number, around 18 000 are in community sector housing with the remaining 182 000 in the private rental market. The Director-General of the Department, Mr Neil Castles, told the committee:

The issue with CRA is that it is not particularly responsive to variations in household income, movements in market rentals and regional differences. In some parts of Queensland there is probably a lesser need for CRA but if you are in the CBD or close to the CBD of Brisbane—and that may be a requirement, depending on need—CRA may not be adequate. It is a one-size-fits-all approach and that does not necessarily work.<sup>51</sup>

6.67 The Henry Review recommended that the maximum rates of rent assistance for income support recipients should be 'substantially increased' and linked to movements in market rents. Further, public housing rent concessions should be replaced by rent assistance and 'a new form of assistance for high-need tenants to improve equity and work incentives'.<sup>52</sup>

6.68 The Interim Report of the Reference Group on Welfare Reform has recognised that current arrangements that index rent assistance to the CPI are not effective. As it explained:

Rent Assistance is indexed to the Consumer Price Index (CPI), but private rents have been rising at a higher rate than the CPI for some time. This means that Rent Assistance has been gradually becoming less effective in reducing rental stress for people in the private market. It has also widened

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50 *Committee Hansard*, Hobart, 19 September 2009, p. 4.

51 *Committee Hansard*, Logan, 8 October 2014, p. 2.

52 *Australia's Future Tax System Review*, Report to the Treasurer, Part 1, Overview, Commonwealth of Australia, Canberra, 2009, p. xxiii.

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the gap between the relative generosity of Rent Assistance and public housing.<sup>53</sup>

6.69 The committee has not had the opportunity or the evidence to examine the issue of the maximum rate of rent assistance in any detail. However, the committee recognises that this is an important issue. It proposes that the level and the method for setting CRA payments should be considered as part of the consultation process on social security payments (see recommendation 4). It also makes the following recommendation.

### **Recommendation 7**

**6.70 The committee recommends that the Commonwealth Government establish a series of national and regional rental indexes to track the increase of rents. The committee recommends that consideration, including of cost implications, be given to indexing Commonwealth Rent Assistance according to the geographically most suitable index.**

#### *A percentage of social housing in national planning guidelines*

6.71 In addition to increasing the funding for CRA to reflect rent increases, the committee also highlights the need to increase the stock of public housing for people on lower incomes. The committee considers that government should aim to set a requirement that new housing developments contain a certain proportion of social housing. Specifically, the committee encourages the federal government, in partnership with state governments, to:

- develop national planning guidelines for new housing developments that require a social mix of public and private housing with a minimum target of affordable and public housing, and housing that caters for diverse social and cultural needs;
- increase the provision of emergency accommodation and transitional housing for people in need. This includes women and children affected by family violence, people experiencing homelessness, refugees and asylum seekers, migrants and people released from detention;
- develop national urban planning guidelines that provide for the location of high density housing and commercial buildings close to high capacity public transport; and
- the clustering of medium-density housing, community facilities and small-scale businesses around neighbourhood shopping centres and other social facilities linked with public transport.

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53 Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 31.

## **Recommendation 8**

**6.72** The committee recommends that the Commonwealth Government develop National Urban Planning Guidelines ensuring that new and existing developments have access to public transport, health, education and other services.

**6.73** The committee also recommends that the Commonwealth Government develop National Planning Guidelines that all new housing developments have a minimum target of affordable and public and social housing for low income and other disadvantaged groups.

### *Education and training: the importance of youth mentoring*

6.74 This inquiry has received valuable evidence from a range of submitters and witnesses on the type of education and training programmes that successfully support young people from disadvantaged backgrounds to remain in school until Year 12, and further training or the workforce after school. These programmes instil the importance of school and enabling young people to see that they have an employment future and where this future lies. The programmes have achieved some excellent outcomes.

### *Youth Connections*

6.75 Youth Connections is a federal government programme that assists young people at risk of not completing Year 12 to engage with employment opportunities to ensure they finished year 12 and then transition into employment or further study. The programme's providers offer outreach activities for young people who are disengaged from education, training or employment to support them in their local communities. The programme also aims to build the capacity of schools and communities to improve the support available to young people at risk of disengaging.<sup>54</sup>

6.76 The Youth Connections programme will cease at the end of 2014. Several submitters have noted the success and popularity of the programme in improving Year 12 completion rates in disadvantaged areas and recommended that it be continued. Mr Womersley of the South Australian Council of Social Service, for example, expressed his disappointment that the programme would not be funded beyond 2014. He drew the committee's attention to the programme's role in building long term connections with disaffected young people.<sup>55</sup>

6.77 Similarly, the Youth Affairs Council of Western Australia highlighted 'the importance that the nationally funded Youth Connections Program plays in reducing

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54 See Department of Education, 'Youth Connections', <http://education.gov.au/youth-connections> (accessed 18 November 2014).

55 Executive Director, *Committee Hansard*, Elizabeth, 10 November 2014, p. 29.

income inequality in our communities'. It urged that the government 'continue funding of the highly successful and critically important, Youth Connections Program'.<sup>56</sup> Mr Craig Comrie told the committee:

Across the country it [the Youth Connections programme] has a success rate of 80 per cent in engaging young people to stay in education or employment. In some parts of the country the success rate is 94 per cent.<sup>57</sup>

... It is a \$7.5 million investment in Western Australia. In terms of cost, it is really not expensive for the outcomes that are achieved by the program. There are 1,500 young people supported every year, and there are also 77 youth workers, who, on 31 December, will lose their jobs. We really need to stop the back and forth between the state and federal governments, and someone needs to make a commitment in this area.<sup>58</sup>

... One of the potential safeguards in place around the Youth Connections programs is [Job Services Australia (JSA)]. I would suggest that JSA is probably not equipped at the moment to best support young people. There is a different conversation that needs to be had with young people, going back to what I mentioned about meeting young people where they are and hearing their story rather than simply being, 'Okay, you've come to JSA. The aim here is to get you into employment.' For youth services the aim is: 'We want to know where you're coming from, we want to know your story and we want to know what you want in life so that we can help you get there.'<sup>59</sup>

6.78 The Youth Affairs Council of South Australia (YACSA) conducted a survey of young people, the results of which were reported in its submission. One of the survey questions asked what governments can do to make things better for young people experiencing poverty. YACSA noted:

- 80 per cent of respondents called for the provision of more education and employment pathways programs (the highest response);
- 76 per cent called for more affordable housing options including more government housing; and
- 65.1 per cent called for higher rates of government allowances.<sup>60</sup>

YACSA added that specific comments from the survey:

...centred on governments providing employment and training transitions programs (like the recently defunded Youth Connections), meaningful mentoring programs, more programs to teach young people about starting

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56 *Submission 25*, p. 10.

57 *Committee Hansard*, Rockingham, 11 November 2014, p. 20.

58 *Committee Hansard*, Rockingham, 11 November 2014, p. 20.

59 Chief Executive Officer, *Committee Hansard*, Rockingham, 11 November 2014, p. 27.

60 *Submission 35*, p. 9.

their own business, and providing a fair and consistent Centrelink Allowance system that covers the basics of life.<sup>61</sup>

6.79 The committee is concerned that the decision to terminate the Youth Connections programme and other youth transition programmes will leave a significant gap in services for those young people who no longer attend school. The committee urges the Commonwealth Government to either recommit funding for the Youth Connections programme or introduce a rebadged program with the same objectives and design as Youth Connections. In addition, the committee recommends that the Australian Government considers incorporating the key mentoring aspects of the Youth Connections programme into TAFE courses.

### **Recommendation 9**

**6.80 The committee recommends that the Commonwealth Government reconsider its decision to terminate the *Youth Connections* programme and other youth transition programmes. These programmes should be continued or at least rebadged. The focus of the programme must remain on one-on-one mentoring to help young people to overcome the barriers that make it difficult for them to stay in, or return to, school or training.**

**6.81 The committee recommends that the Commonwealth Government establish TAFE programmes that build on the mentoring approach of the *Youth Connections* programme. The objective of this approach at TAFE level is to ensure that young people remain engaged in vocational training and are able to identify and pursue their employment options.**

#### *Pasifika Families with Pride and Purpose Programme*

6.82 Ms Ranandy Stanley from the Hope Centre in Logan noted the achievements of the Pasifika Families with Pride and Purpose Program, which engages migrant families from Pacific Islander backgrounds.<sup>62</sup> Despite being a new initiative, it has improved Year 12 retention rates at several local schools. The programme aims to:

[G]et elders from the community to talk about how to fit into the Australian customs. We have Griffith University come in and talk about how important education is and finding pathways for them to get into university. Then we have someone talking about healthy relationships at home and

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61 *Submission 35*, p. 9.

62 *Pasifika Families Program with Purpose and Pride*, [https://prezi.com/yh6xxw\\_6etos/pasifika-families-program-with-purpose-and-pride/](https://prezi.com/yh6xxw_6etos/pasifika-families-program-with-purpose-and-pride/) (accessed 18 November 2014).

how to interact with your parents and that sort of thing. We touch on different topics.<sup>63</sup>

### *Learning for Life*

6.83 Ms Anne Hampshire of The Smith Family noted that 'low-income families have very high aspirations for their children and their family generally, but they struggle to provide the resources and the stepping stones to realise those aspirations'.<sup>64</sup> The Smith Family runs a programme called *Learning for Life* that seeks to provide those resources to 'attain Year 12 and beyond'. The programme engages with the young person and their family, tailoring access to resources in addition to small financial contributions contingent on the young person meeting specific goals such as attendance and utilisation of the opportunities provided. That is, the scholarship's strength is this idea of mutual obligation and trust between the individual and The Smith Family. This programme supports over 34 000 young people.<sup>65</sup>

### *The South Metropolitan Youth Link in Western Australia*

6.84 The South Metropolitan Youth Link (SMYL) in Western Australia places school age children at risk of disengaging from the education and training system into a workplace. SMYL pays the wages of these children whilst they attend a workplace and learn the requisite skills to function as an employee. There is a role for government to assist with paying these young people's wages to ensure they remain engaged with study or in some cases moving directly into the workforce:

We have the constant assertion from industry that it cannot afford to pay the \$100 a day to put a kid at the workplace. There is a point where [the government and not-for-profit sectors] have to wear that because we work with kids who are really difficult. They are not good year 12 kids. Within six to 12 months, most of our kids are functioning, but we still have to carry their wages until year 12. After year 12, about 85 or 90 per cent of the non-Aboriginal kids get employment straightaway with their host employers. We have that kind of compact with employers. Our fear about this is: if you wait until the kids have left school, it becomes almost

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63 Ms Rananda Stanley, Multicultural Liaison and Community Development Coordinator, Hope Centre Services, *Committee Hansard*, Logan, 8 October 2014, pp 29–30. See also evidence from Ms Jane Frawley, Community Services Manager, Logan City Council, *Committee Hansard*, Logan, 8 October 2014, pp 23–24. The Scanlon Foundation also provides funding for six community hubs and six staff to engage with students who are disengaged from schooling and at risk of not finishing school. Mr Neil Castles, Director-General, Queensland Department of Housing and Public Works, *Committee Hansard*, Logan, 8 October 2014, p. 2. The AFL Cape York House in Cairns was also described in evidence as a boarding house where indigenous children from remote locations can board and then attend local high schools.

64 Head, Research and Advocacy, *Committee Hansard*, Canberra, 16 October 2014, p. 40.

65 Ms Anne Hampshire, The Smith Family, *Committee Hansard*, Canberra, 16 October 2014, p. 40.

impossible. It is too expensive. If we get these kids while they are not attending school but at school age, we can get them re-engaged.<sup>66</sup>

6.85 As chapter 1 of this report noted, the committee had an opportunity to visit SMYL's College and training facility in Rockingham and was impressed. Clearly, the College has had significant success in keeping its students on its roll and engaged in practical and hands-on activities. It is also clear that the mainstream schooling system could not have achieved these results.

#### *The Northern Adelaide State Secondary Schools Alliance*

6.86 The committee also heard of the success of programmes that connected school students with vocational education providers and employers. The Chief Executive Officer of AnglicareSA, Reverend Peter Sandeman, told the committee of a successful collaborative programme in north Adelaide that connected schools with TAFE, providing later-year school children with TAFE training opportunities:

The first organisation I draw your attention to is the Northern Adelaide State Secondary Schools Alliance, affectionately known as NASSSA. The purpose of the alliance is to maximise the learning opportunities, career pathways, retention and educational outcomes for students in state secondary schools in the northern Adelaide region. The alliance is a key link between 11 secondary schools and community, university, training organisations and industry partners across the northern Adelaide region. It has enabled those schools to stop talking about 'my students' and start talking about 'our young people' and that is a big jump. It is one of the things I was associated with in the north and it has endured to this day. NASSSA then allows schools to work with employers and employer groups as a whole.<sup>67</sup>

We had the schools working together to provide TAFE opportunities during year 10, 11 and 12. Let me give you an example. By themselves, individual high schools could only muster maybe three or four kids who wanted a particular program, and TAFE would say, 'Sorry; not interested.' So what we did was to get the schools to develop an alliance, and I think we went from 56 kids doing TAFE training in one year to 560 the next year, simply through the schools buying from and negotiating with TAFE in bulk.<sup>68</sup>

#### *Work Inspiration*

6.87 Work Inspiration is an employer-led programme aimed at making a young person's first experience of work both meaningful and inspiring. It is operated in partnership between The Smith Family, the Foundation for Young Australians and the

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66 Mr Sam Gowegati, Chief Executive Officer, *Committee Hansard*, Rockingham, 11 November 2014, p. 41.

67 *Committee Hansard*, Elizabeth, 10 November 2014, pp 25–26.

68 Board Member, Automotive Transformation Taskforce, *Committee Hansard*, Elizabeth, 10 November 2014, pp 3–4.

National Australia Bank. Employers are encouraged to create their own format for a work experience programme. This programme should encourage a dialogue between the young person and employer: the young person explaining themselves and their interests and the employer explaining the opportunities that might suit these interests and how a career might pan out.<sup>69</sup> Mrs Hampshire from The Smith Family told the committee:

Work Inspiration is an employer-led initiative but involves very close partnerships with schools and community organisations. It came from the UK originally; it provides young people with a very different type of work experience, a very hands-on, personal opportunity. For the employer it allows them to understand what a potential youth labour force might look like. It allows them also to get—what generation are we up to now?—Generation Z's view of how they might sell their products, et cetera. We need far more innovative and creative ways.<sup>70</sup>

6.88 At the hearing in Elizabeth, the committee heard of the importance of school students—particularly those from disadvantaged backgrounds—being able to connect with employers. Dr Ian Goodwin-Smith of Flinders University drew the committee's attention to the work of Dr Anthony Mann, the Director of Policy and Research at the Education and Employers Taskforce in the United Kingdom. Dr Mann's research shows that there is a positive connection between employer engagement with students at school and the employability and earning power of a young adult who could recall that interaction.<sup>71</sup>

6.89 In referencing Dr Mann's work, Dr Goodwin-Smith told the committee that, by interacting with employers, young people:

...get a more complex array of social and cultural capital—they get that life experience which you do not get, necessarily, in an inter-generationally unemployed family...

There needs to be a lot of work done, with people who have been unemployed throughout the generations, to overcome that kind of cultural and social exclusion. There also needs to be a commitment to carrying that work through to post-employment support. That is what a lot of our research showed us as well. Worker acculturation and post-employment support using a case-management approach are really important.<sup>72</sup>

6.90 Similarly, Ms Catherine Bartolo of YFS Limited suggested the need for 'champions' for disengaged youth, adding that service providers can fulfil that role:

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69 Work Inspiration, 'What's involved?', <http://www.workinspiration.com.au/whats-involved/> (accessed 19 November 2014).

70 *Committee Hansard*, Canberra, 16 October 2014, pp 41–42.

71 See: <http://www.darwin2014.com.au/dr-anthony-mann/> (accessed 3 December 2014).

72 Director, Australian Centre for Community Services Research, *Committee Hansard*, Elizabeth, 10 November 2014, p. 41.

They need people in their lives to champion—whether it is a football coach, a teacher or an agency like us that says, 'We're going to do what it takes to make it work.' We have to break some of those cycles.<sup>73</sup>

## Recommendation 10

**6.91 The committee recommends that Australian schools—particularly those in regions of socio-economic disadvantage—establish alliances with employers and vocational education providers to deliver programmes that encourage young people to remain at school, develop contact with employers and support young people to transition to the workforce or further education or training. These programs should encourage employers and vocational education institutions to take a lead role in designing courses that identify future job opportunities for these young people.**

### *Training and employment for older workers and the long-term unemployed*

6.92 The committee also received important evidence on the need for targeted training programs to assist older workers (particularly those facing retrenchment) and long-term unemployed people looking to re-enter the workforce.

### *Retraining opportunities for older workers*

6.93 The TAFE system also has an important role to play in providing retraining opportunities for older workers. Chapter 4 noted the comments of the Age Discrimination Commissioner and her call for a National Jobs Checkpoint Plan (see paragraph 4.79). Ms Ryan envisaged that this Plan would be:

...high profile, widely supported, and nationally coordinated approach to helping all people at midlife to check where they are and change direction if they need to. This national approach can be developed by governments, industry and vocational education providers working together. I see TAFE right at the centre of this Plan. TAFE colleges have the required training skills and links with local employers and government programs, but these links need to be strengthened and supported for vocational education everywhere throughout Australia.<sup>74</sup>

6.94 As chapter 4 noted, the committee believes that this proposal has merit. It encourages the Office of the Age Discrimination Commissioner to articulate a plan, with costings, that can be put to the Commonwealth and State governments for their

73 Chief Executive Officer, *Committee Hansard*, Logan, 8 October 2014, p. 34.

74 The Hon. Susan Ryan AO, Age Discrimination Commissioner, *The Longevity Revolution—Crisis or Opportunity?*, Address to the National Press Club, September 2014, <https://www.humanrights.gov.au/news/speeches/longevity-revolution-crisis-or-opportunity> (accessed 17 November 2014). See also, Joanna Mather, 'Slow start for aged workers subsidy', *Australian Financial Review*, 20 September 2014, p. 11.

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consideration.<sup>75</sup> The costings should emphasise the savings that will arise from a preventative approach where people move smoothly to training and further work, as distinct from older workers being made redundant and reliant on income support payments.

### **Recommendation 11**

**6.95 The committee recommends that the Office of the Age Discrimination Commissioner articulates a National Jobs Checkpoint Plan, with costings, that can be put to the Commonwealth and State governments for their consideration. These costings should emphasise the savings that will arise from a preventative approach where older workers can move smoothly to training opportunities and further work, as distinct from these workers being made redundant and reliant on income support payments.**

#### *Connecting the long-term unemployed to the workforce*

6.96 The task of encouraging low-income people from disadvantaged groups into the labour market requires a sustained and coordinated effort. For many years in Australia, a targeted approach has been applied through various labour market programmes. On the basis of the evidence received during this inquiry, the committee suggests that there are significant benefits from the case management approach of programs operating in areas of acute socio-economic disadvantage.

6.97 As chapter 1 noted, in Elizabeth, the committee had the opportunity to meet representatives of the Building Family Opportunities (BFO) Program, run by Wesley UnitingCare Port Adelaide. The program seeks to bring together long-term jobless families, local community organisations, government, and employers to find solutions to complex issues that prevent families from participating in employment. BFO case managers work with families to address *all* barriers until a sustainable job is achieved. The approach of JSA tends to be more focused on job skills, experience and local job opportunities (see paragraphs 1.60–1.61).

6.98 The committee commends programs such as the BFO Program. These initiatives are carefully targeted to meet the specific needs of families facing severe hardship.

### **Recommendation 12**

**6.99 The committee recommends that the Australian Government assess the success and the financial and social benefits of programmes that provide individualised support for the long-term unemployed and those at risk of long-term unemployment. Pending this analysis, the committee recommends that the**

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75 The committee understands that the Age Discrimination Commissioner has made some preliminary approaches to federal Ministers and Shadow Ministers. Discussion with the Hon. Susan Ryan AO, 27 November 2014.

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**Australian Government consider the case for funding these programmes on a more secure, longer-term basis.**

***Childcare***

6.100 Currently, the Australian Government assists with the cost of childcare through a means-tested childcare benefit and a capped childcare rebate. The maximum rate of childcare benefit is payable for a family income under \$42 997 or for families receiving income support. A family with one child is not eligible for the benefit if its income exceeds \$149 597; for two children, the benefit cuts out at an income of \$155 013 and a family with three children is only eligible for the benefit if its income is less than \$175 041.<sup>76</sup> The child care rebate covers 50 per cent of out of pocket child care expenses up to a maximum of \$7500 per child per year.

6.101 The Henry Review recommended combining the Child Care Benefit and the Child Care Rebate into a single payment based on a percentage of childcare costs. The Review proposed that the payment should have a high rate of subsidy for low-income families that covers up to 90 per cent of the costs of childcare. It also proposed a base rate of assistance for all families that use child care to facilitate parental engagement in the workforce. The base rate of assistance should be set as a proportion of child care costs, with reference to the marginal tax rate faced by the majority of taxpayers.

6.102 The committee notes that the Productivity Commission (PC) is currently undertaking a review of Childcare and Early Childhood Learning. In its July 2014 draft report, the PC recommended that the all childcare subsidies should be consolidated into one payment called the Early Care and Learning Subsidy (ECLS). This subsidy would also contain a top-up provision to provide additional services to specific groups of children based on need, 'notably children assessed at risk, [indigenous children], and children with a diagnosed disability'. The PC also proposed establishing two block-funded programs to cater to specific areas of need:

The Special Early Care and Learning Subsidy would fund the deemed cost of meeting additional needs for those children who are assessed as eligible for the subsidy. This includes funding a means tested proportion of the deemed cost of mainstream services and the 'top-up' deemed cost of delivering services to specific groups of children based on their needs, notably children assessed as at risk, and children with a diagnosed disability.

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76 Department of Human Services, *Childcare benefit*, <http://www.humanservices.gov.au/customer/services/centrelink/child-care-benefit> (accessed 17 November 2014).

The Disadvantaged Communities Program<sup>77</sup> would block fund providers, in full or in part, to deliver services to specific highly disadvantaged community groups, most notably Indigenous children. This program is to be designed to transition recipients to child-based funding arrangements wherever possible. This program would also fund coordination activities in integrated services where [Early Childhood Education and Care (ECEC)] is the major element.

The Inclusion Support Program would provide once-off grants to ECEC providers to build the capacity to provide services to additional needs children. This can include modifications to facilities and equipment and training for staff to meet the needs of children with a disability, Indigenous children, and other children from culturally and linguistically diverse backgrounds.<sup>78</sup>

6.103 The report also suggested a shift in funding priorities from the proposed Paid Parental Leave scheme to ECEC:

A considerable number of submitters, the 2014 National Commission of Audit and various commentators, suggested that the Government direct at least some of the funding for its proposed Paid Parental Leave (PPL) scheme to ECEC assistance for families, to ensure continuity of support for working parents with young children. The Commission considers that it is unclear that the proposed changes to the Paid Parental Leave scheme—which is more generous than the existing scheme and that recommended in the Commission's 2009 report on paid parental leave—would bring significant additional benefits to the broader community beyond those occurring under the existing scheme. There may be a case, therefore, for diverting some funding from the proposed new scheme to another area of government funding, such as ECEC, where more significant family benefits are likely. Such a move could add up to a further \$1.5 billion per year to Australian Government assistance for ECEC.<sup>79</sup>

6.104 The committee notes media speculation that the PC's final report as part of the federal government's review into childcare and early childhood learning will recommend a single means-tested payment for childcare, with government assistance based on a percentage of the 'deemed cost' of childcare.<sup>80</sup>

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77 The Productivity Commission (PC) recommended that the government establish this program (as well as the *Inclusion Support Program*) to cater for those areas where delivery is likely to be improved through a block-funding approach, rather than a child-based funded approach. See page 23 of the Draft Report.

78 PC, *Childcare and Early Childhood Learning*, Draft Report, July 2014, p. 49.

79 PC, *Childcare and Early Childhood Learning*, Draft Report, July 2014, p. 41.

80 'Childcare resolutions will have to wait for the new year', *Sydney Morning Herald*, 30 October 2014, <http://www.smh.com.au/federal-politics/political-news/childcare-resolutions-will-have-to-wait-for-the-new-year-20141031-1leazr.html> (accessed 18 November 2014).

6.105 This inquiry has not examined the issue of childcare costs in any detail. Few submitters raised the issue. The Salvation Army proposed temporary tax cuts to offset the cost of childcare.<sup>81</sup>

6.106 The committee does recognise that childcare costs can be significant impost not only for low income families and single parents, but even for people and households on average incomes. It also acknowledges that there is a significant opportunity cost to the economy where women either choose, or are financially forced, to remain at home to care for a child. The committee awaits the PC's final report.<sup>82</sup> It hopes that the report will make recommendations that adequately address the key issue of increasing investment in childcare places, particularly in areas of socio-economic disadvantage.

### ***Taxation options: raising the tax-free threshold***

6.107 Apart from increasing benefits, another obvious way to assist low income people is to remove their tax obligations. The Australian taxation system has a tax-free threshold: a person earning below this threshold is exempt from paying income tax. Tax is only paid on taxable income exceeding the threshold.

6.108 As of July 2012, the tax-free threshold increased from \$6000 to \$18 200. Dr Paul Blacklow of the University of Tasmania told the committee:

...I think that most public policy for the last 20 years has only contributed to inequality. Really, the raising of the tax-free threshold is the only thing I can think of that has been a positive step...<sup>83</sup>

6.109 The final Report of the Henry Review noted the merit of a tax system that reduced the number of income support recipients need to pay tax. It argued that the transparency of the system could be improved by 'a more complete separation of the tax system from the transfer system' which could be achieved by setting the tax-free threshold at a 'much higher level'. One of the recommendations of the Henry Review was that 'a much higher personal tax-free threshold, around \$25,000, should replace the current complex array of thresholds and offsets'.<sup>84</sup> The Review estimated that a threshold set at this level:

...would mean that more than 1.2 million additional people would no longer pay tax—over 10 per cent of current taxpayers. Many of these would not have to file a tax return (although some would continue to do so to claim withheld amounts or imputation credits). Setting the tax-free

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81 *Submission 13*, p. 7.

82 The Draft Report, released in July 2014, can be found here:  
[http://www.pc.gov.au/data/assets/pdf\\_file/0008/138383/childcare-draft.pdf](http://www.pc.gov.au/data/assets/pdf_file/0008/138383/childcare-draft.pdf)

83 Lecturer in Microeconomics, Tasmanian School of Business and Economics,  
*Committee Hansard*, Hobart, 19 September 2014, p. 13.

84 Australia's Future Tax System Review, Report to the Treasurer, Part 1, Overview,  
Commonwealth of Australia, Canberra, 2009, p. xx.

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threshold at this level would remove the need for the low income tax offset and limit the need for the senior Australians tax offset.<sup>85</sup>

### ***Strengthening tax compliance***

6.110 Compliance with taxation laws is important not only to the integrity of the tax system but also to ensure that revenue for public services is collected and the intended distributional effects actually occur. In evidence to the committee, the Australian Taxation Office (ATO) stated:

The overwhelming majority of Australians actually do the right thing in terms of complying with their tax obligations. That is the evidence we experience, in terms of our view, at the ATO. We devote an enormous amount of effort to trying to make it as easy as possible for people to comply. By the same token, we also devote resources to those who are not complying, initially from a help and educational perspective, to try and help them to understand their obligations and meet them—because many who do not do so inadvertently. For those who do so deliberately, we have a particular focus around those as well to ensure that they do meet their obligations and continue to do so going forward.<sup>86</sup>

6.111 Several contributors to this inquiry stressed the importance of strengthening compliance with the tax system and closing tax shelters and loopholes. The committee also draws attention to what appears to be a double standard in the government agencies' approach to compliance issues at different ends of the income spectrum. As Dr Richard Denniss of the Australia Institute told the committee:

The ATO is proud of the fact that it focuses on the 95 per cent of people who pay their tax and pay their tax willingly. They are proud of the fact that they adopt a commercial approach to negotiation with those who are in default whereby they do not throw money at cases they are unlikely to win. They are proud of the fact that they take a 'light touch' approach; they are happy to settle rather than bankrupt people. This is not the approach taken by our welfare agencies, where people are bankrupted for very small debts.<sup>87</sup>

### ***Tax concessions***

6.112 There are legal ways to minimise personal tax liabilities. These strategies tend to be adopted by those on higher incomes and with more wealth. These vehicles include negative gearing on investment properties, superannuation tax concessions, capital gains tax arrangements and the use of private trusts. In its submission, ACOSS argued:

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85 Australia's Future Tax System Review, Report to the Treasurer, Part 2, Detailed Analysis, Commonwealth of Australia, Canberra, 2009, p. 22.

86 Mr Tim Dyce, Deputy Commissioner, Aggressive Tax Planning, Australian Taxation Office, *Committee Hansard*, Canberra, 16 October 2014, p. 1.

87 Executive Director, *Committee Hansard*, Canberra, 16 October 2014, p. 13.

While the progressive personal income tax rate scale is clearly progressive, people on higher incomes can easily avoid paying tax at their marginal rate through tax shelters and loopholes such as superannuation, negatively geared investment in assets, the preferential tax treatment of capital gains, and the use of private trusts. For example, the top 20% of wage earners receive the majority of the benefits from tax breaks for superannuation, even though they are unlikely to have to rely on age pensions when they retire. The top 10% of male wage earners receive more in superannuation tax concessions over their lives than they would if they received the full rate of the age pension.

To ensure that tax policies reduce income inequality rather than increase it, access to these and other tax shelters which make no positive contribution to economic growth and productivity should be restricted. It is also vital that policy makers avoid any major shift in the incidence of taxation from income to consumption as this would greatly increase inequality of spending power by raising taxes on people on the lowest incomes and reducing them on high income households.<sup>88</sup>

### *Superannuation taxation concessions*

6.113 The taxation of superannuation contributions, earnings and withdrawals in Australia is at a discounted rate (relative to the income tax schedules). Employer contributions are taxed at 15 per cent on amounts up to \$30 000 a year.<sup>89</sup> Salary sacrificed contributions are also taxed at 15 per cent on amounts up to \$35 000 a year.<sup>90</sup> Income earned in a superannuation fund is taxed at 15 per cent. If a person is aged 60 or over, any withdrawals from a taxed superannuation fund are tax-free. Dr Denniss noted the generosity of these taxation arrangements:

If you are over 60, any income you withdraw from a super fund is tax-free. A million dollars a year, \$10 million a year—pull out as much as you want—it is tax-free. That is why people are so desperate to get their money into super. It is not to take pressure off the age pension. This is the best money laundering ever invented. If you can get it into super, you wash it of its tax on the way out. No-one is breaking the law. This is the law. This is the system. But you have been told it is to 'take pressure off the aged pension'. It is obscene. No-one with ten million bucks was ever going to get the age pension.<sup>91</sup>

6.114 Dr Denniss highlighted the regressive impact of way that superannuation is currently taxed in Australia with the following analogy:

...imagine we had \$40 billion in front of us now and parliament wanted to decide who to give it to in retirement. We have decided not to give it to

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88 *Submission 29*, p. 4.

89 Amounts in excess of \$30 000 are taxed at the personal tax rate plus an interest charge.

90 Amounts in excess of \$35 000 are taxed at the personal tax rate plus an interest charge.

91 *Committee Hansard*, Canberra, 16 October 2014, p. 19.

young people. We have decided not to give it to disabled people. We have decided not to give it to minimum wage workers. The \$40 billion is most needed by retirees.

The current system effectively lines people up from the poorest at one end to the richest at the other end and gives the vast majority of the money to those with the most. And not only does it give nothing to those with the least, but when the low-income super contribution leaves us in 2017, low-income earners will pay more tax—more tax—on their compulsory superannuation than they do on their meagre incomes.

If the parliament, rather than use tax concessions to achieve this incredible disparity, were to post cheques, it would be posting cheques for tens of thousands of dollars to the wealthiest Australians and it would be sending a bill to the poorest Australians. The superannuation tax concession system is obscene. Nine per cent of our incomes—9½ per cent of our incomes—is compulsorily provided to superannuation. You do not need a tax incentive to make someone do something that is compulsory. It is compulsory.<sup>92</sup>

#### 6.115 Similarly, COTA wrote in its submission:

Tax concessions for superannuation are broadly equivalent to expenditure on the age pension. The need to rebalance this equation could be established through a systematic review of retirement income policy which is what COTA is recommending. COTA is particularly uneasy about the way in which government support through superannuation tax concessions has been apportioned.

COTA joins ACOSS in their concern that:

Current superannuation tax expenditure settings are poorly targeted, with some 30% of the value of superannuation tax breaks going to the top 10% of income earners and only 20% of tax concessions received by people in the bottom 50% of income distribution.<sup>93</sup>

6.116 The committee encourages the government to assess whether the current tax incentives to invest in superannuation and take pressure off the aged pension outweigh the significant cost to the public purse in offering these tax concessions. More particularly, the committee encourages the government to assess the equity implications of the current arrangements for the taxation of superannuation:

- Is it fair that the concessions are directed to the very rich and do little to increase the retirement savings of the poor?
- Would those who benefit the most from current concessional arrangements be adversely impacted if these concessions were tightened, or would their savings be redirected into another investment vehicle?

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92 *Committee Hansard*, Canberra, 16 October 2014, pp 16–17.

93 *Submission 38*, p. 6.

### *Negative gearing*

6.117 The other area with significant concessions in Australia's tax system relates to negative gearing. As with the superannuation tax concessions, the effect of negative gearing is to disproportionately deliver benefits to the very wealthy.<sup>94</sup> The ATO has found that negatively geared property investors claimed \$13.2 billion in losses in 2010–11. The average loss per negatively geared investor was \$10 950. For investors earning over \$180 000, the average loss was \$23 800.<sup>95</sup>

6.118 As chapter 3 discussed, negative gearing allows a property investor in Australia to offset rental losses against income. In addition to the reduced personal income tax liability, negative gearing allows an investor to hold a property which is rising in value. As an investment strategy, negative gearing has become increasingly popular:

In 1993-94 there were 980,471 investors, with 480,736 (49%) positively geared and 499,735 (51%) negatively geared. The number of investors increased to 1,751,679 in 2009-10, a significant rise of 79%, with 640,757 positively geared and 1,110,922 negatively geared. This is a remarkable increase of negatively geared investors compared to those who are positively geared. The number of negatively geared investors increased by 122% over this period, while those positively geared increased only 33%. The trend shows that negative gearing is becoming central to residential property investment.<sup>96</sup>

**Table 6.1: Individuals with net rental income less than \$0, by taxable income, 2012–13 income year**

-----Net rental income less than \$0-----				
Taxable income	No.	%	\$million	%
\$18 2000 or less	167 042	13	–1522	13
\$18 201–\$37 000	186 238	15	–1415	12
\$37 000–\$80 000	486 136	39	–4027	33
\$80 001–\$180 000	342 955	27	–3548	29
\$180 001 or more	79 673	6	–1551	13
<b>Total</b>	<b>1 262 044</b>		<b>–12 603</b>	<b>100</b>

Source: Australian Taxation Office, *Answer to Question on Notice*, pp 5–6 of Committee Hansard, 16 October 2014.

94 Dr Richard Denniss, The Australia Institute, *Committee Hansard*, Canberra, 16 October 2014, p. 13.

95 <http://www.smh.com.au/business/federal-budget/boom-puts-spotlight-on-negative-gearing-20140411-36him.html> (accessed 3 December 2014).

96 <http://www.smh.com.au/business/federal-budget/boom-puts-spotlight-on-negative-gearing-20140411-36him.html> (accessed 3 December 2014).

6.119 Table 6.1 shows that the majority of negatively geared properties are owned by individuals with a taxable income less than \$80 000. This statistic is misleading for a number of reasons. Firstly and most importantly, many of these investors have a taxable income below this value through the use of negative gearing deductions. Second, the Reserve Bank of Australia has noted that as of September 2014, 60 per cent of investor housing debt is held by the top quintile and that investment housing loans are twice as common in the top quintile (see Table 6.2 below).<sup>97</sup> This may be because higher income individuals buy more expensive properties as investments, which ultimately results in those with a higher income accruing the majority of the financial benefits of negative gearing. Finally, there are 74 000 individuals declaring rental income who have a total taxable income of \$0 or less. These people are likely to be individuals with other income streams (partners), non-taxable income streams (superannuants), or those who live overseas and earn an income in another tax jurisdiction (foreign investors).<sup>98</sup>

**Table 6.2: Investor Housing Leverage and Debt Serviceability, (Households with investor housing debt, by disposable income quintile, 2010)**

Income quintile	Share of investor housing debt <sup>(a)</sup>	Share of total housing debt <sup>(b)</sup>	Median total housing debt repayments to disposable income ratio	Ahead of schedule on owner-occupied housing debt repayments
	Per cent	Per cent	Per cent	Per cent of households in each income quintile
1 (lowest)	2	1	127	19
2	7	2	49	17
3	12	5	42	49
4	20	10	33	47
5 (highest)	60	28	28	54

(a) Sum does not total 100 due to rounding  
(b) Total housing debt includes debt on investment properties and any owner-occupier housing debt  
Source: HILDA Release 12.0

Source: Reserve Bank of Australia, *Financial Stability Review*, September 2014, p. 51.

6.120 The committee is concerned not only with the regressive distributional nature of negative gearing tax concessions, but the impact of the policy on housing affordability. This inquiry has heard from several submitters and witnesses that low income, and even middle income, people and households are not only missing out on the Australian dream of home ownership but are also priced out of the private rental market. Policy settings, including taxation settings, should be directed at increasing

97 Reserve Bank of Australia, *Financial Stability Review*, September 2014, p. 51, <http://www.rba.gov.au/publications/fsr/2014/sep/pdf/0914.pdf> (accessed 17 November 2014).

98 Mr Michael Janda, 'The myth of 'mum and dad' property investors', *The Drum*, Australian Broadcasting Commission, <http://www.abc.net.au/news/2014-09-24/janda-the-myth-of-mum-and-dad-negative-gearers/5766724> (accessed 24 September 2014).

the stock of owner-occupier housing in Australia. Rather, its effect is to limit this stock and 'create a renting society among the poorer segments of society'.<sup>99</sup>

6.121 The committee considers that the government, as part of its upcoming White Paper on taxation, should look at the options to curtail the generosity of the current negative gearing concessions. It is aware of media reports in the lead-up to this year's federal budget that the Treasury had conducted work on limiting negative gearing to new homes. Just as the First Home Owners' Grant is being limited to the purchase of new houses, if negative gearing is to remain, the policy settings should be directed at creating incentives to increase the affordability and supply of housing.<sup>100</sup>

### **Recommendation 13**

**6.122 The committee recommends that as part of the planned discussions leading to a White Paper on taxation reform in 2015, the federal government have regard to how the existing tax system is affecting inequality in Australia. This should include an analysis of existing tax concessions.**

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99 Professor Bob Gregory, 'Time for action on superannuation and negative gearing', in *Advance Australia Fair? What to do about growing income inequality in Australia?*, Presented to the Committee by Australia21 as *submission 37*, Attachment 1, p. 44.

100 Office of State Revenue, New South Wales Government, First Home Owners Grant (New Homes) Scheme, <http://www.osr.nsw.gov.au/grants/fhog> (accessed 18 November 2014).

### The liability investment approach

In 2011–12, the New Zealand Government commenced a programme of welfare reform, which aims to reduce long-term welfare dependency. Central to this reform is the conceptualisation of the dependency as a future liability (social, economic and fiscal), the costs of which can be decreased with early investment in employment outcomes (liability investment).

As part of this new approach, the Welfare Working Group, whose recommendations underpinned the reform, noted the importance of actuarial measurement of the future (or forward) liability.<sup>1</sup> In October 2011, Australian firm Taylor Fry Consulting Actuaries (Taylor Fry) developed a model for measuring the fiscal liability<sup>1</sup> and was subsequently commissioned to undertake the 'first actuarial valuation of the NZ benefit system as a baseline prior to welfare reform'.<sup>2</sup>

In January 2014, a 2013 valuation conducted by Taylor Fry was publicly released, showing that the inflated and discounted estimate of the client liability as at 30 June 2013 was \$76.5 billion (a decrease of \$7.4 billion, from 2011-2012).<sup>3</sup> The Taylor Fry valuation notes that the Ministry of Social Development is able to influence 'the number of leaves and joins and changes to future behaviour' (through the Work and Income programme), which combined achieved a \$4.4 billion reduction in the liability. Of this amount, \$1.8 billion was due to higher than expected leaves and lower joins.

Figure 6.6 shows that nearly all the reduction arose from Sole parents (including those with children 14 years and older who are included in the Jobseekers segment), who accounted for \$1.1 billion of the reduction and other Jobseekers who accounted for \$0.7 billion.

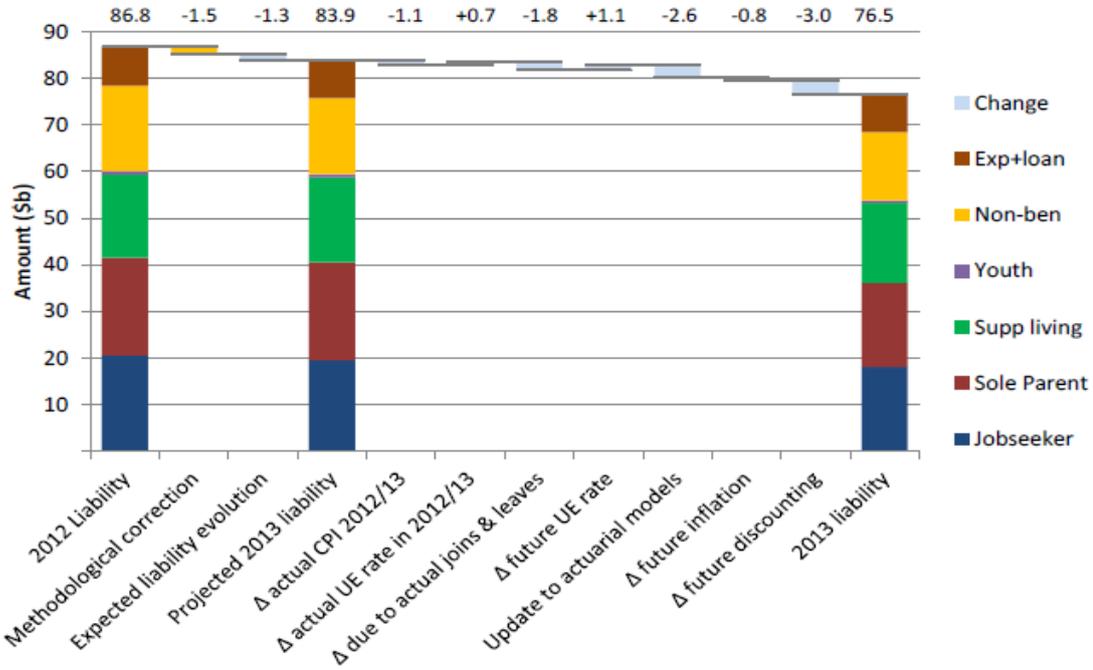
Ms Hatfield Dodds referred to New Zealand's investment approach in her evidence to the committee:

...they are just embarking on an endeavour to have a look at an investment approach, which is really an actuarial approach to public policy. It is about how government behaves and how government thinks about disadvantaged people. They have a liability approach...

For example, one of the issues I was told about were single parents, mostly women there as it is here, who are 20 and under with children on benefit payments are something like four or five times more likely to be on benefits continuously through to their thirties if investment in supports and services are not made when they are 20 or below. The earlier you can get to single parents, the better a social gain it is. The liability investment approach does not talk about the social gain; it talks about the fiscal cost to government of not acting...The liability is a proxy for wellbeing, but it seems to me that any proxy that has national government departments of treasury and finance excited about it and coming to the cabinet process wanting to invest heavily and early in the life of these social issues that people have is something that is worth having a good look at.<sup>4</sup>

1. *Welfare Working Group, Reducing Long-Term Benefit Dependency, Recommendations, February 2011, p. 2, available at: <http://igps.victoria.ac.nz/WelfareWorkingGroup/Index.html> (accessed 25 November 2014).*
2. *Taylor Fry, Actuarial advice of feasibility: A long-term investment approach to improving employment, social and financial outcomes from welfare benefits and service, report for Ministry of Social Development and The Treasury, New Zealand, 27 October 2011.*
3. *Taylor Fry, Actuarial valuation of the Benefit System for Working-age Adults as at 30 June 2011, report for Ministry of Social Development and The Treasury, New Zealand, p. 2.*
4. *Taylor Fry, Actuarial valuation of the Benefit System for Working-age Adults as at 30 June 2013, report for Ministry of Social Development and The Treasury, New Zealand, p. 3.*

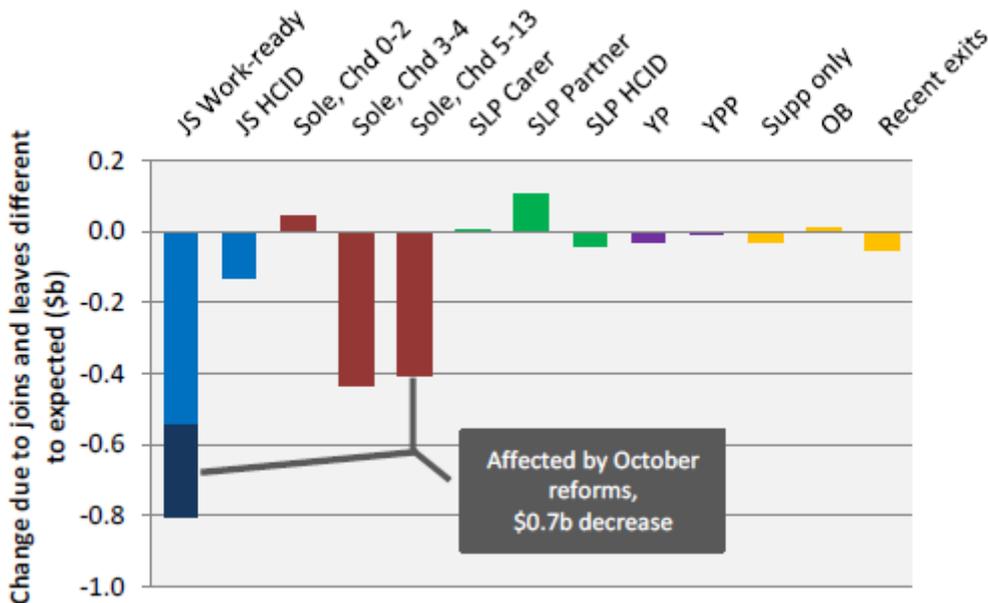
**Figure 6.5–Movement from the 2012 current client liability to the 2013 current client liability**



Note: Δ represents change

Source: Taylor Fry, *Actuarial valuation of the Benefit System for Working-age Adults as at 30 June 2013*, report for Ministry of Social Development and The Treasury, New Zealand, p. 3. Reproduced with permission.

**Figure 6.6–Change in liability due to joins and leaves being different to expected, by segment**



Source: Taylor Fry, *Actuarial valuation of the Benefit System for Working-age Adults as at 30 June 2013*, report for Ministry of Social Development and The Treasury, New Zealand, p. 5. Reproduced with permission.

## Concluding comments

6.123 This inquiry has occurred at a time of considerable international interest in the issues of income and wealth inequality. Internationally, several high-profile figures have identified the harm that significant inequality causes and need for concerted action to address the problem. Important empirical and qualitative research from prominent academic economists has added weight to this agenda. It is widely acknowledged that the remedy is not only to provide quality jobs, health services and education opportunities to increase the income of the poorest in society. It also involves curtailing the rent-seeking and tax avoidance activities that have inflated the wealth of the richest in society. The gap between the richest and the poorest does matter: it impacts on the type of society that is created.

6.124 To date, the debate in Australia on the issue of inequality has been confined to welfare groups, academic economists, political scientists and sociologists and a handful of parliamentarians. However, there has been significant discussion in the media and in the community generally about issues related to income inequality. For example, cost of living pressures on households have dominated the political debate in Australia for a decade. The inter-generational impact of record low levels of housing affordability has been of acute concern for some years. The quality of Australian schools has also been widely discussed, particularly since the introduction of NAPLAN in 2008.

6.125 Several submitters and witnesses to this inquiry have argued that there is a need for a national conversation on issues of income inequality. Notably, the Australia21 report published in March this year stated:

Australians need to engage in a national conversation about how inequality is impacting on our lives, our culture, our economy and our society. We need to make clear to our political representatives what kind of society we want for our children and grandchildren. Politicians will not act while the community accepts growing inequality passively.<sup>101</sup>

6.126 The committee considers there is urgent need for action on the issue of benefit levels. As this chapter has noted, and as the ACTU's submission clearly sets out, the level of Newstart benefit is simply inadequate. On four measures, it is too low.

6.127 The aim of the committee's proposal to address this is to establish a clear and transparent process through which to set benefit levels and index these payments to keep pace with community standards (see recommendation 4). It is disappointing that a major review into welfare reform options that is currently in train is not properly considering the inadequacy of benefit levels. However, the committee's proposal for reform should not—and will not—interfere with the broader welfare reform process. It is critical that the harsh measures to cut and withhold benefits proposed in the 2014

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101 Executive Summary, *Advance Australia Fair? What to do about growing income inequality in Australia?*, Presented to the Committee by Australia21 as *submission 37*, Attachment 1, p. 9.

federal budget not be passed (recommendation 2). It is also crucial that reform of Australia's social security payment system not only leaves no group financially worse off, but increases the financial position of those facing greatest hardship (recommendations 3 and 6).

6.128 Payments aside, there is a diverse range of broader issues that impact on income inequality. Taxation reform, including tighter compliance measures for earners in upper income brackets, offers significant opportunities to create a fairer, more equal society. The forthcoming White Paper on taxation should have regard to how existing tax concessions affect income inequality (recommendation 13).

6.129 The committee recommends a multi-pronged approach to improving the housing options for people on low incomes. This includes:

- increasing Commonwealth Rental Assistance payments and indexing these payments to a national and a regional rental index (recommendation 7);
- developing National Urban Planning Guidelines to ensure that new and existing developments have access to public transport, health, education and other services (recommendation 8); and
- develop National Planning Guidelines that all new housing developments have a minimum target of affordable and public housing for low income and other disadvantaged groups (recommendation 8).

6.130 This inquiry has also considered options for governments, working with welfare agencies and not-for-profit organisations, to promote the education, training and employment prospects of young people at risk of dropping out of school, as well as older workers facing retrenchment and the long-term unemployed. The options that the committee favours include:

- developing alliances between schools, employers and vocational education providers to encourage young people to remain at school until Year 12 and provide them with a positive first experience in the workforce (recommendation 10);
- developing a plan that will coordinate efforts between governments, employers and vocational education providers to retrain older workers through the vocational training system (recommendation 11); and
- properly fund programs that offer a targeted case management approach to assist the long-term unemployed (back) into the workforce (recommendation 12).

6.131 The committee urges federal and state governments to recognise the long-term economic and social benefits of investing properly in these initiatives, and learning from and improving the outcomes.

**Senator Rachel Siewert**

**Chair**

