



SUBMISSION

to the

**SENATE COMMUNITY AFFAIRS
REFERENCES COMMITTEE INQUIRY INTO
INCOME INEQUALITY IN AUSTRALIA**

September 2014

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Introduction

About the National Welfare Rights Network

The National Welfare Rights Network (NWRN) is a network of community legal centres, Aboriginal legal services and other community organisations which specialise in social security and family assistance law. Our public policy development is informed by the casework of our member centres. NWRN member centres have provided assistance and support to low income and disadvantaged people for over 30 years. On behalf of its member centres, the NWRN assesses government policy and legislation with respect to social security and employment assistance. We have engaged extensively on public policy debates about inequality and offered alternative policies for consideration.

In that sense, most of NWRN's work is highly relevant to the central issue of income inequality and the important issues that are being considered by this Committee. We are, therefore, well placed to provide "on the ground" input to the Government on income inequality, informed by the casework of our member centres, the experiences of our clients and many decades of experience in advocacy and investigation into income support policy.

1. The extent of income inequality in Australia and the rate at which income inequality is increasing in our community

The issue of income inequality has attracted greater interest in recent years, and surveys indicate it is an issue that is of growing concern to many Australians. As our submission notes, there is much commentary on the extent of income inequality, if it is increasing, and if so, by how much.

However, what we do know is that too many people in Australia are unable to participate in social and economic life and many do not enjoy physical and mental health. These are important dimensions of "inequality" – and our submission touches on some of these key issues.

It is important that inequality is not just viewed in terms of issues around low income or poverty or a lack of resources – it includes things like the quality of people's lives, access to transport, inadequate diet, isolation, lack of leisure activities, missing out on those normal things that people do, like being able to celebrate birthdays, as well as other important things like being able to access dental care or education.

The latest Oxfam Australia report puts paid to a number of myths about inequality:¹

- Inequality is a global problem: the world's richest 85 people own the same wealth as the worlds' poorest 3.5 billion people;
- Extreme inequality poses an increasing threat to economic growth and global security, and
- Inequality is increasing in Australia. The wealthiest 1% have as much wealth as the bottom 60% of people.

Recent reports indicate that Australia's wealthy were slightly affected by the recent Global Financial Crisis (GFC), and that Australia's highest earners are taking home less of the national pie – but it is unclear if this is a trend.²

What is clear, though, is that despite 22 years of economic growth, the benefits of this boom have not been shared fairly.

The Australian Treasury's own investigation found income inequality has been increasing since the mid-1990s, though all sections of the Australian population experienced some increase in income over the period.³

The other key development is the growing strength of concern among international economic organisations, from the OECD, to the International Monetary Fund (IMF), the World Economic Forum and the World Bank, who have all expressed deep concern and alarm at the widening income disparity that is occurring in every corner of the globe.

The IMF, in a highly critical statement, sounded a warning that inequality was a growing risk to economic growth, stating: "It would still be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be economically undesirable but also because the resulting growth may be low and unsustainable."⁴

Oxfam summarises the problems with inequality succinctly: "it is morally questionable; it can have negative impacts on economic growth and poverty reduction; and it can multiply social problems. It also compounds other inequalities, such as those between men and women."⁵

An additional concern is that in some situations, inequality can adversely impact upon political representation, where rules tend to favour the better-off sections, and this can impact on

¹ Oxfam Australia,

² Greber, J. *Share of top 1% flattens out*, Australian Financial review, 28 July 2014, p. 4.

³ Australian Government, *Treasury Discussion Paper, Income Inequality in Australia*, 2013.

⁴ Ostry, D. et al, *Redistribution, Inequality and Growth*, Paper for the International Monetary Fund, 2014.

⁵ Oxfam, *Working for the few: Political capture and economic inequality*, January 2014.

democratic institutions and governance. The voices of those on low incomes can be limited in such an environment.⁶

1.1 Attitudes to inequality in Australia

New research and polling by Oxfam Australia and The Australia Institute have highlighted renewed interest in the impacts of inequality in our community.⁷

Recent Oxfam research into inequality found that:

- Almost 4 out of 5 people surveyed think that the gap between the poorest and richest Australians has widened over the past decade;
- 64% believed that this had made Australia a worse place to live;
- 79% believe that the wealthy have too much influences about where Australia is headed;
- 76% of Australians believe that the wealthy do not pay enough tax, and
- 3 in 4 people want the Government to take action to close the gap between the rich and the poor in Australia.⁸

1.2 Trends in inequality in Australia

Australia is far from the egalitarian country that many like to portray it as. The richest 20% of Australians control 60% of all household wealth, while the poorest 20% control just 1%.

Debates rage over what is the main issue for government to address. Is it, as many political leaders like to argue, equality of opportunity where everyone supposedly has an equal chance of climbing to the top? The answer is no. Experts in fact argue that the big issue is equality of outcomes, and that equal societies have stronger democracies, are mutually and physically healthier, and its citizens are much happier, too. Social cohesion is strengthened when there is less inequality.

The current Treasurer, for one, believes that it is only equality of opportunity that really matters – but opportunities are not all equal, and, with education for instance, people from wealthier homes are far more likely to go to university and succeed, than those lower down the socio-economic scale.

⁶ It could be argued that the 2014-15 Budget decision to cut \$15 million over a three year period for the First People's Congress falls into this category.

⁷ Denniss, R. and Richardson, D. *Income Inequality and Wealth in Australia*, The Australia Institute, July 2014.

⁸ Oxfam Australia, *Still the lucky country? The growing gap between rich and poor is a gaping hole in the G20 agenda*, June 2014, p. 5.

Australia is a very rich nation and our Gross Domestic Product (GDP) has increased significantly in the past two decades. But this increased wealth has not been shared and distributed equally across the community.

Oxfam recently pointed out that the nine wealthiest Australians have as much wealth as the poorest fifth of Australians.

In *The Conversation* series, *Class in Australia*, Professor Peter Whiteford notes that the most recent figures for OECD countries from around 2010 show that Australia is the 11th most unequal of all of the 34 OECD members. While arguments persist between academics, a close consensus is that inequality declined between 1950 and the 1970s, and then increased in the 1980s.⁹

According to the Australian Bureau of Statistics (ABS), the wealthiest 20% of Australian households, with an average net worth of \$2.2 million per household in 2011-12, accounted for 61% of total household net worth. The poorest 20% of households accounted for 1% of total household net worth, and had an average net worth of \$31,000 per household.¹⁰

This means that the wealthiest 20% of Australian households had a net worth that was 68 times higher than the least wealthy 20%. In contrast, the 20% of Australian households with the highest disposable income were about five times better off than the poorest 20%.

Whiteford notes the recent *Credit Suisse Global Wealth Report* (the only authoritative study of the wealth of 4.7 billion people), which concluded that “the distribution of wealth in Australia is the second least unequal (after Japan) of 27 major countries and the 12th least unequal of 174 countries.”¹¹

Other commentators point out that Australia does much better than the USA in the equality stakes – but there is certainly room for improvement. In 2010, the richest 10 % in Australia held about 31% of all income, well below the 48 % held by the richest 10 % in America.¹²

It is worth citing at length a recent article by Mr Greg Jericho, *Equality does not happen by accident*. It highlights the critical importance of Government spending and its role in redistributing essential assistance to those in need. Cuts to government programs for the poor and disadvantaged sections

⁹ Whiteford, P. *Income and wealth inequality: how is Australia faring?*, *The Conversation*, 5 March 2014.

¹⁰ Australian Bureau of Statistics, *Household Wealth and Wealth Distribution, Australia, 2011-12*, Cat. No. 6554.0, 21 August 2013.

¹¹ Shorrocks, A. *Research Institute Credit Suisse Global Wealth Data Book*, 2013.

¹² Jericho, G. *Equality does not happen by accident*, 25 June 2014, <http://www.abc.net.au/news/2014-06-25/jericho-equality-does-not-happen-by-accident/5546634>

in the community will have a major impact on inequality. The lessons from the recent Federal Budget are clear to see.

“And while the share of income held by Australia's richest 10% has stayed relatively steady over the past decade, it has risen dramatically since the end of the 1970s.

“Also, focussing on the top 10% hides the fact that the real increase in wealth has actually been among the super-rich.

“The top 1% of income earners in Australia in 2010 owned around 9.17% of all income. This was down slightly from the pre-GFC high of 9.84%. It remains, however, the highest share of income held by the richest 1 % since the Korean War wool boom of 1950.

“In its 2008 report on inequality, *Growing Unequal?*, the OECD found that our welfare system is more targeted than other nations, as "in a typical country, 22% of total income is from the government in the form of such benefits, compared to 14% in Australia".

"Australia targets these benefits much more tightly on low-income households than in any other country in the OECD. 40% of total spending on cash benefits goes to the poorest 20% of the population."

“As the OECD noted in its recent *Society at a Glance* report, "fiscal consolidation hampers progress in reducing inequality and poverty". While fiscal consolidation may at times take precedence over improving inequality, in Australia's case it becomes much more problematic because as the OECD noted, in countries where most welfare transfers "are already mainly received by low-income groups", cuts in such welfare spending "are much more likely to widen income inequalities".

“One of the key findings of Piketty's work is that equality does not happen by accident. You need a government that cares about the issue, otherwise inequality will inexorably rise.”¹³

1.3 Two reports on inequality, poverty and wealth in Australia

There were two major reports into inequality, wealth and poverty in Australia recently. One, from the Australian Council of Social Service (ACOSS) found that nationally, one in eight Australians and one in six children live below the poverty line.¹⁴ In 2012, ACOSS released an update on poverty in Australia. On this measure, nearly 2.3 million people - or one in eight Australians - live in poverty. A total of 575,000 children - one in six - are poor. Unsurprisingly, women had a higher risk of poverty,

¹³ Ibid.

¹⁴ Australian Council of Social Service, *Poverty Report*, 2012.

and those born overseas experienced higher rates of poverty, at 15.8%, compared to just 10.8% for people born in Australia.

Australia has had 20 years of continuous economic growth, but poverty has continued to increase. The proportion of people living in poverty rose between 2003 and 2010, by 0.3%. Within that period, however, there was a sharp increase between 2003 and 2007, with the overall poverty rate rising from 11.9 to 14.5%, then declining in the three years after that, to 12.3% in 2010.

The key findings for this Committee are that more than one-third of those relying on social security payments now live below the poverty line, including 52% of those on Newstart Allowance, 45% of those receiving the Parenting Payment, and 42% of those on the Disability Support Pension.

The other was this year's *BRW Rich List 200*, which reports that Australia had 195,000 millionaire households in 2013, an increase of 28% on 2012 figures.¹⁵ Overall wealth in Australia grew by 14.4% to \$3.27 trillion. The wealthiest Australian, Gina Rinehart, who chalked up \$20.01 billion, scorned people on very low incomes last year, suggesting a lowering of the minimum wage, advising critics that "[i]f you're jealous of those with more money, don't just sit there and complain. Do something to make more money yourself - spend less time drinking or smoking and socialising, and more time working."¹⁶

The total wealth of the *BRW Rich 200* in 2014 was \$193.66 trillion, up 9.51% on the previous year. Australia has 39 billionaires, and the largest increase in wealth was banked by Andrew Forrest, who in July provided the Federal Government with his own blueprint for reforming Australia's \$135 billion social security system. Among his many proposals, Forrest included the suggestion that school principals have the responsibility to determine whether young people can access Youth Allowance payments worth up to \$207 per week. Forrest recommended that all people on social security payments (except for Age and Veteran's pensions) should have access to "a much superior alternative to cash welfare" via the "Healthy Welfare Card". EFTPOS, Coles, Woolworth's, IGA and the four major banks have already "banded together...at great cost to themselves" and devised a plan of how the new cashless system would work.¹⁷

¹⁵ Heathcote, A, and Lindsay, N. 'Wealth 2014', *The Australian Financial Review Magazine, The Wealth Issue*, July 2014, p .039.

¹⁶ O'Brien, S. *Gina tells whingers: 'Get out of the pub'*, 30 August 2012.

¹⁷ Forrest, A, *Creating Parity: The Forrest Review*, 2014, p. 104.

2. The impact of income inequality on access to health, housing, education and work in Australia, and on the quality of the outcomes achieved

Access to quality, affordable housing, education and healthcare is critical for the wellbeing of all Australians. A lack of income, and the pervasive increase in ‘user pays’ charges can mean that access to these essential supports and services are out of reach for many. To the list, NWRN would add access to legal assistance and highlight difficulties that disadvantaged people and those on low incomes experience in gaining access to justice.

Below we highlight some of the key difficulties in accessing housing, education, healthcare and employment opportunities, and how income inequality influences and exacerbates these problems.

2.1 Adequate income based on financial need

One in three Australians receive assistance from the Department of Human Services in the form of income support or family assistance. Our system is historically divided into payments for people judged to be outside of the paid workforce, and people able to find work. The divide between pensions and allowances is seen by many as an artificial division: those on “pension” payments are seen to be more “deserving”, and thus receive higher social security payments.

The basic rate of the pension is, however, a modest payment and those who must survive on this payment alone live a frugal existence. The maximum rate of the pension at 20 September 2014 is \$776.70 per fortnight for a single person, or \$388.30 per week. The increase to the Pension Supplement and the Clean Energy Supplement bring the total payments for a single pensioner to \$854.30 a fortnight. The total maximum increase is \$11.50 a fortnight.

Unemployed people on the single Newstart Allowance receive much less, with basic fortnightly rates of NSA at \$515.60, or \$257.80 per week. The Clean Energy Supplement of \$8.80 of brings the total amount to be paid to a single adult to \$525.40 per fortnight, or \$262.20 per week.¹⁸

Pension recipients received an increase to their basic rate of pension of \$10.70 per fortnight, while Newstart Allowance recipients received little more than half of this amount, with their allowance increasing by just \$5.10 per fortnight. Single parents on Parenting Payment Single received a higher rate, of \$7.10 a fortnight, while single parents who moved to Newstart received the princely sum of just \$5.50 a fortnight.

¹⁸ Department of Social Services, *Indexation Payments*, 6 March 2014.

Single parents on Newstart, as a result of changes in 2006, 2011 and 2013, are worse off by \$162.40 a fortnight, or \$81.20 a week.

There are around 695,000 unemployed people on the Newstart Allowance. Three in four people on the NSA are single and struggling to get by on less than \$260 per week. A recent paper, *"Struggling on the Newstart Unemployment Benefit in Australia"*, found that one in four people in Sydney's inner west who had been unemployed on Newstart for more than 12 months had begged on the street for help. "Instead of spending their energy looking for a job these people are worried all the time by the very basics of survival," commented one of the authors of the study, Dr Alan Morris.¹⁹

The study found that Newstart Allowance for a single person was equivalent to just 28% of the average wage compared with an OECD median of 57% in the initial stage of unemployment. Many people in the study found life unbearable and were living in squalid conditions. About a third lived in tenuous housing arrangements, such as shared housing, in boarding houses and in rooms in pubs. Some had no access to basic amenities such as electricity, a fridge and/or hot water.

These stories follow previous research by the Social Policy Research Centre which found that unemployed people and many single parents experienced multiple deprivations.²⁰

The most significant inequality in Australia's income support system is the \$166 gap between single pension and allowance payments. The single most important reform that the Government could and must undertake to reduce inequality in Australia is to reduce the gap between pensions and allowances, and index both Newstart and Youth Allowance to a wages component, instead of just the Consumer Price Index.

Leaving people in grinding poverty does not assist people into employment. The Business Council's Jennifer Westacott notes: "The Newstart Allowance has not increased in real terms for some time and is clearly inadequate. Entrenching people into poverty by expecting them to live on around \$35 a day is not acceptable and only makes it more difficult for them to find work."²¹

There is considerable support across the community to increase the single Newstart Allowance payment, as the last time the unemployed benefit was increased was back in 1994.

¹⁹ Morris, A, and Wilson S. *Struggling on the Newstart Unemployment Benefit in Australia*, *Economic and Labour Relations Review*, 2014. See: <http://elr.sagepub.com/content/early/2014/05/12/1035304614533462.abstract>

²⁰ ACOSS, 2008, *Who is Missing Out?* At: www.acoss.org.au

²¹ Business Council of Australia, *Time is Right to Give the Welfare Safety Net a Health Check*, 27 June 2012.

There were 695,907 Newstart Allowance recipients as of 28 March 2014. Of these, 204,025 (29.2%) were aged over 50. Thirty-two per cent had been on payments for less than 12 months. Two-thirds of current recipients have been on payments for over 12 months.

Australia is experiencing an explosion in the numbers of long term unemployment:

- almost 70% of those currently on Newstart have been looking for work for over 12 months;
- 355,000 people have been locked out of the labour market for over 24 months.
- over half of all Newstart Allowance (51%) recipients have been looking for work for over two years; and
- almost 1 in 3 (28.5%) having been out of work for over five years.²²

These people are languishing on the impossibly low payment rate of Newstart Allowance of just \$510 per fortnight.

While the influx of 52 000 single parents as a result of the 2013 changes to Parenting Payment Single has had an impact, it does not account for such a phenomenal increase in the numbers of people who have been put of work for such lengths of time.

There are 14 717 single parents reliant on NSA, with single parents comprising 16% of all NSA recipients. One in six people living on Newstart are single parents raising children on their own. One in 10 are Indigenous and one in five have a recognised a partial capacity to work.

In November 2012, a Senate Committee looked into the adequacy of the Newstart Allowance. It reported that at around \$250 per week for a single person, NSA was inadequate to live on. The Senate Committee received compelling arguments and evidence on the benefits that would flow from increasing this payment.

Three quarters of those in receipt of the NSA are single and try to make ends meet on a base rate payment of just \$35 a day. Young people living independently fare even worse, on just \$29 per day. It is even harder for Youth Allowance recipients because their payments are indexed only once a year.

Single parents with children are also doing it tough on Newstart, receiving only \$38 per day base rate. Federal Budget changes in 2006, 2011 and 2013 have contributed to the impoverishment of many single parent families.

²² Senate Community Affairs Committee, Answers to Estimates Questions on Notice, Social Services Portfolio, 2014-15, *Budget Estimates Hearings, Question No. 341*.

2.2 Assisting people into sustainable employment

Better supports and assistance are also needed to help people find sustainable employment. The current employment services system could be significantly improved if the following measures were taken:

- Increase payments to allow providers to improve training and work experience options for people at risk of becoming long term unemployed.
- Introduce wage subsidy schemes for people with disabilities and young people with disabilities.
- Double the Wage Connect wage subsidy scheme to 20,000 places per annum.
- Additional investment in the Local Connections to Work programs.
- Greater flexibility for young people, including increased options for job search.
- Offer face-to-face career counseling for single parents and young people at risk.
- Offer job seekers flexible activity agreements and greater provider choice.

With almost 70% of job seekers having been out of work for over 12 months, and over 355,000 people having been out of work for more than 24 months, increased support is critical to reduce the numbers of the long-term unemployed in Australia. Job seekers who undertook vocational training during 2011-12 had a 35% chance of being employed three months later, compared with fewer than 20% of Work for the Dole (WFTD) participants. The evidence shows that vocational training generates better outcomes for job seekers than WFTD programs.

Under the proposed 2015-20 Employment Services arrangements, WFTD will be massively expanded, with \$900 million to be spent on the scheme, making it the main program for assisting people into employment. NWRN does not support an expansion of WFTD programs. Young people need training in skills for jobs offered by businesses, but Work for the Dole Schemes do not provide essential skills development. Paid work experience, training to at least Certificate 3 level and a Jobs Guarantee for young people are better solutions to high levels of youth unemployment.

Senate Estimates reported that people will only be taught the basic skills and occupational health and safety procedures they need to complete the task allotted to the WFTD scheme in their location. This does nothing to assist unemployed jobseekers to build careers and expand opportunities.

2.3 Access to affordable housing

Housing access and affordability is largely related to inadequate income and inequality.

The facts on housing affordability in Australia are alarming:

- Average rents have increased by 32% in the five years to 2012;
- It takes an average of 5.7 years to save for a deposit in Sydney, according to a 2011 study by the recently abolished National Housing Supply Council;
- Rental increases have outstripped earnings growth in recent years;
- Renters make up 24% of households compared with 18% 15 years ago;
- Home-ownership is declining significantly across most groups in the population. The National Housing Supply Council *Housing Supply and Affordability Issues 2012-13* noted that housing supply difficulties “is likely to continue to be felt by the more vulnerable in our population ages”;
- Homelessness and insecurity are major problems, with 105,000 people unable to find accommodation each night;
- At June 2012 there were around 200,000 people waiting to access public or social housing across Australia, according to the AIHW;
- There are growing waiting lists for those seeking access to affordable housing in Australia, and access to public housing is tightly rationed as many levels of Government reduce financial support for the provision of public and social housing;
- Home-ownership provides considerable financial security, and those in the private rental market are experiencing major difficulties. Three-quarters of Age Pensioners own their homes, but levels of home-ownership declines for other groups: Carer Payment recipients (44%), Disability Support Pension recipients (30%), and Parenting Payment Single recipients (1%).

2.3 Rent Assistance and housing affordability

NWRN’s focus is on Rent Assistance, which is a critical support for over 1.2 million Australians.

In 2014, the NWRN released a major report into the effectiveness of the Commonwealth [Rent Assistance](#) program.²³ Disturbingly, the numbers of people in “rental stress”, paying 30% of their income in rent, has doubled since 2002, from 250,000 to 502,000.²⁴

The key facts from our report relevant to housing affordability are highlighted below.

- At June 2013, 1,267,979 Rent Assistance recipients receive a payment from Centrelink.
- Over 843,000 of social-security renters are in housing stress, paying over 30% of income on rent, before getting Rent Assistance.
- The proportion of Rent Assistance recipients receiving the maximum payment has increased from less than two-thirds of the total to more than three-quarters of the total over the last decade.
- In 2012-13, the Commonwealth’s \$3.6 billion Rent Assistance program reduced the proportion of social security renters in housing stress by 27%, down from 67% to 40%. Forty per cent of all recipients of Rent Assistance are still in housing stress, after getting Rent Assistance.
- In June 2013, 164,835 households, or 13.1% of all Rent Assistance recipients, were paying more than 50% of their income on rent. Of these households, 38% or 63,606 were on the lower Newstart Allowance.
- Unemployed adults are four times more likely than Age Pension recipients to be paying half their income to meet high rental costs. The proportion of pension recipients in *severe housing stress* was much smaller, with 6.2% of all Disability Support Pension recipients, 6% of Age Pensioners, 5.8% of Carer Payment recipients and 6% of those receiving Parenting Payment (Single) paying half of their weekly income on rent.
- Three in four students on the Youth Allowance are living in housing stress, paying in excess of 30% of income in rent. Sixty nine per cent of young job seekers on Youth Allowance are under housing stress; an increase of six percentage points since September 2012.
- Unemployed people and students are more than twice as likely to face housing stress, as are Age, Carer and Disability Support Pensioners.
- One-in-seven people receiving Rent Assistance are affected by the ‘sharers’ rules, which reduce the amount of rental support by a third, or \$19 per week.

²³ National Welfare Rights Network, *The impact of Rent Assistance on housing affordability for low income renters: Australia*, March 2014.

²⁴ Berry and Hall, *Policy Options for stimulating private sector involvement in affordable housing*, Affordable Housing National Research Consortium, Department of Urban Affairs and Planning, 2002.

- A very high proportion of young students on Youth Allowance paying excessively high rents, with 29,939 people, or two in five students paying more than half of their income on rent.
- Almost 45% of those living in capital cities are experiencing rental stress after Rent Assistance, while just a third of those living outside of a capital city are in rental stress.

Another key finding of NWRN's research into Rent Assistance was that the "sharers" rule, which reduces rates of Rent Assistance by a third and affects 1-in-7 receiving Rent Assistance, was having an increasingly adverse financial impact on many people living on very low incomes, with a 15% increase in people so affected or over 15 400 in just nine months.

ACOSS and NWRN also recommended that the maximum rate of Rent Assistance be increased by 30% (around \$19 per week), to assist people on low incomes to meet rising rental costs. This expenditure would cost \$920 million a year.

The method by which Rent Assistance is currently indexed places the recipients at a significant financial disadvantage because it is continually shrinking as a proportion of real increases in rental costs. Increases in rent assistance are linked to the CPI.

2.4 Work, Newstart and the minimum wage

The Australia Institute reports that "Australians tend to believe that the income distribution in Australia is much more equal than it really is."²⁵ The Institute highlights the critical importance of taxes and government transfers in addressing income inequality. They cite comments on the 2014 minimum wage decision, where the President of Fair Work Australia concludes:

*"While real earnings have generally increased over the past decade, earnings inequality is increasing. Over the past five years, the rate of growth in average earnings and bargained rates of pay have outstripped the growth in minimum wages for award-reliant workers. This has reduced the relative living standards of award-reliant workers and reduced the capacity of the low-paid to meet their needs."*²⁶

The divergence between the minimum wage and the Newstart Allowance is one of the key drivers of inequality in Australia. The contribution of GDP the wages has been shrinking in relation to the share going towards capital, leading to greater inequality in the Australian wages system.

²⁵ Denniss, op cit, p. 4.

²⁶ ABC Radio PM Program, *Minimum wage decision fails to please business or unions*, 4 June 2014.

The ACTU highlights concerns about wage disparities in Australia and how those at the bottom are faring:

“The good news for Australia is that real wages are higher than they were a decade or two decades ago, unlike in some OECD countries. The bad news is that this growth has been shared unequally, with wages growing much quicker at the top end than for low-paid workers.”²⁷

People reliant on social security payments are recognised as being amongst the poorest in our community. Age disability and carer pensioners have always received higher payments rates than unemployed people. But since 1997, pensions have been indexed to average weekly earnings but allowances are indexed to the Consumer Price Index, widening the gap significantly.

Currently, the maximum rate of the single Newstart Allowance is \$257.80 per week.

The replacement rate of the Newstart Allowance relative to the minimum wage is near its lowest level since 1990. The Newstart Allowance has fallen to 40 per cent of the National Minimum Wage (NMW) which now stands at \$640.90 per week. At just \$257.80 per week, the Newstart Allowance is now 40.2 per cent of the national minimum wage, a decline since 1996 of around 14%, when it was 54%.

If the Newstart Allowance was increased by \$50 per week, as urged by community, business and the ACTU, the single rate of Newstart would be \$307.80 per week. This would still only bring the weekly amount for unemployed people to still half of the minimum wage, at 48%.

Australian wages growth has slowed markedly since mid-2013, warns Saul Estlake, one of Australia's leading economists.

According to Estlake, “Wages growth has slowed significantly in Australia over the past year. Growth in what is widely regarded as the ‘best’ measure of wage costs is now running at its lowest rate since the series began 16 years ago. Real wages are now falling for the first time since the recession of the early 1990s, apart from a brief interval during the global financial crisis.” Wages are expected to keep falling for at least the next two years.²⁸

There is concern that if the current trends continue, the minimum wage in Australia will head the same way as in the US – and will be as low as 30% of the average full-time wage.²⁹ Australia's system of social protection, with a modest, but sufficient minimum wage, is critical to the livelihoods of many millions of low income workers. The drift between low income workers and the increased casualisation of work places many people at risk of greater inequality, particularly if governments

²⁷ ACTU, *Modest minimum wage increases risks increasing inequality*, Economic Bulletin, June 2014, p. 1.

²⁸ <http://www.macrobusiness.com.au/2014/09/saul-eslake-australia-joins-the-low-wages-club/>

²⁹ Ibid, p. 2.

resist pressure to improve payments for unemployed people receiving just \$510 per fortnight, which provides a maximum annual income of less than \$13,000 per annum.

2.5 Employment and work

The following section addresses a few issues in the interrelationship between inequality, insecure work, casualisation, the minimum wage and Centrelink.

The increasing casualisation of the labour market and the move to part-time rather than full-time employment adds additional elements and complexity. Many people on income support payments are reliant upon Centrelink entitlements to supplement their part-time or casual work.

Around 40% of workers are engaged in insecure work arrangements, such as casual work, fixed term work, contracting or labour hire. Currently, 16% of teachers are now on short term contracts. The accommodation and food service industry have 20% of all casual workers. Around 17% of workers are self-employed.

The nature of work in Australia has changed over the past 20 years. From a workforce of predominately male, full-time manual employees, increasing numbers of women have entered the workforce in much larger numbers, and casual and part-time work has expanded rapidly.

The current workforce is made up of 70% full-time and 30% part-time, but these statistics do not reveal other high costs of casual or insecure work. For example, the ACTU suggests the casual workforce component is as high as 40% and the Australian Bureau of Statistics reports nearly 20% of workers do not have access to paid leave entitlements.

Under-employment is rife. The casework experience of our Member Centre is that many people move work across multiple employers over a fortnight, doing three or four hour casual shifts at a time, and are still not earning a combined income to meet their weekly bills for themselves or their families. This unpredictable employment means that they are often waiting by the phone for a shift, and unable to plan life outside of searching for piecemeal jobs, if they are lucky enough to get a call at all.

Wage and job insecurity not only affects the level of income, but intrudes on the work-life balance and causes anxiety, stress and depression.

These insecure patterns of employment have other negative consequences, and they run against a social security system which was designed for a 9-to-5 world of full-time work followed by full-time retirement. This means the system is a poor fit for people who work casually and irregularly. Income

must be declared to Centrelink when it is earned, though many people do not receive any payment for such work until after they have notified Centrelink of the income. The consequences can be that people are not able to be accurate when they report or perhaps even fail to report – which can cause on overpayment, or worse, an accusation of social security fraud.

Indigenous income support recipients can be twice as likely as non-Indigenous recipients to receive overpayments, due to various communication barriers. It is also our experience that few Indigenous people access their right of appeal.

Simple errors and misunderstandings – like confusing declaration of gross and net amounts, wrongly guessing the amount of earnings because employers do not provide pay slips, having to juggle multiple jobs paid at varying rates of payment with multiple allowances, or having earnings pay periods unaligned with Centrelink payment periods – can lead to large debts. Repaying the debt, at a standard rate of 15% of a person's income support payment, can place people in financial hardship.

Under the rules administered by Centrelink, there is the opportunity to have the repayment amount reduced, though many people are not aware of this option. Assisting people with debt issues, and challenging decisions to raise debts, is a major source of Welfare Right Centres' work, and a significant source of complaint to both Centrelink and to the Commonwealth Ombudsman.

2.6 Consequences of debts: hardship and Social Security prosecutions

In the worst case scenario, an overpayment of a social security payment can result in prosecution for social security fraud.

NWRN draws to the Committee's attention the unfairness of existing policies around prosecutions for social security fraud. The nation's leading crime and research centre, the Australian Institute of Criminology (AIC), has raised serious concerns about the number of women convicted for social security fraud offences. The AIC called the value of fines and incarceration for certain offences "questionable", urging research on the use of criminal detection as a deterrent.³⁰

The AIC also argues that there is a strong case for a comprehensive inquiry into the persistent wide gap between the numbers of people prosecuted for tax fraud as compared to social security fraud. According to the AIC, "the situation evidences a strong case for a comprehensive inquiry into the persistent wide gap between tax fraud and prosecutions and welfare fraud prosecutions".

³⁰ Prenzler, T. Responding to the Australian Experience of Welfare Fraud, Australian Institute of Criminology, Report No. 19, 2013.

Furthermore, people grossly over-estimate the numbers of people prosecuted for social security fraud, according to research commissioned by the Australian Council of Trade Unions. This research found that people think that 17 % of social security recipients are prosecuted for welfare fraud. In reality it was just 0.02%.

The social security system is so complex that many people find it difficult to understand the rules and make errors which can lead to significant levels of overpayment. It is not uncommon for a person to be employed by a number of employers. Earnings declaration can be made more problematic if a person is not provided with regular payslips. Few studies, however, have looked at the problems of social security prosecutions.

This is increasingly more common, as reported in the University of Wollongong study undertaken with NSW Legal Aid.³¹

In 2012-13, the Department of Human Services referred 1,165 cases to the Commonwealth Director of Public Prosecutions for social security fraud.³² Centrelink raised 109,619 debts in 2012-13, valued at \$219.9 million.

NWRN believes that the current arrangements need to be re-balanced with a more appropriate focus on administrative penalties and solutions instead of an inappropriate and inordinate reliance on the criminalisation of income support recipients.

2.7 Legal Assistance, need and inequality

The 2013 survey on Australia's community services sector of over 530 agencies, the largest survey ever undertaken, revealed a high level of unmet need for services and support, particularly around legal needs.

The *ACOSS Community Sector Survey 2013* found that more people were turned away from legal advice than any other area, while 63% of legal services could not meet demand. Demand for legal help was so high in that two in three services were forcing people to wait even longer for that assistance.

Key findings of the ACOSS survey into legal needs found that:

- 77% of those needing help were either unemployed or single parents;

³¹ Hui, F, et al, *Centrelink Prosecutions at the Employment/Benefit Nexus: A Case Study of Wollongong*, Social Accounting and Accountability Research Centre, Report No. 1, 2011.

³² Department of Human Services, *Annual Report 2012-13*, p. 194.

- 63% of legal services stated that they could not meet the demand for assistance;
- Three quarters of staff and volunteers had to work extra hours to meet the demand;
- 85% of services had restricted access and tightened requirements in response to increased demand for services, and
- With, 1-in-5 in five people were turned away when they approached for assistance, more than any other service surveyed.

2.8 Social security – a case study

One key measure of inequality is access to justice and legal assistance. In Australia, access to the legal system can be difficult, especially for those who may be marginalised or disadvantaged. One important area of legal need related to information and assistance about income support and social security. For over three decades, the members of the National Welfare Rights Network have provided specialist services to thousands of people each year and assisted people who experience problems with social security and family assistance legislation.

Centrelink (the Department of Human Services) touches the lives of most Australians. Millions of decisions are made by Centrelink (the Department of Human Services) each year. It has 35,838 staff and was responsible for total payments of \$149.4 billion in 2012-13.³³ In the same year Centrelink processed 2.8 billion claims.³⁴

Relatively few people either complain to Centrelink, or seek to challenge a decision that they are not happy about or disagree with. There were 123,526 internal reviews undertaken by Centrelink in 2012-13 resulting in 36.1% of the original Centrelink decisions being overturned, up from 32.7% in 2011-12.

One in five of all Centrelink appeals at the Social Security Appeals Tribunal (SSAT) are also overturned. In 2012-13, the SSAT received 10,199 applications for review of Centrelink decisions.

Social security decisions comprise the greatest number of cases at the Administrative Appeals Tribunal (AAT), at 30% of all cases, with tax second at 27%.

In 2012-13, the AAT received 6,176 applications, and finalised 6042 applications during the period. Applications for review of SSAT decisions at the AAT fell by 13% in 2011-12, but increased by 30% in 2012-13.

³³ Department of Human Services, *Annual Report 2012-13*, p. ii,

³⁴ Commonwealth Ombudsman, *Department of Human Services: Investigation into service delivery complaints about Centrelink*, Report No. 1, April 2014, p. 1.

Three in every ten applications lodged with the Administrative Appeals Tribunal (AAT) were Social Security appeals, which account for 28% all finalised cases at the AAT in the 2012-13.

People can also complain directly to Centrelink. In 2012-13, there were 46,243 complaints about Centrelink payments or services. The top five complaint areas were access to phone services, staff knowledge and decision making, staff attitude and Interactive Voice Response.³⁵

Overall, most Centrelink complaints are about debts, waiting periods, payment rejections or rate of payments, treatment by staff and attitude, and compliance penalties.

2.9 Legal needs of vulnerable people

People on low incomes often have legal problems that need fixing. A recent comprehensive study by the NSW Law and Justice Foundation found that 50% of respondents reported experiencing at least one legal problem in the previous 12 months, and over one in five experienced three or more legal problems. Additionally, more than one-quarter of respondents experienced a substantial legal problem that had a moderate or severe impact on their everyday life. Some types of legal problems were more prevalent than others. Importantly, some demographic groups, including many disadvantaged groups, had increased vulnerability to legal problems.

Disadvantaged population groups are typically the sections of the community that are most vulnerable to legal problems, and often experience multiple and substantial legal problems.

People with a disability were the disadvantaged group that had increased vulnerability according to most indicators. Marginalised and disadvantaged groups, such as single parents, unemployed people, people living in public and social housing and Indigenous people, were at a much greater vulnerability to legal problems. The LAW Survey findings highlighted the value of tailoring access to justice to meet the legal needs of the most disadvantaged people.³⁶

There are significant levels of unmet legal need in the area of social security and family assistance law. Social security and family assistance law is complex and subject to frequent legislative change. Inevitably, its consumers are the most socio-economically disadvantaged in our society. Social security recipients are most likely to have multiple civil law problems, but least able to afford legal services and least able to advocate for themselves or resolve legal problems efficiently without advice and representation.

³⁵ Department of Human Services, Annual Report 2012-13, p. 55.

³⁶ NSW Law and Justice Foundation of NSW, *Updating Justice: Prevalence of legal problems in Australia*, October 2012.

NWRN members are able to respond rapidly to legal need by providing telephone advice in the first instance and representative casework. Welfare Rights Centres are the only social security specialist centres in Australia. As such, they play an important role as an expert resource providing specialist social security advice and community education for the rest of the legal sector and feedback to Government about the impact of law on vulnerable people. Moreover, our services address the gap in social security legal assistance that is not covered by Legal Aid/LawAccess, the Ombudsman or private sector.

The Network has members in all State and Territories strategically located around Australia in both capital cities and regional locations. The placement of services in regional locations was directed to populations with the greatest need across broad geographic areas. There are only 14 Welfare Rights services (and two affiliate outreach programs) servicing all of Australia. To effectively target areas of highest need with such scarce resources, some Welfare Rights services operate state-wide telephone advice lines. Given current limited funding, our services are placed in areas of highest need and seek to overcome geographical disadvantage with phone services, Skype, outreach etc. Increased funding is necessary, and desirable, to increase services across Australia in areas of geographical disadvantage.

Legal need in the social security jurisdiction often relates to decision-making errors by Centrelink, inadequate rates, an inability to access payments and difficulty in recognising and challenging incorrect departmental decisions. These problems lead to other social issues that manifest themselves throughout the legal system. A properly and adequately funded welfare rights sector, providing expert and independent legal advice and casework, is essential for the well-being of individuals, families and society as a whole.

2.10 The Commonwealth Ombudsman

Another source of complaint is the Commonwealth Ombudsman. The Ombudsman receives more complaints about Centrelink than any other government agency.

The Commonwealth Ombudsman plays an important role, though cuts to Indigenous programs and staff reductions as a result of “efficiency dividends” make it unclear as to whether the Ombudsman is able to adequately offer support and assistance where and when it is most needed. Funding limitations could mean that important areas of investigation may not receive the attention needed.

The NWRN considers that funding to the Commonwealth Ombudsman should be increased for investigation of social security matters. The role of the Ombudsman in dealing with complaints and

investigating systemic issues in social security administration is important and is currently inadequately funded.

However, we note that legal need in the social security and family assistance area cannot be met by expanding the Ombudsman service. While it is an appropriate service for people with treatment complaints, it does not meet the needs of people requiring complex legal advice or representation. Unlike the Ombudsman, Welfare Rights services are aimed at helping people whose problems need to be resolved through formal appeal mechanisms beginning with an internal review within Centrelink itself. This is confirmed by the significant number of referrals Welfare Rights centres receive from the Office of the Ombudsman.

Clients of Welfare Rights services frequently have complex matters requiring specialist legal advice and assistance which can only be properly given where there is a formal lawyer/client relationship. Often, social security advice may require consideration of factors relevant to other areas of law, such as family, criminal, trust, companies, taxation, mental health, superannuation, wills and estates.

Earlier this year, the Commonwealth Ombudsman released an Own Motion Investigation into Service Delivery Complaints about Centrelink.³⁷ It found significant areas where improvements were needed.

The Ombudsman blames poor levels of Centrelink service delivery on so-called efficiency dividends, which has resulted in a reduction of \$355 million over the period 2011 to 2014.

As the Commonwealth Ombudsman makes clear, poor quality services by Centrelink can have a significant impact on vulnerable Australians.

The Ombudsman reports that many people may be unaware of or confused about their entitlements and miss out on payments. Their payments may be delayed, suspended or cancelled, leading to financial hardship. “If they wanted to challenge a decision, they were likely to face a long wait for a review. Many Centrelink customers have to spend long periods of time trying to access Centrelink services, for which there is no alternative provider”, states the Ombudsman in its report.

The Ombudsman makes the important observation that when Centrelink is under pressure “it cannot service all of its customers.”

³⁷ Commonwealth Ombudsman, Department of Human Services: Investigation into service delivery complaints about Centrelink, Report No. 1, April 2014.

The Ombudsman highlights the risk of “leaving the vulnerable behind”, which includes those unable to take advantage of digital service delivery. Trends of complaints to the Ombudsman about Centrelink cover major problems such as:

- Confusing and misleading computer generated correspondence
- Problems with accessing online services
- Refusal/inability to deal with customer enquiries in person
- Failure to call customers when they request a telephone call via an online form on the DHS website
- Failure to respond to customers’ letters and emails
- Loss of documents, with customers being asked to provide the same documents multiple times
- Processing backlogs
- Unquestioning acceptance of the accuracy of inter and intra agency data transfers
- Inflexible procedures and a failure to identify or escalate exceptional cases
- Failure to identify and respond to customers with serious disadvantage and vulnerability
- An inaccessible (and at times, ineffective) complaints service.

2.11 Centrelink delays – justice denied?

Lengthy delays for internal reviews of decisions has been a serious problem over recent times.

The Ombudsman, like the National Welfare Rights Network, has raised concerns with extensive delays with the review and appeals system. These delays can cause major problems and difficulties for vulnerable people.

When incorrect decisions are made the lives of many vulnerable people are adversely affected. In the worst cases people are left homeless and without any income for food or medication. Extensive delays leads to frustration and additional expense when appeals escalate to higher levels.

In 2012-13:

- Only 64% of appeals were being completed with the five weeks standard adopted by the agency;
- The average waiting time for a review in 2012-13 was 62 days;
- Over a quarter, or 27% of appeals, took more than three months to complete, and
- Almost 1 in 10 appeals took over six months or more to complete.

Significant numbers of Internal Reviews were awaiting finalisation.

The Centrelink review and appeals system is under considerable strain. We believe that these excessive delays are undermining people's right to have questionable Centrelink decisions reviewed.

The historic under-resourcing of Centrelink review officers has led to long delays and at times, poor quality decision-making. Policy changes, including tougher eligibility rules for the Disability Support Pension, are also having a major impact on the number of people seeking a review.

There is clearly a need to significantly boost staffing numbers at Centrelink to cope with the backlog of appeals. Steps are also needed to maintain high quality decision making.

2.12 Proposed amalgamation of Review Tribunals

The Government announced in the recent Budget that it plans to consolidate all Commonwealth merits review bodies in one Administrative Review Tribunal along the lines recommended by the Administrative Review Council. At this stage, it is not clear how this will impact upon people seeking review of Centrelink decisions. This is expected to result in savings of over \$20 million.

The NWRN has provided comment on this proposal in our submission to the current inquiry by the Productivity Commission into *Access to Justice*.³⁸ NWRN has also met with the Department of Social Services on this matter.

A two tier level of external appeal is critical for our clients and must be retained in any consolidation of the Social Security Appeals Tribunal and AAT. NWRN accepts that a two-tier review system needs to be operated as efficiently as possible to be sustainable. It is critical that any consolidation must ensure the key features of the SSAT are retained (timeliness, informality, simplicity, a non-adversarial environment and being cost-free).

The current two tiered system meets the varied needs of social security consumers. It does this by enabling the bulk of consumers to undertake a first relatively quick review procedure, conducted by the SSAT in a manner conducive to their needs as disadvantaged and usually unrepresented persons, while keeping the safety net of a further right of appeal to the AAT.

Consumers in the social security jurisdiction are more likely than those in other jurisdictions to be disadvantaged by factors such as poverty, health, education, literacy, age, work experience,

³⁸ National Welfare Rights Network, *Submission in response to the Draft Report on Access to Justice*, May 2014.

language, disability (physical, psychiatric, acquired brain injury, intellectual), homelessness and Indigenous or migrant background.

Key features of the SSAT that must be retained in any consolidation of the Tribunal

In our experience, people in the social security jurisdiction are disadvantaged and many experience disability and mental illness. We see people, particularly those experiencing high levels of stress or anxiety, suffer a significant deterioration in their health during the appeal process. Factors such as timeliness, informality, simplicity, a non-adversarial environment and being cost-free are essential to ensuring access to justice for individuals in the social security and family assistance jurisdictions.

Matters in the social security jurisdiction are often truly urgent; for example, where a person's income support has been incorrectly suspended or cancelled, the cost of delay in appeals may be that a person is unable to pay their rent and becomes homeless. The SSAT provides a fast, informal and accessible external review process.

The benefits of the current system are, in summary:

- Clients on social security payments are generally unrepresented at Tribunals, and agencies like Welfare Rights are under-resourced and Legal Aid may not be accessible
- Many people on income support are deeply disadvantaged and would find it difficult to engage with the most legalistic tribunal
- At the SSAT, access to 'Payment Pending Review' for people subject to discretionary decisions (like being on a couple) is essential, and available, but not at the higher tribunal. This would leave many vulnerable people without an income.
- The SSAT is much quicker and cheaper than the AAT. It is quicker and cost effective. SSAT decisions can take 10 weeks to finalise a matter, whereas the AAT takes 12 months.
- The SSAT is non-adversarial and informal. At the AAT, an experienced Government advocate is present to argue the case against a person who may have a disability, a mental illness or other illness, or a family member. This can be confronting and intimidating for individuals at the AAT as most are unrepresented.
- The current two-tier system works well, and can quickly look at most cases, which provides quick, cheaper access to fair decision-making for most. In complex cases, the AAT operates with prehearing and settlement procedures.

2.13 Health - mortality and inequality – it's not only the good that die young

A recent report by the Australian Institute of Health and Welfare highlights some of the consequences of income inequality on health and longevity.³⁹ The inescapable reality is that in Australia today, those on low income have greater health problems, and have higher mortality rates than those on higher incomes. There are, however, important differences between various population groups.

Australia is one of the healthiest countries in the world. However, despite relatively high standards of health and health care in Australia, not all Australians fare equally well in terms of their health and longevity. The following excerpt from the AIHW highlights mortality inequities as they impact upon various sub-groups in the Australian population.

- Males have a mortality rate that is 1.5 times as high as the rate for females. There would have been 71,400 fewer male deaths over the 2009-2011 period if males had the same mortality rate as females.
- People living in *Remote* and *Very remote* areas had mortality rates 1.4 times as high as those for people living in *Major cities*, and higher rates of death due to diabetes and land transport accidents.
- People living in the lowest socioeconomic status (SES) areas had a mortality rate that was 1.3 times as high as the rate among people living in the highest SES areas, and higher rates of death due to diabetes and chronic obstructive pulmonary disease.
- Overseas-born Australian residents on average had lower mortality rates than Australian-born residents. Asian-born Australian residents had a mortality rate that was 36% lower than the rate for Australian-born residents.
- The overall mortality rate among Indigenous Australians was nearly twice that of non-Indigenous Australians, and five times as high among Indigenous people aged 35-44.
- Australians that fared the worst in terms of mortality rates tended to do so for causes of death that in many cases can be considered either preventable or treatable-these are often referred to as *potentially avoidable deaths*.

³⁹ AIHW 2014. *Mortality inequalities in Australia 2009–2011*. AIHW Bulletin no. 124. Cat. No. AUS 184. Canberra: AIHW.

3. The specific impacts of inequality on disadvantaged groups within the community, including Aboriginal and Torres Strait Islander peoples, older job seekers, people living with a disability or mental illness, refugees, single parents, those on a low income, people at risk of poverty in retirement as well as the relationship between gender and inequality.

Below we highlight briefly the main issues facing the most disadvantaged groups in our community, with specific attention to Aboriginal and Torres Strait Islander peoples, older job seekers, people living with a disability or mental illness, refugees, single parents, those on a low income, people at risk of poverty in retirement as well as the relationship between gender and inequality.

3.1 Single parents and inequality

Single parents in Australia are a group considered to be at significant risk of a life of poverty and inequality. The majority of the current 259,506 people in receipt of the Parenting Payment Single are female, and just one in every 20 single parents are male (12,977).⁴⁰ Nationally, one in eight Australians and one in six children live below the poverty line.⁴¹ The latest *The Household, Income, Labour and Dynamics in Australia (HILDA) Survey 2013*, an annual report conducted by University of Melbourne, shows that single parent child poverty has increased by 15% since 2001. Figures reveal that 24.1% of children living in one-parent households are in poverty. By contrast 7.6% of children with two parents are experiencing poverty. The 2013 report warned that “children under the care of just one parent are three times more likely than other children to live in poverty.”⁴²

As a result of successive Government policies in 2005, 2011 and 2013, there are now 114,117 single parents on the Newstart Allowance. These parents are around \$80 per week worse off than under Parenting Payment Single conditions. Additionally, the Newstart Allowance has a much harsher means testing arrangements. This means that the return from employment is greatly reduced under Newstart Allowance payments. The 2013 changes affected over 63,000 parents immediately, and a similar amount will be impacted over the forward estimates. These changes resulted in savings of \$728 million. Recently, the ALP has admitted that it was a “mistake” to move single parents onto the Newstart Allowance. The belated recognition is welcome, but is cold comfort for the families who have been placed into hardship as a result of these ill-considered and counter-productive reforms.

⁴⁰ Senate Community Affairs Committee, Answers to Estimates Questions on Notice, Social Services Portfolio, 2014-15 *Budget Estimates Hearings, Question No. 341*.

⁴¹ Australian Council of Social Service, *Poverty Report*, 2012.

⁴² Melbourne Institute of Applied Economics and Social Research, *The Household, Income, Labour and Dynamics in Australia (HILDA) Survey 2013*: <http://benews.unimelb.edu.au/2013/2013-hilda-report-sounds-the-alarm-on-child-poverty/>

The NWRN has undertaken a detailed analysis of the impacts of these changes on single parents.⁴³

3.2 Young unemployed people and students

Existing social security payments for young people on Youth Allowance – whether students or unemployed – are inadequate and not sufficient to meet the costs of rent, food and utilities, or cover the costs of looking for work. Young unemployed people receive the lowest rates of social security of all people – with “Independent” rate of Young Allowance being just \$414 per fortnight – \$48 a week less than the Newstart Allowance. The rate for young people over 18 living at home is an impossibly low \$272.80 per fortnight.

3.3 People with disability

One of the major issues facing people with disability in Australia is the high rate of poverty. There are 620,000 people with disability, or 45%, living below the poverty line. The labour force participation rate for people with disability in 2009 was only 54%, significantly lower when compared to people without a disability, which stood at 83%. Since that time it is estimated to have fallen further, to just 53%. People with disability who do participate in the labour force are more likely to be unemployed. In a recent comparison with other OECD countries, Australia ranks 21st out of 29 in employment participation rates for people with a disability.

The lack of employment of people with disability is the major reason why almost half of all people with disability in this country are living near or below the poverty line.

Of the 832,533 people on the Disability Support Pension, just under 68,000 reported any earnings at March 2014. Despite talk of this pension being an “unsustainable payment”, the latest data indicates that a total of 34,185 DSP recipients have been on income support payments for less than 12 months. There is almost no increase in the numbers on the DSP over the past 12 months, and 77% of DSP recipients have been in receipt of the payment for over five years.

There is a close association between poverty and mental ill-health, with mental disorders regularly leading to individuals and families into poverty. Poor mental health can be both a cause and a consequence of the experience of inequality, poverty and social deprivation and hardship and exclusion.

⁴³ NWRN Media Release, *Single Parents: 1 Year After Year Zero*: <https://www.welfarerights.org.au/news/2014/2/7/media-release-7-february-2014>.

People living in poverty experience stressful conditions. In turn, these experiences can place them at risk of developing a mental health condition. The relationship between poverty and mental ill-health is “cyclical”, in that poverty increases the risk of mental disorders, and experiencing a mental health problem increases the likelihood of sliding into poverty.

A compounding issue is that people with a mental illness may be unable to work because of the impact of their illness. In addition, stigma and discrimination often denies people work opportunities, or leads to their sacking and exclusion from the paid workforce. Homelessness and incarceration add a further problematic dimension to the challenge of finding workable solutions and engaging people with mental disabilities and ill-health into the workforce.

Many people with disabilities want to work, but are not offered the right assistance and cannot overcome workplace discrimination. More effective assistance is needed to get people with disabilities working.

A range of key demographics about people currently receiving on the Disability Support Pension are highlighted below.

Main Medical condition: As of 28 March 2014 there were:

- 832,533 people receiving the Disability Support Pension;
- 263,668 people on the DSP whose primary medical condition is psychiatric/psychological;
- 212,969 whose primary medical conditions is musculoskeletal;
- 103,764 whose primary medical condition is an intellectual or learning condition;
- 43,265 whose primary medical condition is a nervous system;
- 32,683 whose primary medical condition is a circulatory condition.
- *Poverty:* One in four people with disabilities in Australia are living in poverty.
- *Employment:* 45% of people with disabilities are unemployed. The rate of employment of people with a mental health condition is lower, at just 30%. Employment in the Australian Public Service has declined from over 6% 15 years ago to just 2.9 in 2012.
- *Home ownership:* Half of all people on the DSP are homeowners or purchasing their home. Over the past decade, home ownership among people receiving the DSP has fallen dramatically, by 10%.⁴⁴
- *Age:* At March 2014, just 6.7% of recipients were aged under 25 (55,897); 305,111 (36.6%) were aged 25-49, and 471,525 (57%) were aged 50 and over.

⁴⁴ Department of Social Services, *Characteristics of the Disability Support Pensioners*, July 2013.

- *Manifest disabilities:* Five per cent, or about 43,000 people, are ‘manifest’, which indicates the existence of very significant disabilities.

Education: The Melbourne Institute reports that 30% of DSP recipients have not completed year 10.

- *Earnings:* Only 67,996 DSP recipients reported any earnings in the fortnight to 28 March 2014, just 8.2% of all DSP recipients.

3.4 Inequality and Aboriginal and Torres Strait Islander peoples

The gap in life expectancy between Indigenous and non-Indigenous Australians, currently 10.6 years for men and 9.5 years for women, is just one of the factors which contribute to shockingly poor health, employment and educational outcomes for Aboriginal and Torres Strait Islander Peoples. From areas of school retention, education, juvenile justice and incarceration, where rates are 15 times higher for Indigenous people to income, employment and home ownership, Indigenous people have fewer opportunities and worse outcomes than non-Indigenous Australians.

In areas specific to social security, Indigenous young people and young males, in particular, are often missing out on income support payments. Indigenous people also experience higher rates of overpayments, and are subject to job seeker compliance penalties than their non-Indigenous peers. Difficulties with Centrelink are often exacerbated because Indigenous income support recipients rarely access the review and appeals process internally or externally by lodging an appeal at the Social Security Appeals Tribunal or the Administrative Appeals Tribunal.

In other key areas like homelessness, the inequality in our society is magnified. The Australian Bureau of Statistics reports that 49 homeless Australians for every 10,000 Australians, but Aboriginal homelessness is at nearly 200 per 10,000.

In terms of social security compliance arrangements Indigenous Australians are over-represented in terms of the imposition of penalties under social security legislation with 22% of all eight week non-payment periods for those in receipt of income support being imposed on Indigenous Australians. Furthermore, 25% of all job seeker penalties are imposed on Indigenous Australians who themselves comprise 10% of all unemployed people nationally.

It is critical that a national solution be found to what are seemingly intractable problems. This means a focus on community-led identification and solutions, building community resilience and cultural competency.

Finally, Government policies, like compulsory income management have exacerbated feelings of despair, alienation, and isolation among many Indigenous people.

3.5 Older job seekers

Three in 10 people on the Newstart Allowance are aged over 50. Higher rates of disability among older people, combined with age discrimination are some of the main issues facing mature age job seekers. The numbers of mature age unemployed people has increased by over 40% since 2010, and at March 2014, there were over 204,000 people aged over 50 years of age languishing of the inadequate Newstart Allowance.⁴⁵

4. The likely impact of Government policies on current and future rates of inequality particularly the changes proposed in the 2014-15 Budget.

4.1 The 2014-15 Federal Budget and income inequality

The *Social Services and Other Legislation Amendment (2014 Budget Measures No. 1) Bill 2014* and the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 2) Bill 2014* give effect to a raft of measures that were introduced in the 2014-15 Federal Budget. The proposals in these two [Social Security Bills](#) contain some of the most significant changes to the Australian system of income support since it was first introduced in a consolidated *Social Security Act* in 1947.

Our analysis of the Budget proposals indicates that most of these budget measures will have a harsher impact on the most disadvantaged Australians. The harshest policies are targeted at young unemployed people, through the denial of income support payments for periods of at least six months per year. Negative impacts will also be experienced by people with disabilities and single parents. Changes to indexation and benchmarking of pension payments will mean smaller payment increases into the future for millions of people living on very low, fixed incomes, while changes to Family Tax Benefits will lead to reductions in incomes for many families who are already doing it tough.

Few of the Budget measures target high income earners, and those measures which do, like the temporary tax hike for those on over \$180,000 a year, are temporary lasting only for three years. By

⁴⁵ Ibid.

2017-18, when the levy expires, NATSEM predicts that the wealthiest fifth of households will be better off by around \$825 million.

Modelling by Treasury confirms criticisms of the Budget since the document was released. That analysis reveals the spending cuts cost an average of \$842 a year for low income households who lose 43% more than middle income families. Middle income families are set to lose \$477 a year. The inequitable side of the recent Budget is laid bare by figures which show that low income families lose almost twelve times as much in dollar terms that do the poorest families. Treasury data highlights the disproportionate impacts of the 2014 Budget, as high income families are set lose just to \$71 per year.⁴⁶

Low income families lose more than high income families as a proportion of household income. A single income family earning around \$65,000 a year, with two children, will be worse off by about \$6,000 per year.

NATSEM estimates that the poorest 20% of families will be collectively \$2.9 billion worse off over 4 years. Changes to family payments, pensions and other payments for this family on less than \$35,000 a year will mean that their annual income falls by 2.2%, compared to a reduction of just 0.2% for a family unit from the wealthiest 20% of the population. These wealthier families on over \$88,000 per year lose \$1.78 billion – 40% more than that lost by the poorest fifth of families.

Low and middle income families with school-age children fare the worst, due to the removal of FTB Part B, and across all income groupings, these families lose a staggering \$15.9 billion. Single parents are set to lose between 10 and 15% of their annual income, due to the abolition of FTB Part B when families reach six and the harsh indexation changes.

In 2017-18, a single parent earning \$60,000 with two children aged 8 and 12 will lose \$6,278 – over a tenth of their annual income. Like the 2013 changes that moved single parents onto the lower Newstart Allowance, these budget changes have their some of their harshest impacts upon those single parents who are already working.

In *Sharing the Budget pain*, Whiteford and Nethery forensically dissect the measures in the Federal Budget, highlighting inequity after inequity, and show that low income families and individuals bear the brunt of the budgets unfairness.⁴⁷ The changes to Family payments will save around \$3.2 billion in 2017-18, and next to changes in foreign aid, is the greatest contributor to government savings from all of the budget measures. Aside from the lowering of the thresholds for Family Tax Benefit

⁴⁶ Treasury, *Website Chart Data*, August 2014.

⁴⁷ Whiteford, P. amd Nethery, D. *Sharing the Budget pain*, Australian National University.

Part B to \$100,000, most of the family payment changes are regressive, and highly so. The freezing of payment rates is particularly regressive, and will have a disproportionate impact upon lower income families.

Another change is the reintroduction of fuel excise indexation, which is predicted to raise \$900 million by 2017-18. NWRN considers that this measure will be mildly regressive for low income households that drive motor vehicles. It is estimated to cost households around 40 cents a week. NWRN believes that there is a need to support reasonable measures to collect much needed revenue, and that the impact of this measure is small in its impact, compared to the other harsher budget measures, such as the six month waiting period which takes \$255 per week from many job seekers aged under 30.

The Government initially claimed that these harmful and harsh measures in the Bills were necessary because our nation faces a “budget emergency”, but it has backed away from this claim. However, it has not backed away from the extreme measures in the Budget - which deny income support to some for extended periods, reduces essential social security payments, and removes vital supports needed to take part in education and improve employment chances, such as the Pensioner Education Supplement and the Education Entry Payment.

Over 259,000 Parenting Payment Single recipients will be negatively affected by the proposed indexation arrangements and the changes to Family Tax Benefit A and B, while 17,500 single parents currently on payments will be affected by the cessation of the Pensioner Education Supplement. While a supplement will be introduced for single parents, it will not make up for the loss of payment, and there is no supplement for low income couples.

Other Budget measures, which are not analysed in this submission, should also be borne in mind. For example the introduction of a \$7 Medicare co-payment will be of particular concern to parents, Age Pensioners and people with chronic health conditions.

Many of the measures effectively decrease support to young people, students, and their families. These changes will increase financial hardship and will exacerbate inequality.

These include:

- increasing the time a person spends on the grossly inadequate Youth Allowance rate and freezing the income free areas for student (undoing the limited reforms that came out of the Bradley Review’s findings about student poverty and inadequacy of Youth Allowance)

- new limits on income student bank and freezing the income free area (increasing effective marginal tax rates)
- substantially decreasing family assistance payments (substantially impacting on low income families)
- substantially decreasing other assistance available to vulnerable families (e.g. pensioner education and other supplements).

4.2 No income for six months and income inequality

The proposal to create six month exclusion periods for under 30s and the indexation changes is that, despite the Government's intentions, the practical effect will be to reduce prospects for work and entrench poverty and disadvantage.

Inadequate allowance rates compound barriers to employment. If, as the Business Council and many others say, the rate of Newstart Allowance is already a barrier to work, the proposed six month non-payment period can only be more counter-productive in the important goal of increasing workforce participation.⁴⁸

A person under 30 who loses their job and/or cannot initially find a job will, with certain exceptions, serve a six month waiting period in every twelve months before becoming eligible for Newstart Allowance or Youth Allowance which are unemployment benefits. This six-month waiting period will be served on top of any other applicable waiting periods.

People under 30 with little or no support from their families will almost certainly be desperate. Indeed, the Government has recognised that some will become destitute as it has budgeted for an extra \$230 million for food parcels and emergency relief to cope with the extra strain on the social services system.

According to Senate Estimates, a person could be denied all income support for 11 months when rules such as the Liquid Assets Test Waiting Period and penalties in the waiting period are taken into account.

NWRN believe, therefore, that this Budget proposal will potentially lead to more and longer unemployment, not less.

Better support to assist job seekers who have disabilities, those who have faced long periods of unemployment and young people seeking entry to the labour market are essential. The

⁴⁸ Business Council of Australia, *Time is Right to Give the Welfare Safety Net a Health Check*, 27 June 2012.

unemployment rate for young people aged 15-24 years is currently more than twice the national average, at 12.9%. Since the Global Financial Crisis in 2008, the average spell of unemployment for a young person has risen from 16 to 29 weeks. More than 50,000 young people aged 18 to 24 have been out of work for more than 2 years, and in some areas the rate of youth unemployment is as high as 20%.

4.3 Indexation of pensions and parenting payment

The 2014-15 Federal Budget proposals around the indexation of social security payments will result in the impoverishment of millions of pension recipients.⁴⁹

An estimated 3.8 million people will be impacted by this change, saving \$449 million over the forward estimates. The indexation changes apply to Age Pension and Veteran's pensions, Disability Support Pensions and Carer Payments. Over a 10 year period, pension recipients are estimated to be about \$100 a year worse off and single parents on PPS around \$80 per week worse off.

The present indexation arrangements are of most financial benefit to those on the maximum rate of pension payments. NWRN estimates that the groups most at risk of poverty under the proposed indexation changes are those receiving maximum rate pensions, which includes around 60% of Age Pensioners, 90% of Disability Support Pensioners and a similar proportion of Carer Payment recipients.

It is a backward step to try to address the gap between pensions and allowances by pulling pensions down to the lower CPI benchmark. The end result will be that pensions will become inadequate in the same way that allowances have.

Differing indexation arrangements is the main reason for the significant nearly \$170 per week gap between pension and allowance. In 1997, the single allowance rate was 91% of the pension rate. However, by 2014, the rate of single allowances was only 61.6% of the pension rate.

Proper and adequate indexation is an essential and critical element of our social security system.

Indexing allowance payments only to the CPI has meant that these payments are essentially "frozen" real terms. If this Schedule is adopted by the Parliament, pension recipients will experience a decline in their living standards, as their payments fall in value, relative to the broader community.

⁴⁹ From 20 September 2017 all social security pensions will be increased by Consumer Price Index (CPI) only. From September 2014 Parenting Payment Single (PPS) will be increased to movements in the CPI only.

Abolishing the link to Male Total Average Weekly Earnings and the Pensioner Beneficiary Consumer of Living Index would effectively place Age Pensioners and other pension recipients on the inadequate indexation regime that is experienced by single Newstart Allowance and Youth Allowance recipients. In the last twenty years the Newstart Allowance has increased by just 0.5% (and this was to compensate for the introduction of the GST).⁵⁰

Examination of the recent history of pension increases reveals graphically how changes to indexation arrangements may impact on pensioners' hip pockets. If the Rudd government had abolished wage indexation, the pensioners would have forgone indexation increases of \$64.20 per fortnight and pensioner couples would be \$96.80 per fortnight worse off.⁵¹

Put simply, these indexation changes are a recipe for inequality.

4.4 Removing support for education and study

The NWRN is very concerned about the Budget proposal to cease the payment of the Pensioner Education Supplement from 1 January 2015 and the Education Entry Payment. As a result of these changes, about 42,000 people with disabilities, single parents and carers may have to withdraw from their course of study. This Budget measure is counter-productive as the people undertaking these courses are trying to effect positive change in their lives and place themselves in a better position to find paid employment.

Access to education, at TAFE, or at university, is being undermined by many of the Budget proposals that relate to higher costs for attending university – including moves to increase student debts and raise interest rates on student debts. Policies that limit access to education limit access to educational opportunities that may enable a person of limited means to receive a better education.

Reducing access to educational opportunities will increase inequalities and limit opportunities for people who want to improve their circumstances and that of their families.

4.5 Increase pension eligibility age – from retirement to inequality

According to the latest OECD's *Pensions at a Glance* report, 18 of the 34 OECD countries have a plan for a higher pension rate of age 67, but only Denmark and Italy have legislated for a pension age of 69, and not one OECD country has legislated to increase the Age Pension eligibility age to 70 years –

⁵⁰ Harmer, J. *Pension Review: Background Paper*, 2012.

⁵¹ See: <http://inside.org.au/two-indexes-two-very-different-prospects-for-pensions/#sthash.aVbOoxN1.dpuf>

except for Australia.⁵² Australia will have the highest Age Pension eligibility age in the developed world, if the proposal to increase the eligibility age is given the nod by the Parliament.

Legislation is before the Parliament that would increase the eligibility age for the Age Pension to 70 years by 2035. The NWRN opposes increasing the Age Pension eligibility age, because it will have the greatest impact on vulnerable older people. As with many of the Budget measures, those on the lowest incomes or those who face chronic illness and disabilities, and Indigenous Australians, will be hit hardest by this measure.

The Committee should consider that current levels of eligibility for the Age Pension by people of Indigenous backgrounds are disturbingly low. At March 2014, there were 15,274 Indigenous Age Pensioners, from a total of 2,385,727 Age Pensioners. Increasing the eligibility age to 70 will place the Age Pension out of reach of many Aboriginal people.⁵³

Saunders confirms this, noting that *“on average... Indigenous men couldn’t expect to reach a new pension age of seventy and Indigenous women would receive the age pension for less than a quarter of the time that non-Indigenous women would.”*⁵⁴

Any increase to the eligibility age will also have a harsher effect on older people and people with disabilities, whose chances of entering the workforce are hindered by disability or age discrimination.

Factors to consider include the following:

- Since 2010, there has been a 41% increase in the numbers of people aged over 50 on the Newstart Allowance. Many years of manual labour mean that rates of disability are much higher among this group: their bodies have simply worn out.
- Thirty per cent of job seekers over 50 have a disability and receive the Newstart ‘partial capacity to work’ Allowance.
- Older unemployed people, who will remain on lower-Newstart Allowance payments for longer periods of time than their younger peers, will also be particularly impacted by this proposal.

⁵² Organisation for Economic Cooperation and Development, *Pensions at a Glance 2013: Retirement-Income Systems in OECD and G20 Countries*.

⁵³ The latest data available indicate that life expectancy for Indigenous boys born between 2005 and 2007 was estimated to be 67.2 years (compared with 78.7 for non-Indigenous boys for the period) and for Indigenous girls 72.9 years (compared with 82.6).

⁵⁴ Saunders, P. See: *Work Till you drop*, at: <http://inside.org.au/work-till-you-drop/#sthash.vv6Ksx4H.dpuf>

- The effect of increasing the pension age to 70 may be further exacerbated for these vulnerable groups by future changes, for example to Disability Support Pension eligibility or jobseeker activity requirements.
- Women with little access to superannuation, including older women who are carers and women excluded from the workforce for extended periods due to family and caring responsibilities, are also likely to be negatively impacted by an increase to the Age Pension eligibility age.

The inequity in the retirement income stakes – where wealthier old men receive the most benefits from the superannuation tax concessions – will be further exacerbated by these reforms.

Consider the following:

- The average superannuation account balance at retirement for women is around \$105,000. By contrast, the average male will retire with almost double this amount, with an account balance of \$197,000.⁵⁵
- There is also a large gender difference when it comes to current super account balances, with women having an average of \$44,866 in savings, compared with men who have, on average, almost double this level of super, with a balance of \$82,615. The average balance in retirement for women was just \$105,000.⁵⁶
- Around a quarter of men (26.1%) and more than 1-in-3 women (34.6%) currently have no super at all. Disturbingly, around 60 % of women aged between 65 and 69 reported nil super balances, and this number had not risen in the previous two years.⁵⁷

Raising the pension eligibility age to 70 will increase inequality for many people and it is likely to increased income disparities between retirees with substantial incomes in retirement, and those with limited financial resources.

4.6 Raising the Newstart Allowance age to 25 years

Access to an adequate income for young people is to be undermined by 1 January 2015, due to changes affecting young unemployed people aged 22-24. The Government plans to increase the eligibility age for the higher Newstart Allowance. For many, this will result is a loss of income of \$48

⁵⁵ Clare, R. *An update of the level and distribution of retirement savings, Research Note, Australian Superannuation Funds of Australia*, March 2014 According to a recent analysis by the Association of Superannuation Funds of Australia (ASFA) from data from the Australian Bureau of Statistics (ABS).

⁵⁶ Ibid.

⁵⁷ Ibid.

per week. The budget will have the impact of increasing inequalities experienced by young people, who already face major barriers trying to break into the labour market.

If the age of eligibility for the Newstart Allowance was to take effect as of March 2014, it would have caused financial hardship for 72,450 people currently aged between 22, 23 and 24.⁵⁸

Under this proposal, young people who are living away from the parental home would receive just \$207 per week on Youth Allowance (o), as opposed to \$255 per week on the Newstart Allowance. This is a reduction of \$48 per week, which is equal to a loss of a fifth of the weekly incomes for people on the lowest rates of income support payments.

Young people who do not qualify for the “Independent” rate could be even worse off, as they would be subject to the Parental Income Test (PIT).⁵⁹

4.7 Ordinary One-Week Waiting Period Extended

Another Budget measure that will have negative impacts upon significant numbers of people on low incomes is the changes to waiting periods. The One-Week Ordinary Waiting Period is to apply to All Working Age Payments – and extended to Parenting Payment, Widow Allowance and Youth Allowance. They also plan to remove the current rule that enables the OWP to be served concurrently with other applicable waiting periods.

Many more people will be forced to wait seven days from the date that they lodge a claim for a payment to be made. Typically, most people who seek income support have few, if any savings to draw upon.

These changes will mean that widows, young unemployed people and partners of unemployed people will generally have to wait an extra week before they can access vital income support. Women escaping domestic violence will also be impacted.

Centrelink can waive the waiting period if a person is in severe financial hardship, which, for an unemployed people, means that they have less than \$510 in savings. This approach standardised the rules, but it does not make them fairer. One week is not as extreme as the six month waiting periods that are planned, but this change takes over \$231 million from the pockets of disadvantaged people by 2018.

⁵⁸ Senate Community Affairs, Op Cit, *Question No. 373*.

⁵⁹ Under this test, payments start reducing by 20 cents for every \$1.00 over \$48,837. These cuts may cause hardship for low income families who have less capacity to support the young person financially.

5. The principles that should underpin the provision of social security payments in Australia.

The question, “what should our social security system look like?” has been asked by the recent McClure Review. The NWRN provided a detailed submission to this inquiry. Below, we summarise the key features of a fair, modern, progressive and effective income and social support system.

- Australia’s system of income security should provide a basic level of financial support to cover the needs of people too old or infirm to work and to assist people with caring responsibilities for people with disabilities and children.
- It should also provide an adequate standard of living for those out of work or studying.
- It should not leave people in poverty, or discourage them from seeking employment or working extra hours. Income support arrangements should provide extra assistance to meet the additional costs of study, training or caring.
- Life changes, such as a child turning 16, or when a person ceases caring because a loved one moves into a nursing home, should not result in a significant loss of income or leave people in severe financial difficulty.
- Australia’s welfare system should not be overly complex, should be simple to understand, and not based on out-dated notions of “deserving” and “undeserving” recipients.
- Payment rates should be based upon people’s actual living costs and maintained over time. Activity requirements need to take account of individual needs and circumstances.
- Employment assistance should be individually tailored, improve life skills and be supported by training, wage subsidies and paid work experience.
- Compliance measures should be used as a last resort, and should not leave people in financial difficulties.
- The system should be administered by a Government agency, be underpinned by legislation, and decisions should be reviewable by internal and external mechanisms.
- Adequate support should be available to assist people who experience difficulties navigating the social security system. As activity testing becomes more widespread, complex and “risky” (in terms of the likelihood of sanctions, penalties or loss of payments), consideration should be given to the funding of an Employment Services Ombudsman, to ensure fair treatment for job seekers and increase awareness about their rights, responsibilities and obligations.

5.1 Design principles for a first-class social security system

The design principles that should underpin Australia's Social Security system should include the following:

- The key characteristics that should underpin the income support system are payment adequacy based on need, fairness, clarity, transparency and certainty, (i.e. a legislated basis). These principles should receive the highest priority and should not be compromised by any simplification agenda.
- That the system be based on legislated, reviewable and transparent payments that are subject to parliamentary scrutiny.
- That the system be sufficiently flexible to take account of diverse individual and family needs and, in particular, the payment structure and payment levels should be flexible enough to meet individual needs, such as the costs of participation, study, training, disability, accommodation/housing, raising children and caring.
- That participation requirements recognise differences in individual capacity and individual circumstances (e.g. caring for children and others).
- That the system generally be based on individual, rather than household resources.
- Base rates of income support should not assume the sharing of income and/or expenses, or significant economies of scale, within non-couple households.
- That means testing of income and assets should protect, first and foremost, those in most need. Withdrawal or taper rates should not produce unfair high effective marginal tax rates or poverty traps and should always provide an incentive to earn.
- That all decisions in relation to rights and entitlements, responsibilities and obligations in the system be reviewable under a three tier system characterised by being internal and external review, at Authorised Review Officer level, the Social Security Appeals Tribunal and the Administrative Appeals Tribunal.
- That the system be administered by a government agency.

6. The practical measures that could be implemented by Governments to address inequality, particularly appropriate and adequate income support payments.

Government decisions and actions can either increase or reduce inequality in society. Below, NWRN offers few examples assist in illustrating the consequences of Government decisions.

6.1 Increase to the single rate of pension in 2009

The historic 2009 increase in the single rate of the pension by \$32.50 per week is credited in halving the rate of poverty among Australia's elderly. Changes to indexation arrangements are likely to undo the historic positive impacts which have allowed our older generation a sense of dignity and financial security in retirement. This will lead to more inequality among Australia's retiree population.

6.2 Relaxing the thresholds for the Liquid Assets Waiting Period

These thresholds were temporarily relaxed during the GFC. Savings over \$2,500 would result in waiting periods for a single person, under the thresholds in place in 2012. The previous Government relaxed these thresholds that had been in place since 1997, meaning that some people would not have to run down most of their savings before receiving income support. Unemployed people could receive income support up to five weeks earlier under these changes.

6.3 Increasing the "income free area" from \$62 to \$100 per fortnight

Another welcome social security change occurred when unemployed people on the Newstart Allowance were allowed to keep more of their income before the social security means tests took effect. These changes assisted around one-in-five job seekers with earnings from employment.

6.4 The Income Support Bonus (ISB)

This payment was introduced by the former Government, to address community concerns with the low rate of the Newstart Allowance, and policies impacting upon single parents. At a cost of around \$300 million per year, the ISB is currently paid every six months to around 1.1 million low income social security recipients, including unemployed people, young people and single parents. The next ISB of around \$109 (for a single person) will be paid after 20 September 2014. The current Government argues that the ISB cannot be afforded, as its costs were hypothecated to the minerals resource rent tax, which has been abolished. The ISB is set to cease being paid in 2016. This payment is the first real payment increase that unemployed people have received in two decade. The ISB should only be abolished if the Government agreed to increase the single Newstart Allowance and related payments by \$50 per week.

6.5 Wage subsidies and Youth Connections programs

Employment policies and programs are just as critical as the social security rules and requirements that apply, and can be critical in addressing inequality where, for instance, a person is assisted into employment or is provided with skills that make them attractive to employers. Two schemes that NWRN supports are wage subsidies and Youth Connections.

6.6 Payment Indexation

All income support payments should be indexed six-monthly. Currently, payments for young people are adjusted only once a year, in January. This means that people who are on the lowest social security payments also have to contend with an extended “indexation lag”, which means that these young people must carry the burden of extra costs for up to 18 months.

6.7 Fairer Concessions

NWRN recommends that the Federal, State and Local Government establish a working party to rationalise and equalise the benefits attached to the Pensioner Concession Card and the Health Care Card. This should involve as a priority ensuring equitable access to transport and utility concessions.

6.8 Rent Assistance

NWRN has made a number of recommendations about reforming Rent Assistance which, if adopted, would improve housing affordability among very disadvantaged groups in the community. The Commonwealth Government increase the single rate of Newstart Allowance, Youth Allowance, and other Allowance payments for single adults and young people living independently of their parents by \$50 per week. The Commonwealth Government should increase the maximum rate of Rent Assistance by 30%, and people paying the highest rents should receive the greatest increases in Rent Assistance. The Commonwealth Government should link increases in Rent Assistance to movements in national rents instead of the Consumer Price Index. The Commonwealth Government should abandon the ‘sharers’ Rent Assistance rules and link all payments of Rent Assistance to the level of rent paid rather than the nature of a person’s accommodation arrangements.

6.9 Other reforms that would assist in reducing inequality in Australia

Below we provide links to a range of NWRN submissions that are of significant relevance to the issues being investigated by the Committee.

The NWRN's [2014-15 Federal Budget](#) submission includes a range of important revenue measures, which are critical to addressing inequality. The submission contains 27 recommendations on spending and revenue measures. The proposals about making our retirement income system fairer, and reigning in the billions in unfair superannuation tax concessions should be considered by the Committee.

Addressing loopholes and unfairness in the current taxation system, particularly in relation to negative gearing and family trusts, are measures which, if implemented, would reduce inequality in a meaningful and measurable way.

Decisions about revenue raising and expenditure on tax concessions are also critical to any genuine discussion around tackling inequality. These important issues are covered in NWRN's submission to the [Commission of Audit](#).

One program that is particularly harmful is Income Management. This program operates across Australia, but the majority of those impacted are Indigenous income support recipients residing in the Northern Territory. The Federal Government is considering expanding expensive scheme in the wake of the recent Forrest Review. With one billion spent on this scheme since 2007, there is no evidence of its effectiveness. NWRN supports Income Management when it is genuinely voluntary. The NWRN has provided a briefing on [Income Management](#) for the consideration of the Committee.

Our income support system could be made fairer and simpler. The NWRN's submission to the [McClure Review](#) includes an analysis of the current income support system, and makes a number of proposals for improving the system, to ensure that adequate levels of income support are available, and that, where realistic, the system rewards work and supports people into employment.