c/-102/55 Holt Street, Surry Hills NSW,2010
Phone: (02) 9211 5300 Fax: (02) 9211 5268
Toll Free: 1800 226 028 TTY: (02) 9211 0238
ABN: 76 002 708 714
welfarerights@welfarerights.org.au www.welfarerights.org.au

8 March 2012

Senator Claire Moore
Chair
Senate Community Affairs Legislation Committee
Parliament House
Canberra ACT 2600

Re: Submission on the *Social Security and Other Legislation Amendment (Income Support and Other Measures) Bill 2012.*

Dear Senator Moore,

The National Welfare Rights Network (NWRN) is pleased to provide for the consideration of the Community Affairs Committee our submission on the *Social Security and Other Legislation Amendment (Income Support and Other Measures) Bill 2012.*

The NWRN agrees with the stated aim of these proposals which is to assist people who are able to work to move from income support to work. Sustainable and secure employment is a fundamental building block of social and economic inclusion. All communities and individuals benefit when more people have the opportunity to fully engage in the economic and social mainstream. This bill, however, will not assist people to transition to paid work and may even be counterproductive. Our submission notes with concern, for example, the reduced financial return from work which will occur for recipients currently on Parenting Payment (Single) because of the lower "income free area" available for Newstart Allowance (Principal Carer) recipients.

The Bill before Parliament will reduce the income of many low income and vulnerable families and young people, at a time when there is growing community concern about rising costs of living and deepening anxieties over job security. The Bill, as currently formulated, will leave almost 100,000 single parents and young people with less income over the next four years.

An estimated 28,000 single parents will be moved onto Newstart Allowance over the next four years. This effectively means a cut in income of $58 a week for those on the maximum rate of Newstart Allowance after 1 January 2013.

From 1 July 2012 the Government will increase the eligibility age for Newstart Allowance, from 21 to 22 years of age. This change will affect 68,000 young people over four years. The impact of these reforms will vary, depending on the young person's circumstances. A young person living independently on the maximum rate of Youth Allowance will experience a reduction in income of $43 per week – the difference between Newstart Allowance and Youth Allowance. The average payment reduction for those remaining longer on Youth Allowance will be $65 a week – or $3,500 per year.

We oppose these aspects of the bill. Instead of cutting payments for parents and young people NWRN proposes that the Committee support increasing the rate of Newstart Allowance and Youth Allowance by $50 a week, as suggested by the 2009 Henry Tax and Transfer Review.

NWRN's submission notes some positive aspects in the current bill. We have been vocal advocates in support of income test easing for Youth Allowance (other) recipients, from $62 per fortnight to $143 a fortnight, along with the substantial increase the 'working credit', from $1,000 to $3,500. These are very positive reforms which should increase work incentives and, most importantly, provide greater financial returns from employment.

Also positive is the more generous income test for principal carers on Newstart Allowance. This will mean that parents will be able to retain more of their earnings from employment than they are currently allowed on Newstart Allowance.

For reasons that are detailed in our submission, we urge the Committee to reject the Bill in its current form.

NWRN would looks forward to the opportunity to providing evidence on our submission at the public hearings on the bill.

Yours sincerely

Maree O'Halloran AM
President
National Welfare Rights Network

Att: 1

c/-102/55 Holt Street, Surry Hills NSW,2010
Phone: (02) 9211 5300 Fax: (02) 9211 5268
Toll Free: 1800 226 028 TTY: (02) 9211 0238
ABN: 76 002 708 714
welfarerights@welfarerights.org.au www.welfarerights.org.au

Submission to the Senate Community Affairs Legislation Committee inquiry into the *Social Security and Other Legislation Amendment (Income Support and Other Measures) Bill 2012*

by the

National Welfare Rights Network (NWRN)

8 March 2012

1. Overview

The National Welfare Rights Network (NWRN) agrees with the stated aims of these proposals which is to assist people who are able to work to move from income support to work. Sustainable and secure employment is a fundamental building block of social and economic inclusion. All communities and individuals benefit when more people have the opportunity to fully engage in the economic and social mainstream. However, this bill will not achieve this.

The Bill before Parliament will reduce the income of many low income and vulnerable families and young people, at a time when there is growing community concern about rising costs of living and deepening anxieties over job security. The Bill, as currently formulated, will leave almost 100,000 single parents and young people with less income over the next four years.[1]

1.1 Impact on single parents

Like many changes to income support policies in recent years, the primary motivation of these changes is to reduce government outlays, by moving more and more people onto the lower paying Newstart Allowance. In this respect, the National Welfare Rights Network calls for the Newstart Allowance to be increased by $50 per week. This Bill is especially unfair for single parents, who will see this Government overturning a commitment by the former Coalition Government to maintain eligibility for parents on the higher rate of Parenting Payment (Single) under the 2006 'welfare to work' changes that many current Government Ministers labelled as "extreme" at the time.

Under this Bill the Government would remove the "grandfathered" protections for single parents affected by the 2006 *Welfare to Work* changes. Currently, this group can remain on the higher rate of Parenting Payment (Single) until their youngest child turns 16. This Bill will mean that after a child's 12th birthday they will be moved onto Newstart Allowance (principal carer). This effectively means a cut in income of $58 a week.

The changes will see some Parenting Payment (Single) recipients disadvantaged because they will face a lower maximum payment rate and a lower income free area, but with the same taper rate (40 per cent). The Bill eases the tapered withdrawal of income for single parents on allowance payments, which is beneficial as NWRN has urged this approach for many years.

[1] The Bill refers to the *Social Security and Other Legislation Amendment (income Support and Other Measures)* Bill 2012.

The problem remains, however, that single parents now on Newstart Allowance will still face a significantly lower threshold at which payments are withdrawn as their earnings increase (the income free area). On NSA, payments start to decrease when income exceeds $31 per week. In contrast, the threshold for Parenting Payment (Single) is $87 a week, and is indexed in July each year. Thus a parent moving from Parenting Payment (Single) to Newstart Allowance faces an immediate $58 reduction in their income free area. The $31 threshold for Newstart Allowance has been increased by only $1 in over 30 years – for the Goods and Services Tax!

The more beneficial taper rate for single parents on Newstart Allowance is good news for the 32,000 parents already on Newstart Allowance – but it is bad news for those parents who would have remained on Parenting Payment (Single) will now be moved to a lower rate allowance payment, with a lower income free area.

NWRN argues that there is no need to place parents onto lower rates of income support as a means to "activate" parents to find work. A third of existing parenting payment recipients currently undertake some part-time employment. Indeed, this Bill does not change parents' participation requirements in any shape or form.

1.2 Impact on young people

The eligibility age for Newstart Allowance will be raised to 22 years. This will affect 68,000 young people over four years, saving the Government around $245 million. Sixty million dollars is spent on the income test easing for Youth Allowance recipients and substantially increasing the 'working credit'. Overall, the changes for young people lead to budgetary savings of $184 million over four years.

1.3 Increase in job seeker financial penalties

The Bill will also increase the daily loss of income for job seekers who have a reconnection failure. The daily penalty will be a tenth of a person's allowance, instead of a fourteenth. The financial losses for job seekers will increase by around a third. For a person on Newstart Allowance, this will mean the daily loss of income will increase by $14 a day, from $34 to $48 a day.

2. Changes for single parents from 1 January 2013

Currently some single parents who have been receiving Parenting Payments since before July 2006 can remain eligible for this payment until their youngest child turns 16.

Under the proposed changes, single parents who have been receiving Parenting Payment since before July 2006, will see eligibility for PPS cease when their youngest child turns 12 or 13 in 2013, or 12 in subsequent years. Also, from 1 July 2011 any new children born in these families will be treated the same as children whose parents started receiving Parenting Payment from July 2006.

The first issue to consider is the impact on a single parent's primary income support payment. In 2012-13 an estimated 10,038 single parents will face a cut to their payment of $59 a week. NSA single with dependent children is $529 and Parenting Payment (single) is $648. Over the four years to 2015 almost 28,000 (27,856) single parents will be moved onto Newstart Allowance (principal carer). The current rate of social security payment for a person in receipt of PPS is $324 a week. However, the rate of payments for a principal carer on Newstart is just $265 per week – a payment reduction of $59 a week or $3,086.

Additionally, from 1 January 2013, a lower taper rate of 40 cents in the dollar for income above $62 per fortnight will be introduced for a single principal carer on Newstart Allowance. This will replace the current Newstart Allowance (NSA) threshold rate of 50 cents in the dollar for income between $62 and $250 and 60 cents in the dollar for income above $250 a fortnight. Furthermore, support will also be provided to parents to assist them to get ready for work and find employment. These supports are very positive, as will be discussed later.

The financial impacts of the single lower taper rate will be either positive or negative, depending on a number of considerations, such as how much is earned and when the single parent became eligible for Newstart Allowance.

The clear and unambiguous winners from the 1 January 2013 changes to Parenting Payment Single are the estimated 32,000 single parents who since 2006 have already been moved onto Newstart Allowance (principal carer) under the former government's 'welfare to work' changes. These parents have faced punishingly high losses when they earn income about $31 a week. This "penalty" for working is a frequent complaint from parents who have contacted NWRN member organisations about the 2006 social security changes. The lower taper rates have been welcomed by the NWRN.

The clear and unambiguous losers from the 1 January 2013 changes to Parenting Payment (Single) are the estimated 28,000 single parents who have been receiving Parenting Payment since before July 2006, whose eligibility for PPS will cease when their youngest child turns 12 or 13 in 2013, or 12 in subsequent years.

Information on these changes claims that "single parents on Newstart Allowance will be rewarded for engaging in work with a more generous threshold rate".[2]

[2] Australian Government, *Building Australia's Future Workforce, Better Futures for Jobless Families*, p. 2, 10 May, 2011.

For the group of parents who lose their 2006 grandfathered status, any claims of "generous" treatment are not correct and these claims are highly misleading. Single parents moving from Parenting Payment to Newstart Allowance will have the same taper rate (40%) due to proposed NSA income test changes however they would face a lower income test free area. The implications for parents who are moved from Parenting Payment (Single) to Newstart Allowance (principal carer) is outlined below.

1. they will face a payment cut, leaving them $58 a week worse off;
2. they will start losing their social security payment earlier because their income free area will drop by $112 per fortnight (ie at $62 per fortnight on Newstart Allowance as opposed to $174.60 on Parenting Payment Single); and
3. they will not be eligible for the is the extra child free income area of $24.60 per fortnight for each additional child.

The changes to parents will likely have a number of serious, unintended impacts on parents' behaviour. For example:

- a large proportion of single parents on Parenting Payment undertake employment, either full or part-time. Around 32 per cent of PPS recipients report earnings from employment, but less than half this amount (about 16 per cent) of Newstart Allowance recipients report any earnings. The evidence suggests that more generous threshold rates encourages work and tighter threshold rates acts to undermine work incentives;

- an additional effect of these changes to threshold rates for PPS recipients currently in work will be a significant increase in workforce disincentives for single parents in public housing;

- over time the adequacy of payments will continue to be undermined because Newstart Allowance is subject to less beneficial indexation arrangements. Whereas the Age Pension and related pensions are indexed to the best possible outcomes from a formula that includes 27.5 per cent of Male Total Average Weekly Earnings, the Pensioner and Beneficiary Cost of Living Index, and the Consumer Price Index (CPI), Newstart Allowance is only indexed to the CPI. Parents on Newstart will experience lower cost of living adjustments at future indexation points (March and September each year);

- the living standards of families on Newstart Allowance will be further undermined into the future because Newstart Allowance income free area (at $62 a fortnight) is not indexed, unlike the income free area for the pension which is adjusted in July each year. Indeed, this income free area has not been indexed for thirty years; and

- for some, the change to the free area may mean that they will no longer be at least $25 per week better of due to their work, thus raising the question of ongoing suitability of the work.

NWRN recognises that there will be some additional programs and supports to assist parents to enter the workforce. These include:

- professional career advice and counselling for parents;
- access to the wage subsidies program (if they have been out of work for over 24 months);
- extra funding for training linked to Certificate 2 qualifications and above; and
- additional funding over four years for new and existing Communities for Children programs that are targeted primarily at supporting parents.

These additional supports are welcome, as these parents already have participation requirements.

However, they do not outweigh the negative aspects of these changes in the Bill before the Committee.

In light of the above concerns, NWRN urges the Committee to oppose the schedule that moves parents onto Newstart, but support the schedule that introduces the higher threshold withdrawal rates for principal carers on Newstart Allowance.

4. Changes affecting young people from 1 July 2012

The Bill before the Committee will see some changes for 21 year old job seekers which take effect on their 21st birthday. The "early school leavers" provisions will be extended. From 1 July 2012 the eligibility age for Newstart Allowance will be raised to 22 years. This will affect about 68,000 young people over four years, with payment cuts ranging from $43 per week to $110 per week. Because the parental income test will also apply in some circumstances, the changes will result in a total loss of all income support for the young person. These cuts may cause hardship for low income families as they may not be in a capacity to support the young person financially.

Eligibility for Newstart Allowance will be tightened, with eligibility increased by one year, to 22 years of age. In 2012-13 almost 16,000 people (15,995) will be affected, rising to 26,757 the following year, and to 27,167 in 2014-15. In the three years from 2012-2015 almost 68,000 people will be affected.

NWRN notes that the Bill contains transitional measures so that young people currently aged 21 will not face an immediate loss of income as a result of these changes.

The negative impacts of increasing the eligibility age for Newstart Allowance to age 22 will flow on to other social security payments, affecting qualification age of other entitlements, including Sickness Allowance and Youth Disability Supplement.

Other changes will result in a relaxation the “earnings free” threshold rates for Youth Allowees (other). The threshold rates will be increased from $62 per fortnight to $143 a fortnight.

This measure, which enables a recipient to earn an additional $81 per fortnight before their rate of Youth Allowance is reduced, is welcome and long overdue.

On the other hand, the lowering of the threshold at which the taper rate increases from 50% to 60% (from $188 to $107) undermines the gains produced by the income free area changes for a person earning more than $107 per fortnight.

The increase in the Youth Allowance (other) withdrawal rates will be accompanied by an increase to the “working credit”, from $1,000 to $3,500 per annum. This will be of significant benefit for young people in supporting the transition from income support to employment, and it will help defray the initial costs of beginning a new job, such as buying new clothes, purchasing equipment, etc.

However it is worth noting that upon a young person attaining 22 years, they then lose this increased working credit amount. It is the experience of NWRN that currently there are significant differences in working incentives across Youth Allowance (student), Youth Allowance (other) and Newstart Allowance.

It is our experience also, that significant numbers of young people are now attempting study, who were not in the past, owing to the “earn or learn” reforms. Some of these young people need to transfer from Youth Allowance (student) to Youth Allowance (other) if their attempts at study prove beyond their capacity. At this point, they lose access to credits contained in their student income bank and working credit balances as these amounts are not transferrable equally. This is hard for many young people to understand.

The Bill’s proposal to add an additional cut in working credit to a young person at age 22 provides an additional complication, which may be difficult for young people to comprehend and cope with, when their net income taking into account their earnings and income support payment unexpectedly drops.

The stated rationale for the additional waiting period for Newstart Allowance is that the lower payment rates for student payments and higher unemployment payments creates an incentive for a young person to be unemployed. NWRN has long recognised this problem, but has instead argued that the solution to this anomaly is to increase the rate of student payments, rather than limit access to higher unemployment payments, or increasing the eligibility age of Newstart Allowance.

NWRN considers that the increase to the age of eligibility for NSA is essentially an easy way for the Government to make cuts without any organised lobby group opposing the cuts. In future, any Government looking for easy savings could be tempted to simply rack up the Newstart entitlement age by another year.

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. The lack of attention to the question of adequacy of student income support was a major criticism of the Government's recent review of student assistance that was conducted by Professor Bradley.

The increase to the NSA eligibility age by one additional year will condemn many thousands more young people to hardship. NWRN is concerned that this measure targets a largely powerless and ignored segment of the community.

NWRN urges the Committee to reject the increase in the age of Newstart Allowance eligibility and instead, make recommendations to Government about increasing the inadequate levels of support for young people and people on Newstart Allowance.

5. Job seeker penalty changes from 1 July 2012

Schedule 7 of the Bill seeks to amend the *Social Security Act* to "align" daily penalty rates for reconnection failures.

The Explanatory Memorandum states that the alignment of penalties at one tenth will overcome the problem posed by the lack of ability of job seekers to connect with providers over the weekend. While NWRN agrees that this problem is a potential problem in the current penalty architecture the Department of Education, Employment and Workplace Relations (DEEWR) has not, to date, provided any data to indicate the extent of this problem for job seekers. NWRN appreciates the discussions organised with DEEWR regarding the Bill and looks forward to some more detailed information about the evidence base supporting the change to the penalty regime.[3]

NWRN is concerned that the Government is using the genuine problem of complexity as a cover for increasing the severity of penalties, as community groups have raised problems about the complexity of the job seeker compliance regime. We point out that a *reduction* in the rate of penalties for No Show No Pay – from a 10th of payments to a 14th would also address the question of simplicity. Moreover, this approach would not lead to a greater financial impost for a job seeker who is already subsiding on poverty-rate payments. The Government has opted to increase penalties, rather than reduce them, as it may have concerns that some commentators would claim it was being "soft" on job seeker compliance – when its focus group research may well indicate that such gestures are popular among some constituents.

[3] The Department of Education, Employment and Workplace Relations provided the National Welfare Rights Network with a briefing on the Bill on 21 February 2012.

Financial penalties imposed under the existing Job Seeker Compliance regime disproportionately affect young people and Aboriginal and Torres Strait Islander job seekers. Many job seekers with known vulnerabilities and who are dealing with issues of mental health and homelessness are frequently caught up in the complex compliance system and have their meagre income support payments reduced.

The financial impact varies, depending on the job seeker's circumstances. For a person on Newstart Allowance the changes will mean that penalties will increase from $34 a day to $48 for each day that a penalty is applied. Currently, the reconnection failure penalty for a 20 year old person on Youth Allowance living away from home on just $201 a week is $28 for each day a penalty is imposed. Should the changes proceed, the daily penalty rate that is imposed will increase from $28 to $40, an increase of $12 per day.

In the 2010-11 financial year there were 24,033 reconnection failures applied on job seekers. According to the latest DEEWR compliance data a total of 13,732 reconnection failures were applied between 1 July and 30 September 2011.[4] This represents a 62% increase in reconnection failures over the previous quarter (June 2011), where there were 8,534 reconnection failures applied.

The Bill has provided no justification for increasing the level of daily financial penalties. Nor has any conclusive evidence been provided to indicate that the imposition of penalties increases the actual employment prospects of job seekers.

NWRN urges the Committee to reject schedule 7 of the Bill

[4] Department of Education, Employment and Workplace Relations, *Job Seeker Compliance Data* – September 2011.