UnitingCare Australia

Submission to the Senate Education, Employment and Workplace Relations Committee Inquiry into

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

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Overview

This submission is premised on the view that all Australians have a right to live a decent life, which we define as being able to access appropriate food, clothing and healthcare; safe and secure housing; meaningful work, education, rest and enjoyment; and the opportunity to participate in and contribute to communities. Policy and programs should be based on the principles that all people have

- Intrinsic value; and physical, spiritual, and social needs
- A just claim to be heard, either directly or through those who are close to them and understand their strengths and hopes
- The right to participate in community as fully as they wish and are able and
- The right to opportunities that will enhance their life chances and quality of life

Services in the UnitingCare network respond to need and support people and communities in 1300 locations across Australia. We do this through the work of 35,000 staff and 24,000 volunteers. In responding to the terms of reference to this inquiry, we have drawn on the experience of services providing emergency relief, financial counselling, employment and housing support. These services work in all states and territories in metropolitan, regional and remote locations.

In our submission UnitingCare Australia argues that the subjective experiences of people living on unemployment payments are affirmed by the objective evidence from Australian Bureau of Statistics data and both clearly demonstrate the inadequacy of unemployment payments. The poverty that is caused by inadequate income support puts people in a situation of chronic insolvency, where they have no risk protection (savings or insurance). We do not see evidence from our work with people living on these payments that this extreme financial hardship is necessary to create an incentive to work and it actually reduces people's capacity to find and keep a job.

Some causes of disadvantage and vulnerability are complex and difficult to address. However, inadequate unemployment payments are relatively simple to fix, and relatively inexpensive in the context of overall spending on income support. Income support payments to people classified as unemployed comprise about 7 per cent of the total income support budget allocation in 2012-13, at a cost of $8.8b. Increasing income support to these households by $50/week would add just $0.5b a year. This compares with 39 per cent ($51.1b) going to support people over the retirement age and 26 per cent ($39.2b) going to families with children. A reasonable increase in the rate of unemployment payments (of $50/week), and indexation of payments at a rate that keeps up with changes in the costs of living, would not impose a significant or unsustainable increase in Federal Budget allocations. These changes would deliver a real chance for the children and adults living in households who receive unemployment payments to better meet their costs of living and access the resources needed to belong, participate and contribute in their communities, including through work.

UnitingCare Australia endorses the recommendations made to this Inquiry by the Australian Council of Social Services.

We recommend changes in the way people access income support entitlement, which would involve better information and support through Centrelink so people understand what they are entitled to receive and are assisted to meet their reporting and compliance requirements. This would reduce the cost of monitoring compliance and reduce underpayment of entitlements.

We also recommend that the Australian Government works with industry leaders and the community sector to develop a more proactive approach to understanding, planning for, responding to and mitigating the impacts of economic change. Right now, the costs of economic change are carried by some people (eg people out of work, people unable to afford the rising costs of housing) and by the income support and social services systems. We need a framework for sharing the costs of economic change across government, individuals and industry and incentivising investment in measures that mitigate negative impacts of economic change.

The experience of living on inadequate income

In the first half of 2012, UnitingCare Australia conducted research in seven places across Australia (Darwin, Gladstone, Brisbane, Tuggerah, Canberra, Epping (VIC) and Wodonga) to better understand the experience of financial hardship. We interviewed financial counsellors and emergency relief workers. This research gave us an insight into the circumstances people face when income does not meet the costs of living, and the decisions they make to cope in these circumstances.

Costs are rising for the items most Australians consider the building blocks of a decent life: housing, utilities, fresh food and fuel. As costs increase, financial hardship becomes a reality for growing numbers of people. Many have no buffer and are making invidious choices about expenditure. Services report that food is increasingly a discretionary item, particularly among single parents. There is also widespread termination of home and contents insurance.

Financial hardship is incredibly stressful and people often have complicated arrangements in place in an effort to manage. This can include multiple hire purchase agreements, phone contracts and credit cards (up to 10 in one case reported by a financial counsellor). People look to payday lenders in the face of few affordable credit options:

> "They know it's a really rubbish deal. They know what the interest rates are and they know the stuff but they go, well, he needed it for a school trip."

> "The kids got to go to the dentist or something. They've got no choice but to use the payday lender...Most people are really aware they know they are getting ripped off. But what's the Newstart – you do budgets for people and they go 'I get $220 and the rent's $250' ... it's just poverty and that's the bottom line."

Households have lost all capacity to protect themselves from risks, either in the form of savings or insurance:

> "I notice the first thing my clients get rid of is all their insurances. That's the first thing out the window. So they have no insurance on anything. That's all gone. And then they start relying on emergency relief funds for food."

> "Insurance premiums are one of the first things to be dropped from the budget. Kids are told they can't go on school camps and can't join the Saturday sports team. Families tighten their belts on food shopping."

In every location, participants in the research initiated discussion about the adequacy of income support payments. There was acknowledgement that some people were able to manage costs of living on income support, but there was general consensus that Newstart

leaves no buffer so people on unemployment payments are living in 'chronic insolvency'. This causes high, sometimes incapacitating levels of stress. People struggle to get out of crisis mode, which impacts on their ability to find work, fulfil their parenting responsibilities, maintain their health and take a long term perspective when making decisions.

> "I've paid the rent and I've paid this and I've paid that but now I haven't got enough to go to the supermarket"

> "What are the things that people are dropping off? Food and medications ... Sometimes the rent and you think 'keep that roof over your head' but, yeah, sometimes the rent goes too."

> "There are many people paying their electricity off as they are spending all their income and can't afford it in full when they get the bill."

> "And I've had them come in and say 'Yes well the kids have eaten' and they'll skip a meal, or there won't be enough for them. Or else, there's no food and we've just got to do something about it for them."

> "You've got a person who's got on quite well. They're paying their power, they're paying their rent...in two years their rent could have doubled. Especially here, recently it's gone up massively, it's going up every year. Their income isn't going up that much."

Services talk about people using cigarettes and alcohol to manage their anxiety, block depressive thoughts and get a break from chronic stress. Keeping socially connected often involves joining mates at the pub or the club. Often the only affordable recreation option is a poker machine venue, where people are at risk of gambling.

The impact of poverty on seeking work was illustrated by these experiences of workers:

> "I was just thinking...clients tell us how isolated they feel...especially I found the older men. They perhaps miss being at work. They've tried to get a job, that's got them nowhere. They are on the NewStart allowance which gives you no money to socialise basically. They feel embarrassed. They just sit at home kind of isolating themselves from their friends and family."

> "I know people who had to get rid of their car because they couldn't afford to run it...this meant there were a whole lot of jobs they were no longer in the running for."

UnnitingCare staff and volunteers felt there was a need to defend people on income support payments in the face of public debate that does not afford them a lot of dignity. Loss of dignity and respect exacerbates stress, drives social isolation and reduces confidence when job seeking.

Services are working to address poker machine addiction, extract people from payday lending and reduce chronic food insecurity. When moving people out of crisis, services work on resolving disputes with outstanding creditors, dealing with unpaid bills and building financial capability. But the essence of our conversations was that it is not enough to empower people to overcome their personal problems. People need an adequate income, and real opportunities to change the circumstances in which they live.

> "Sometimes its really hard ...for the Money Management workers to work on budgets for the people because there's no money left to budget. You know, let's work out a budget, and it's not working out and there's no way it can work out. There's not

> enough in the first place. So that gets very frustrating. You know that you're going out and giving people skills but you can only do that to a certain level. The amount of money just makes it impossible."

UnitingCare Australia supports policy reform that improves support for people to get and keep a job. We do not accept that making people live in poverty, in circumstances of chronic insolvency, is a necessary incentive for workforce participation or an effective strategy to reduce long term unemployment.

Objective evidence

UnitingCare Australia recently partnered with the other Major Church Providers (Anglicare Australia, Catholic Social Services Australia and The Salvation Army) to commission the National Centre for Social and Economic Modelling (NATSEM) to complete a household level analysis of data on income sources, expenditure and financial hardship. This research used data from the 2009-10 Household Expenditure Survey from the Australian Bureau of Statistics.

We found that households that were partly or solely reliant on Youth Allowance or Newstart Allowance (including any other allowances such as rental assistance) for their income are, on every measure, falling behind community standards. In fact the lead researcher, stated when briefing us on his report:

> "There is no good news for people on Newstart Allowance or Youth Allowance."

The Household Expenditure Survey asks people to report whether they experience one or more of the indicators of deprivation or financial hardship, as defined by current community standards:

- Unable to afford a night out once per fortnight
- Not able to have a special meal once per week
- Buying second hand clothes regularly
- Unable to heat the home
- Unable to pay bills or insurance premiums
- Not eating one decent meal at least once a day
- Seeking financial assistance from a welfare services
- Unable to raise $2,000 in an emergency
- Having to borrow money from friends or family

Across the whole population many households report one of these experiences. The persistence of these experiences and the cumulative impact of these deprivations and hardships were of particular interest to us. The research found that 10 per cent of all households reported three or more of these experiences. In comparison, 33 per cent of households with Newstart or Youth Allowance as their source of income reported three or more of these experiences.

Households on Newstart or Youth Allowance reported not being able heat their house seven times more often than all households. These households also reported not eating one decent meal at least once a day five and a half times more often than all households.

Households whose income comes primarily from Newstart and Youth Allowance, in addition to reporting three or more of the indicators of deprivation or hardship also report higher levels of housing stress.

A typical saving level for all households is 13 per cent. In stark contrast households whose income comes primarily from Newstart and Youth Allowance report spending 122 per cent of their income – that is they are going into debt (usually to friends and family, to pay day lenders or on credit cards), largely to pay for the basics for living.

The income coming into these households is spent primarily on meeting the basic costs of living:

- Housing costs comprise 36.6 per cent of income – households on other income support payments spend 18.5 per cent and the average for all households is 14.9 per cent
- Utility costs comprise 7.1 per cent of income – households on other income support payments spend 6 per cent and the average for all households is 3.2 per cent[1]
- Food costs comprise 21.8 percent of income – households on other income support payments spend 20.1 per cent and the average for all households is 13.4 per cent
- Basic costs of living comprise 64 per cent of income for Newstart or Youth Allowance payments, 50 per cent for pensioners and 32 per cent for all households

In these circumstances it is very hard to keep a car on the road and insured. Lack of access to transport is a key barrier to job seeking and taking a job in industries like retail, hospitality, construction and community care services that do not offer 9-5 hours.

These patterns of spending also create the conditions of grinding poverty that lead to poor physical and mental health. These health problems in turn compromise the ability of people to look for work (due to ill health), present well to prospective employers (poor dental care, unable to afford appropriate clothing for job interviews) and maintain their confidence to keep putting themselves forward to employers in the face of multiple rejections.

Labour market issues

The rate of long term unemployment has remained relatively steady over the past ten years, despite reductions in eligibility for and generosity of income support payments and despite increased participation requirements. There have been several iterations of employment support programs, none of which have achieved significant reductions in long term unemployment.

There has been significant change in the Australian labour market over the past few decades.

Increased productivity has translated into reduced work hours and increased casualisation of employment, both of which reduce work opportunities and stability of employment. Jobs are increasingly more multi-skilled and require more independence, both of which exclude people looking for entry level work, those needing to build their work skills and competence, or those best suited to less variable work roles.

[1] These figures would under-report the costs of utilities in current household budgets because of the substantial increases in the 2010-11 and 2011-12 years.

Many people live in places where the local economy no longer provides the opportunity to get into the labour market and build a career through life stages and transitions. There are labour markets where there is relatively low skilled, low paid work and high skilled, high paid work, with few intermediate jobs to provide stepping stones between the two.

Few places with good work opportunities also have affordable housing. Many communities with affordable housing (in regional areas or metropolitan fringes) have labour markets where casual and part-time work are growing, and full time work is shrinking.

High quality childcare and transport infrastructure are not available to support people who are shift workers, or work in industries where work opportunities don't match the 9-5 schedule (eg hospitality, residential aged care).

We would argue that macro-economic trends and the structural changes in the labour market provide a more compelling explanation for the persistence of long term unemployment. It is these factors that need to be understood and addressed if we are to reduce reliance on unemployment payments.

Our goal would be to ensure that all local economies support access to stable work, adequate income, affordable housing, health care, education and training, transport and infrastructure that improves people's current opportunities and future prospects.

To achieve this goal Australia needs to adopt a more proactive approach to understanding, planning for, responding to and mitigating the impacts of economic change. Right now, the costs of change are carried by some people (eg people out of work, people staying in areas of less work because they are choosing affordable housing and maintaining social support networks over the chance of a job, self employed people trying to keep small businesses afloat) and by the income support and social services systems.

We need a framework for sharing the costs of economic change across government, individuals and industry and incentivising investment in measures that mitigate negative impacts of economic change. The Environmental Impact Assessment process provides a model, and in some instances a mechanism, through which we could incorporate an assessment of social impact for large economic development projects and in areas of economic decline.

Payment of allowances

UnitingCare Australia has argued in several submissions that there is a need to better support people to access the income support payments they are entitled to, and to fulfil their reporting and compliance requirements.

Research in 2010 highlighted the reasons for and extent to which people eligible for income support were not claiming their full entitlements[2].

The research found that people don't claim their entitlements:

- a lack of awareness about available assistance
- the complexity of claim forms and procedures
- the stigma perceived to be attached to claiming assistance payments and concession benefits

[2] *Missing out - Unclaimed government assistance and concession benefits* Baker, D. Australia Institute Policy Brief No. 14 May 2010 ISSN 1836-9014

We support the recommendations from this research and commend them to the Committee:

- Government ensure that those in need are not neglected and it explores the ways existing tools and frameworks might be applied to reduce the numbers of people who are currently being excluded.
- Simplify benefits eligibility and claiming processes
- Extend existing data-matching procedures to identify people who qualify for assistance but are not receiving it and to notify them of their potential entitlement.
- Establish an Entitlements Commission[3] to ensure that marginalised members of society are not further marginalised by being excluded from the welfare for which they are eligible.

Endorsement of recommendations from ACOSS

UnitingCare Australia endorses the recommendations made to this Inquiry by the Australian Council of Social Services.

For announcement in the 2013 Budget:

1. (a) Allowance payments for single people (other than those on student payments) should be increased by $50 per week from March 2014, and benchmarked to 66.3% of the combined married couple rate of Allowances as is the case for pension payments (and a higher rate in the case of sole parents).
   This applies to recipients of Newstart Allowance, Widow Allowance, Sickness Allowance, Special Benefit, Crisis Payment, and Youth Allowance (Other) recipients living independently of their parents.

   (b) Allowance payments for single people on student payments (Austudy Payment, Abstudy Payment and Youth Allowance Student) who are living independently of their parents should also be increased by $50 per week from January 2014 and the benchmarking of those payments to 66.3% of the married rate (higher for sole parents) should be phased in.

   (Cost: $500 million in 2013-14 or $1,500 million in a full year)

2. From 2014, all of the above Allowance payments should be indexed at least annually to movements in an Australian Bureau of Statistics measure of typical fulltime wage levels (before tax), as well as six monthly to movements in the Consumer Price Index.

3. From March 2014, the following changes should be made to the income test for allowance payments in order to encourage participation in casual employment, simplify the system for unemployed people, and reduce over and under-payments:

   (1) The earnings credit should be replaced by a simpler system where allowance recipients can 'bank' their fortnightly income test 'free area' for up to 26 weeks;

[3] An Entitlements Commission was recommended by Catholic Social Services Australia in their submission to the 2008 Pensions Review. Information about the proposed Entitlements Commission is available at http://catholicsocialservices.org.au/system/files/Entitlements%20commission%20-%20FINAL.pdf

(2) The free area should be increased by $9 per week and the 50% and 60% taper rates replaced by a consistent 60% taper rate;

(3) the 'free area' should be indexed to the CPI.

4. From 2014, Job Services Australia services for disadvantaged jobseekers should be improved by:

   (a) increasing service fees and Employment Pathway Fund allocations for each year of the 'Work Experience Phase' for long term unemployed people, to at least the levels provided for Stream 3 clients in their first year of unemployment
   (Cost: approximately $300 million in a full year)

   (b) expanding the current wage subsidy scheme for 'very long term unemployed people' to 20,000 places a year and introducing a scheme that fully subsidises 6 months of paid employment (e.g. in the community sector or social enterprises) for deeply disadvantaged jobseekers.
   (Cost: approx. $300 million in a full year)

Medium-term reforms:

5. An independent public inquiry should be established to critically assess current employment participation policies for people receiving income support payments and recommend future directions for reform.

   (a) Its Terms of Reference should include assessment of:
   - recent labour market trends and future employment prospects for people on working-age income support payments
   - trends in reliance on income support including the current and likely future profiles of recipients
   - the adequacy, targeting and employment effects of income support payments for people of working age, and options for reform to facilitate transitions to employment, improve fairness and simplify the system
   - the effectiveness of employment services for disadvantaged jobseekers (Job Services Australia and disability employment services), including how these might be better integrated with vocational training, work experience, and social support services in order to assist them.

   (b) The inquiry should be led by a small panel of independent experts and supported by a Secretariat drawn from the relevant Government Departments.

   (c) It should prepare issues papers on the above topics including options for reform, consult widely with stakeholders and policy experts, and prepare a report with recommendations for Government within 18 months of its establishment.

6. If the inquiry described in recommendation 3 is not established by December 2012, a separate independent review should be conducted into the effectiveness of the Job Services Australia program to inform a re-design of the system in advance of the 2015 contracts:

   (a) This review should be led by a small panel of independent experts and supported by a Secretariat drawn from the Employment Department.

   (b) It should prepare an issues paper outlining the strengths and weaknesses of the present system and future challenges and options for reform, consult widely with

stakeholders and policy experts, and prepare a report with recommendations for Government within 12 months of its establishment.

7. Over time, the present three tier system of income support payments for people of working age (pensions, employment-related allowances, and student payments) should be replaced a system with:

   (a) a common base rates of payment for singles and partnered recipients respectively, based on a minimum acceptable standard of living

   (b) common basic eligibility requirements such as residency

   (c) activity requirements that adjust in flexible fashion (from none to regular job search) according to any constraints imposed by disabilities or caring responsibilities, and each individual's pathway to employment (including fulltime study where appropriate)

   (d) income tests that target individuals and families in greatest need of income support while encouraging transitions to part or fulltime employment as appropriate – including major reform of the complex and counterproductive income-test treatment of irregular employment

   (e) supplements for additional non-discretionary costs experienced by a substantial minority of income support recipients including the costs of disability, caring, sole parenthood, and rent – while retaining a separate system of Family Tax Benefits to assist with the costs of dependent children.