Committee Secretary
Senate Standing Committees on Community Affairs
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5th March 2012

Dear Secretary,

Re: Social Security and Other Legislation Amendment (Income Support and Other Measures) Bill 2012

This submission addresses the provisions in this Bill specifically related to 'Incentives for single parents and parenting payment reforms'. These provisions propose to:

- remove the 'grandfathered' status of recipients of Parenting Payment Single with children over the age of 12 years; and
- reduce the taper rate for principal carers receiving Newstart Allowance.

While welcoming the reduction in the Newstart Allowance taper rate, the Council of Single Mothers and their Children (CSMC) is strongly opposed to the removal of the 'grandfathered' status for PPS recipients, and recommend that the Bill be amended to remove this measure.

CSMC is very concerned by the extraordinarily short timelines for submissions to this inquiry, which have meant that it has been difficult to prepare a comprehensive response to the proposed Bill. These short time lines, combined with a lack of consultation with groups representing the people affected, leads us to have serious doubts about the professed commitment to improving the wellbeing of some of Australia's most disadvantaged families.

The Council of Single Mothers and their Children (Vic) is a state-wide community organization run for and by single mothers and their children, providing telephone support and counselling, referral, advice and emergency relief to single mothers throughout Victoria. CSMC is well recognised as a source of expert advice on issues of relevance to single mothers. Our expertise is grounded in the concerns expressed to us by single mothers calling our telephone contact line.

Single mother headed families are already well recognised to be among the poorest families in Australia, suffering from multiple deprivation at rates well above those of other families. Children in sole parent families are three times more likely to be in poverty than other children, with around

25-30% of children in such families below the poverty line[1]. A recent OECD report estimates that two thirds of children whose parents are on the maximum rate of PPS are already poor. Removing 'grandfathered' status, and transferring recipients onto the significantly lower Newstart Allowance, would only exacerbate this.

1. Removal of 'Grandfathered' status for recipients of Parenting Payment Single.

The introduction of the Welfare to Work legislation by the Howard government in 2006 changed the income support arrangements for parents raising children alone. Prior to this change, single parents were able to receive Parenting Payment Single until their youngest child turned 16 years of age. Welfare to Work brought in a number of changes, most significantly that principal carers receiving income support payments would have compulsory participation requirements from the time their youngest child started primary school; and that they would be eligible only for Newstart Allowance once the youngest child turned eight.

At this time Newstart Allowance was approximately $28 per week less than PPS.

This legislation was opposed by the ALP opposition at the time:

> *"Simply cutting payments for people on welfare does nothing to help them get paid work, which is the best way out of poverty. By cutting payments to vulnerable Australians who are already financially disadvantaged, the Howard Government's budget will increase income inequality rather than reduce it"* Senator Chris Evans, [then] Shadow Minister for Social Security, Media Release, May 2005

Indeed, the ALP, along with the Democrats and Greens, prepared a dissenting report for the Senate Community Affairs Committee Inquiry into the Welfare to Work legislation. Amongst other things, the report stated:

> *"1.91 Furthermore, the planned expanded use of Newstart Allowance in place of specific payments for particular need groups – single parents and people with disabilities – will erase the specific provisions which have enhanced the effectiveness of Australia's social security safety net. Newstart Allowance was designed for the short-term income support of individuals without significant caring or health or disability issues seeking full-time employment. We consider that trying to make the payment fit the needs of people with family obligations, health and/or disability issues and with part-time or intermittent availability linked to these circumstances is going to be a continuing problem that will be played out across the lives of people who are already experiencing disadvantage and hardship."*

[1] ACOSS Impact, Summer 2010

At the time, parents already in receipt of Parenting Payment Single were subject to 'Grandfathering' provisions, meaning that they could remain eligible to receive PPS until their youngest child turned 16 (unless they went off the payment for a period of 12 weeks or more). Not only did this mean they had a slightly higher income due to the higher payment rate of Parenting Payment Single, but they received better returns from paid employment:

- The threshold at which payments reduced with income from paid employment was higher under PPS;
- Above this threshold, payments withdrew at 40 cents per dollar earned under PPS; for Newstart this was a two tiered withdrawal of 50 cents in the dollar up to $250 per fortnight, the 60 cents in the dollar beyond this amount.

The women that we hear from at CSMC find it extraordinarily hard to survive on the Newstart Allowance. We hear daily from women having to resort to seeking the assistance of charities, food parcels and emergency relief payments, just to put food on their tables. Increasingly, these emergency relief requests are coming from women who are working, but struggling with the increasing costs of living, low wages and insecure employment, and the low level of part payment from Newstart allowance.

This Bill will simply exacerbate the poverty experienced by these families, and extend financial hardship to more families.

Minister Shorten, in his second reading speech for the Bill, claimed that the changes would "provide greater incentives and opportunities to parents, particularly single parents, to re engage in the workforce and share in the benefits that work brings". He went on to argue that "We need to act now to ensure that these parents have the opportunity to benefit from our growing economy, to increase their self-sufficiency and achieve greater financial security."

CSMC warmly welcomes these sentiments, but cannot see how cutting the incomes of some of the poorest families will do anything to achieve these aims. Single parents already have compulsory participation requirements, so that in order to receive income support payments they must be working, looking for work or studying. Indeed, single parents have always had a high rate of workforce participation compared to other groups of income support recipients. Transferring these single parent families to Newstart Allowance will not result in any increase in employment or skills as these recipients already have participation requirements.

Our experience clearly demonstrates that for those who are not working, it is not due to a lack of desire, rather the many barriers flowing from parenting alone that can get in the way of employment. Some of the barriers that hinder a single parents ability to participate in paid employment include: caring for a child with disability or chronic illness; having a disability or chronic illness themselves; lack of affordable childcare; lack of secure family friendly jobs; and lack of care during school holidays, when children are ill, etc.

The current rate of Parenting Payment Single is $321 per week; for Newstart it is only $263 per week. The Bill will cut payment rates for families whose sole form of income is income support by $58 per week. ACOSS has estimated that around 28,000 single parent families will be affected by this change over the next four years. Recipients who are already working will find that they will be able to keep a smaller fraction of the income they earn – the threshold at which payments withdraw dependent on private income is dramatically different for the two payments. PPS recipients can earn $174.60 a fortnight before their payments reduce; the corresponding threshold for Newstart Allowance is only $62 per fortnight.

This difference has been increasing over time – and will continue to do so - as the Newstart threshold is not indexed; while that for PPS is.

A single mother working 15hours per week (and hence meeting participation requirements) at the minimum wage would, under Newstart (even assuming the new, more generous taper rate) be roughly $80 worse off per week than if she was working the same hours and receiving part PPS[2].

Contrary to Minister Shorten's claims, the removal of 'grandfathered' status from these parents – even those who are already in paid work in addition to their caring responsibilities - will serve only to reduce their income, exacerbate poverty, and do nothing to increase self-sufficiency or to achieve financial security.

Recommendation:
CSMC urges the Committee to oppose the provisions of the Bill that moves parents onto Newstart Allowance, thereby removing 'grandfathered' status.

2. Introduction of a more generous income test for principal carers on Newstart Allowance

CSMC welcomes this provision to reduce the taper rate for principal carers on Newstart Allowance. This will lower the rate at which payment is withdrawn from 50 or 60 cents in the dollar (depending on the amount of other income received) to 40 cents in the dollar, thus bringing the taper rate into line with that which applies to income earned by recipients of Parenting Payment Single. This provision will allow single parents to retain more of their earnings from employment than they are currently able to under Newstart.

[2] This is necessarily a rough estimate, given the lack of time to thoroughly analyse figures. It is based only on the effects of the change in the payments themselves. Newstart allowance income threshold does not increase for two or more children, and recipients will also lose the Utilities Allowance and Telephone Allowance paid to PPS recipients. These losses have not been included in the calculations.

However, as outlined above, Newstart Allowance has a significantly lower threshold level at which payments are withdrawn as earnings increase. Payments start to reduce when earnings amount to $31 per week – or the equivalent of two hours work at the minimum wage. This threshold level is not indexed, and has remained constant for many years, eroding the real value of this amount. In contrast the threshold at which payments start to reduce under PPS is $87 per week, and is indexed. PPS thereby provides for much better returns from work. The lower threshold amount for Newstart will mean that much of the gain from lowering the taper rate for Newstart will be lost for single parents having to transfer from Parenting Payment Single to Newstart Allowance.

There is increasing agreement across many sectors of the economy that the level of Newstart Allowance is too low to provide the foundation and stability needed for recipients to enter the workforce. For single parents this is further exacerbated as there is no provision for the increased costs of raising children – Newstart Allowance is a payment designed for those who will be experiencing a brief period of unemployment before regaining full time work. Likewise, the income threshold for Newstart has no provision for additional children. There is a single 'with child' amount which does not change with two or more children. The income threshold for PPS however increases by $24.60 per child.

Single parents already have the full time job of raising children, and paid work that fits around these parenting obligations is often, of necessity, part time and needing to be supplemented with a part income support payment. Commentators as diverse as outgoing Australian Industry Group head and new Reserve Bank board member Heather Ridout, economist Judith Sloane, unions, charities and community organisations have all have argued for an increase in the level of Newstart Allowance.

There has been no comprehensive review of the adequacy of either Newstart Allowance or Parenting Payment for a considerable period of time. Both payments were specifically excluded from the terms of reference for the Pension (Harmer) Review; and the adequacy of payments was not considered as part of the Henry Review of the tax system. The real value of both payments is falling well behind that of other pensions, and the single mothers contacting CSMC confirm the increasing financial hardship they experience as a result.

Recommendations:

- That the Committee accept the change to the Newstart Allowance taper rate as proposed in this Bill
- Increase the level of Newstart Allowance to be in line with the rate of Parenting Payment Single
- Increase the income test threshold at which payments start reducing for Newstart Allowance to be in line with that applying to Parenting Payment Single
- Establish a review into the adequacy of payments as a matter of urgency.

3. Lack of consultation

Prior to the announcement of these changes in the federal budget last May there had been no consultation with CSMC Vic, nor the national organisation representing single mothers, the National Council of Single Mothers and their Children.

Consultation with these organisations, and single mothers, would have highlighted the problems inherent in transferring single parents from PPS to Newstart Allowance, and allowed those who would be impacted by the changes to become informed about them.

Social Inclusion is a key policy platform of this government. Among the principles of Social Inclusion are building on individual and community strengths and building partnerships with key stakeholders[3]. Unfortunately harsh cuts to payment rates with no community involvement or consultation runs counter to these key principles and to promoting a sense of social inclusion – resulting instead in people feeling further marginalised.

Yours faithfully

Jane Stanley
Executive Officer

[3] http://www.socialinclusion.gov.au/what-social-inclusion/social-inclusion-principles