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Australian
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Recommendations for the Federal Budget 2010-11

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Overview

In this submission, ACOSS outlines policy recommendations for consideration by the Federal Government in its 2010-11 Budget. These recommendations allow the Government to continue its vital funding for social security payments; for social and community services to alleviate the effects of poverty and its consequent social exclusion; and to prioritise the expenditure of public funds in the context of the global recession and its impact upon revenue.

The relatively modest impact of the global financial crisis on Australia is due in large part to the adroit use of fiscal policy to stimulate demand - from temporary increases in transfer payments to a timely program of infrastructure investment. ACOSS welcomes the return of a major role for fiscal policy in avoiding the worst effects of recessions and has advocated this approach for some time.¹ The Government has now committed to containing real expenditure increases to no more than 2% per year once the economy returns to 'normal' growth levels. This should be achieved by a rigorous review of poorly targeted expenditure programs, not by cutting essential services or delaying necessary improvements in payments and supports for the most disadvantaged Australians. Expenditure restraint should extend to the revenue side of the ledger, where many poorly targeted tax expenditures remain on the books.

During 2009, the Government signalled its commitment to a number of important reforms and improvements to services directed at improving the lives of Australians on low incomes. These included a national reform of health services, with potential areas of focus including primary and oral healthcare and improved services for Indigenous Australians. Equally, support for the adequate and sustainable funding of community services have been signalled by the Productivity Commission's *Inquiry into the contribution of the not-for-profit sector* and the Government's support for a pay equity test case for the wages of social and community service workers across the country. These developments will have significant funding and resource implications at a time when demand for community services has increased significantly.

Long overdue increases were made to real rates of pension payments to many low income Australians, albeit with the regrettable exclusion of increases for the Parenting Payment Single pension and allowances such as Newstart Allowance. A new system of employment services for unemployed people, Job Services Australia, was also introduced. Although unemployment is not rising as strongly as most predicted during the global financial crisis, we anticipate a sharp rise in long term unemployment over the next two years. This underscores the importance of adequate income support and assistance to overcome barriers to work. The key missing element in the present suite of employment assistance is a program of paid work experience in a regular job for those who have been out of work for a prolonged period.

Welcome funding was allocated to affordable housing, with the twin benefits of ameliorating a chronic national crisis of affordability and providing a significant and well directed stimulus to the Australian economy. However, sustained action will be required on this front. Housing costs, especially private rents, have risen dramatically

¹ ACOSS and CEDA 2001, The role of fiscal policy in avoiding and easing recessions, conference proceedings, Canberra May 2001, ACOSS Paper 116.

in recent years just as more people have been affected by unemployment. In 2006, nearly 30% of low income households spent over 30% of their incomes on housing costs and this remains a major cause of poverty in Australia today.

ACOSS has been strongly involved with social policy related to climate change. Specifically, we have been working to ensure that low income households are protected from the impacts of and responses to climate change, including the Carbon Pollution Reduction Scheme and the cost of rising utilities prices. The expansion of state and federal programs to audit and retro-fit low income housing are particularly important and we are supportive of programs such as the Department of Environment's recently announced Green Start initiative. A key component in developing these types of programs is to ensure there are job and training opportunities for disadvantaged job-seekers. However, without greater certainty around the passage of the CPRS through Parliament and resulting income or expenditure, it has not been possible to make realistic budget proposals regarding climate change, so we have omitted these from this Budget submission.

Strong, effective social policy must be backed up by adequate budgetary measures to ensure that the benefits from the country's economic resilience are enjoyed by all Australians. This submission is a balanced combination of carefully targeted expenditure priorities to ease poverty and disadvantage and revenue measures to help restore the budget bottom line.

Expenditure recommendations are estimated to be \$4603 million in 2010-11 (\$6572 million in 2011-12). They include the following proposals, among others outlined in this submission:

- Introduce a paid work experience program to improve the job prospects of long term unemployed people receiving Job Services Australia services (\$650 million);
- Establish an Affordable Housing Growth Fund to expand the stock of affordable housing, with a down-payment of \$750 million in the first year and increased and sustained long-term ongoing funding;
- Increase the maximum rate of Commonwealth Rent Assistance by 30% to assist low-income renters to meet rising rental costs (\$500 million);
- Raise the level of payments for Newstart Allowance, Youth Allowance and other Allowance payments for single adults and young people living independently of their parents by \$45 per week, and raise the level of Parenting Payment Single to this new single Allowance rate (\$1,200 million);
- Index community services funding (\$260 million); and
- Introduce universal access to oral health care (\$2,000 million).

Revenue recommendations to help meet the cost of these expenditure proposals are estimated to raise \$5,100 million in 2010-11 (\$4,100 million in 2011-12). They include the following proposals, among others outlined in this submission:

- Withdrawal of the third tranche of the latest personal income tax cuts (\$3,700 million); and
- Reform of the tax treatment of private companies and trusts to stem their use to avoid personal income tax obligations (\$1,200 million).

Community Services

Community services span disability and aged care, child care, family relationship services, homelessness and emergency accommodation, mental health and drug and alcohol, domestic violence, sexual assault, community legal services, emergency relief, financial counselling and child protection.

Community services are vital to the framework of social security and service through which Australia seeks to ensure the health and welfare of all Australians. Yet there are considerable challenges for these services in the not-for-profit sector. Of further significance is the inadequacy of funding that often does not cover the true costs of service delivery and has failed to keep up with comparable rates of pay and indexation.

The Commonwealth Government does not have a consistent or adequate approach to indexation of funding to community organisations. Preliminary data from the 2008-09 financial year indicate that up to a quarter of organisations received no indexation on their Commonwealth funding². The average indexation rate was 1.8% during this period³, while the CPI for the same period rose by 4.5%⁴. Community services are labour intensive, and labour costs therefore constitute the major component of overall expenditure.

ACOSS proposes that the Wage Price Index, when greater than the Consumer Price Index for the same period, be used as the primary index for annual funding adjustments as it more accurately measures cost inflation faced by organisations. Over the past three years, the Wage Price Index has been above 4%. In recognition of past inadequate indexation, it is recommended that the Government provide an initial increase of this amount across its funded programs, including to the states and territories via Specific Purpose Payments.

The current system of child care payments is complex and inequitable. There are different payment types for low and higher income families and, by international standards, low levels of spending on child care overall. The Child Care Rebate (CCR) is inherently regressive as it covers part of the gap fee between income-tested Child Care Benefit (CCB) and fees charged. In addition, the level of subsidy available for low income families is generally not sufficient to finance quality care.

Beyond these specific recommendations, ACOSS has supported a number of the recommendations of the Productivity Commission's *Inquiry into the contribution of the not-for-profit sector*. We strongly recommend that the Government establish an office for not-for-profit sector engagement; an independent national registrar for community and charitable purpose organisations; and a centre for community service effectiveness as set out in the Productivity Commission's report.

² Data from the 2010 ACOSS Community Sector Survey, unpublished.

³ Data from the 2010 ACOSS Community Sector Survey, unpublished.

⁴ Australian Bureau of Statistics, '6401.0 - Consumer Price Index, Australia, Jun 2008'

Recommendation 1: Ensure that funding for the delivery of community services includes adequate price indexation

A standard rate of indexation applied to Commonwealth Government contracts with not-for-profit social services sector will improve the consistent and adequate funding of community services.

Cost: \$260 million⁵ in 2010-11 (\$310 million in 2011-2012)

Recommendation 2: Abolish the Child Care Rebate and increase the maximum rate of Child Care Benefit

The Child Care Rebate should be abolished and replaced with a minimum rate of Child Care Benefit (possibly paid universally for child care services). The maximum rate Child Care Benefit should be increased to better reflect the actual costs of providing quality care.

Cost: Revenue neutral⁶

TOTAL COST: \$260 million (\$310 million in 2011-2012)

⁵ This figure is based on data from several key cost areas: the Child Care Benefit, the Child Care Tax Rebate, DoHA Residential Care funding, DEEWR Job Network and other employment program funding, and the Disability and HACC SPPs.

⁶ Savings from abolishing the Child Care Rebate should be re-directed towards establishing a minimum rate of Child Care Benefit and increasing the maximum rate.

Employment, Education and Training

The level of unemployment has doubled from its pre-recession lows and the level of long term unemployment is likely to rise substantially over the next two years as jobless people who are more disadvantaged in the labour market are passed over by employers. On past experience, it will take up to a decade to reduce long term joblessness to previous levels in the absence of major investment in appropriate employment assistance for this group. Prolonged unemployment erodes skills, work contacts and confidence. It creates severe financial hardship. It is also socially corrosive, leading to severe health problems, family breakdown and the entrenchment of social exclusion in the worst affected communities.

The new Job Services Australia (JSA) employment services system significantly improves on the previous Job Network arrangements. Instead of prescribing a fixed sequence of employment assistance for all, it gives providers more flexibility to respond to individual needs. The major weakness of the new system is that after 12 months of unemployment, most people will be offered a very low level of assistance because the 'work experience' phase of the new system is under-resourced. Each unemployed person entering work experience attracts just \$500 in Employment Pathway Funds to purchase work experience, together with funding for an interview every two months. This will not be adequate to overcome their barriers to work, especially in the present environment. We propose that fees for the 'work experience phase' be increased as a first step to rectifying this problem.

The Government has invested substantially in vocational training for unemployed people through the Productivity Places Program. This training should now be better adapted to disadvantaged job seekers, who need a higher level of practical and personal support to sustain their training and often benefit from training that is delivered outside standard classroom settings. We propose an enhancement of funding for Productivity Places for disadvantaged job seekers (those in Streams 2 to 4 of the JSA) and that a condition of this funding be that the training organisations and JSA providers jointly identify the additional training needs of these job seekers.

Another kind of labour market assistance that can significantly improve job prospects at a time when jobs are scarce for long term unemployed people is a period of paid work experience in regular employment. This can help improve confidence on the job skills and networks that will assist with job search. In previous economic downturns governments have rapidly expanded programs that offer paid work experience, either universally for long term jobless people or on a very large scale. The rapid rollout and poor targeting of these programs has meant that the work experience and training they provided were often of poor quality, or were provided to people who would have obtained a job without such assistance. Another problem with these programs is that the providers were given incentives to fill places in the program, rather than to assist people to progress to unsubsidised employment. The most effective paid work experience programs are carefully targeted towards long term unemployed people; and designed to transition them into mainstream employment and keep them engaged in job search rather than simply providing temporary work. International examples include 'transitional jobs' schemes in the UK and US; the former Supported Work Demonstration Program in the US; and the Danish work training scheme that combines paid work experience and training.

Paid work experience is the main missing element in labour market assistance for unemployed people today. We recommend that the Government establish a program to which JSA providers can refer job seekers during the 'work experience phase' of assistance, which normally commences at about 12 months' unemployment. Since the needs of these job seekers vary, we propose that the program be split into two components; a partial wage subsidy scheme for those who are ready for open employment; and a fully subsidised scheme to develop work skills for those who are not ready at this stage. The partially subsidised scheme would target long term unemployed people who are able to perform the work but due to the duration of their unemployment are unlikely to be given a chance to demonstrate this by the employer. The fully subsidised scheme would be targeted towards long term unemployed people who are not yet able to work productively and need substantial experience in a regular work setting to boost their skills, confidence and work habits.

Examples include people with social barriers to work such as a mental health condition or addiction and people with low self esteem who have never experienced mainstream employment. This would provide a well targeted source of funding for social enterprises established for this purpose, such as those operated by Boystown and Mission Australia. Both parts of the program should be structured to allow for combinations of work experience and vocational training where this would help improve future job prospects.

Recommendation 3: Improve employment assistance for long term unemployed people

The resources provided to employment service providers in the new employment services system to assist long term unemployed people in the Work Experience phase should be enhanced by:

- (i) Increasing annual service fees to the levels that apply to Stream 2 job seekers in the first year of unemployment (currently \$885 per job seeker).
- (ii) Increasing Employment Pathway Fund credits to the level for 'transitional' job seekers in Work Experience (currently \$750 per job seeker) and crediting this amount on an annual basis for each year of Work Experience, to be quarantined for spending on job seekers in Work Experience only.

Cost: \$50 million (\$200 million in 2011-2012)⁷

Recommendation 4: Establish paid work experience for long term unemployed people

A paid work experience program that provides temporary paid employment in regular jobs should be established as an option for employment service providers to refer suitable long term unemployed people during the work experience phase of employment assistance.

⁷ Ideally, savings in benefit payments while people participate in subsidised employment should be taken into account in the costings; however this was not attempted here.

The program to have sufficient capacity to assist approximately one in four job seekers in the work experience phase by 2011-12 (approximately 60,000 job seekers).

Contractors for appropriate Government funded services or infrastructure programs could be required to engage long term unemployed people under this program and State and Local Governments could be encouraged to follow suit.

The program would have two components.

The 'Job Opportunities' component would:

- (i) Be targeted towards recipients of social security payments with activity requirements who have reached the work experience phase within Job Services Australia services, who the provider considers are ready for open employment but are unlikely to obtain a job without participating in this program.
- (ii) Offer employers in the private, public and community sectors a 50% wage subsidy to employ them for 3-6 months at the minimum wage (or National Training Wage where appropriate) in a regular job working for 3 to 4 days a week, subject to strict rules to prevent displacement of employees and exploitation of the jobseekers.
- (iii) Require job seekers to participate in the program but give them a reasonable choice of places (including the option of shorter and more flexible working hours for parents and people with a partial work capacity), and require them to continue to search for employment on a part time basis.
- (iv) Be administered either by JSA providers (who would be required to continue to assist them with job search and support through the placement), or employment brokers to whom the providers refer suitable candidates.
- (v) Be linked, where appropriate, to vocational training funded through the Productivity Places Program, so that work experience and training can be combined.
- (vi) Be funded by deposits into the provider's Employment Pathway Account, together with appropriate incentives for providers based on unsubsidised employment outcomes following the placement.

Cost: (\$150 million in 2011-2012)

The 'Job Transitions' component would incorporate the above features, except that:

- (i) The jobseekers targeted for assistance would be assessed by the provider as not yet ready for open employment, but significantly more likely to get a job if they participate in the program⁸.

⁸ This implies that they come from Streams 3 or 4 of JSA.

- (ii) Employers would receive a 100% wage subsidy and the placement would last from 6-12 months, depending on the degree of difficulty in preparing the jobseeker for open employment (to be reviewed after 5 months).
- (iii) Employment service providers or brokers would receive additional payments to mentor and support them through the placement.
- (iv) Job search requirements would only be imposed once the provider considers that the job seeker is ready for open employment.
- (v) These placements would generally only be available within not for profit organisations and in an employment setting that is adapted to the needs of more disadvantaged job seekers (for example social enterprises, or community organisations that partner with relevant support services such as mental health and family support services).

Cost: (\$500 million in 2011-2012)

Recommendation 5: Adapt Productivity Places to the needs of disadvantaged job seekers

- (i) Additional funds should be made available to Registered Training Organisations (RTOs) operating 'Productivity Places' training for job seekers in Streams 2 to 4 or the Work Experience phase of JSA services to mentor and support them to improve their prospects of successfully completing their training; to adapt the courses to their particular training needs (for example by linking them with work experience), and to provide any financial support needed by the jobseeker with training related costs.
- (ii) The additional funding should be allocated according to a formula based on the degree of disadvantage faced by the jobseeker, similar to that used for the Employment Pathway Fund.
- (iii) Release of these funds should be subject to agreement between the RTO and the job seeker's JSA provider regarding the additional training and support needs of each jobseeker; and the supports to be provided.⁹

Cost: \$50 million (\$100 million in 2011-2012)

TOTAL COST: \$100 million (\$950 million in 2011-2012)

⁹ Special arrangements would be made where the JSA provider is also the RTO.

Health

2009 saw the introduction of significant reform proposals for Australia's health system, including the reports of the National Health and Hospitals Reform Commission (NHHRC) and the National Preventive Health Taskforce. ACOSS welcomes these reform programs as a much-needed platform through which to address the gaps in access to health care and improvements in health promotion for all Australians. The NHHRC's recommendation for improved primary health care is a good start. However, effective primary health care is about more than the ability of general practitioners to buy individual services. ACOSS advocates for the creation of comprehensive primary health care centres and services based on population needs so that communities are better able to ensure the health care and health promotion of their population. ACOSS recommends funding for primary health care that supports a range of multidisciplinary services and enhances the community sector's capacity to address complex and chronic health problems; improve continuity of care; and foster linkages to other services (for example allied health professionals) and resources (such as the HACC program). As the NHHRC report indicated, much of the funding for this proposal can be derived from the savings that result from the transformation of GP Divisions. The additional funding needed for effective and comprehensive primary health care will result in significant savings in terms of the cost of acute health services both now and into the future.

ACOSS reiterates its previous recommendation for the abolition of the 30% private health insurance rebate to ancillary services. Around \$3.6 billion was spent on the private health insurance rebate in 2007-08¹⁰. The extension of the rebate to ancillary health care services (as distinct from hospital care) is particularly hard to justify as this subsidy is even less likely to reduce the costs of providing public health care. It is also unfair that high income earners are subsidised for services such as dental care when public oral health services for people on low incomes is in such a parlous state. This cost to revenue could be more efficiently spent, and lead to superior health outcomes, if directed to additional capacity in public services.

The vast majority of dental funding provided by the Commonwealth Government is spent on the Medicare Chronic Disease Dental Scheme (MCDDS) and the private health insurance rebate. Access to the MCDDS does not involve means testing and the public subsidy for private health insurance falls disproportionately on people of middle to higher incomes as compared with people on low incomes in Australia. The Teen Dental Program takes up the third highest proportion of funding for oral health. Neither the MCDDS nor the Teen Dental Program has demonstrated effectiveness in improving oral health outcomes, nor in arresting the growing gaps between the oral health of people on low incomes and other Australians. For instance, amongst Australian adults aged 25 years and over, there are significant gaps between the lowest and highest household income quartiles in terms of the regularity of visits to dentists, the need for extractions at those visits. Those in the lowest income quartile are far less likely to have made a dental visit within the last two years and the likelihood decreases further as people age.

¹⁰ AIHW (2009) Health expenditure Australia 2007-08.

For those who have made a dental visit in the last year, the lowest income quartile has a much higher rate of extractions at those visits.¹¹

ACOSS welcomes the Government's attempts to redress the current inequities in access to oral health cost, as signalled by its attempt to abolish the MCDDS earlier this year; and the implication of renewed Commonwealth funding for better oral health care. The problems of access to dental services are most acute for Australians on low incomes or isolated from services. However, at least 23% of adults who are not eligible for public dental care (2.3 million people) report that they delay or avoid dental treatment because of its cost.¹²

ACOSS recommends the abolition of the MCDDS along with the Teen Dental Program so that those funds can be redirected to the provision of effective oral health care and access to services, particularly for those marginalised from oral health care. Universal access to oral health care is vital if Australia is to maintain its policy of universal health care. Integration of comprehensive oral health checks and services within Medicare is one option. Alternative strategies include the Denticare model entailing a 0.75 addition to the Medicare levy (with additional savings from private dental plans). State and territory governments would be responsible for meeting any other additional treatment costs for eligible adults and for planning and delivering oral health care to eligible adults according to need.

Recommendation 6: Fund comprehensive, community-based primary health care

Primary health care funding should be multidisciplinary, linking clinical services with allied health and associated community services. Funding should be capitation-based, according to the population within an area being serviced.

Cost: \$500 million (\$1,000 million in 2011-2012)

Recommendation 7: Remove the 30% private health insurance rebate for ancillary cover

The 30% private health insurance rebate should be removed from ancillary health cover from 1 July 2010 and the revenue redirected to improving public health services and access to those services for patients in the public system, particularly those on low incomes or marginalised from services due to geographic isolation.

Revenue: \$1,000 million (\$1,200 million in 2011-2012)

¹¹ Workshop on 'Monitoring of the National Oral Health Plan', organised by the Australian Research Centre on Population Oral Health, National Wine Centre, Adelaide, 17th & 18th September 2009.

¹² Carter, CD, & Stewart, JF, *National Dental Telephone Interview Survey 2002*, AIHW Dental Statistics and Research Unit, Adelaide 2003.

Recommendation 8: Abolish the Medicare Chronic Disease Dental Scheme and Teen Dental Program

The revenue from these programs should be redirected to the improvement of services and access to them for people on low incomes and in areas that are poorly-serviced by oral health care.

Revenue: \$430 million (\$520 million in 2011-2012)

Recommendation 9: Introduce universal access to oral health care

Subject to the previous recommendation, the Government should cover the cost of a comprehensive oral health check and a basic course of treatment every two years, with capacity for additional treatment when warranted by particular circumstances.

Cost: \$2,000 million (\$3,000 million in 2011-2012)

NET COST: \$1,070 million (\$2,280 million in 2011-2012)

Housing and Infrastructure

In the second year of the Rudd Government substantial additional investment has been directed to affordable housing programs under the Nation Building Stimulus Plan (\$6.4 billion) and the National Affordable Housing Agreement (\$400 million). The implementation of a number of new housing programs has progressed including the National Rental Affordability Scheme, the Homelessness White Paper and the Housing Affordability Fund.

The Government has made some ambitious commitments to reduce homelessness and offer accommodation to all 'rough sleepers' by 2020 in its Homelessness White Paper, *The Road Home*. This has been supported by funding of \$800 million over 5 years. Continued investment in housing stock, as well as ongoing operational funding to provide support to tenants, will be a crucial factor in achieving the Commonwealth's goals around reducing homelessness; its efforts to alleviate the housing stress that affects more than a million low-income Australians, and its reform agenda to develop a more diverse social housing sector in which there is greater transparency and contestability. The Government has noted itself that the anticipated increase in public and community housing from the stimulus package is about half of what is needed in order to meet the 2020 homelessness targets.¹³

ABS figures suggest that Australia is experiencing a shortage of an estimated 251,000 affordable dwellings for low income Australians.¹⁴ Over the decade from 1995 to 2006, Australia experienced a decline in public housing stock of approximately 25,000 dwellings, offset only in part by some increase in community housing.¹⁵ This has led to lengthy, though tightly targeted, public housing waiting lists (at approximately 180,000 people).¹⁶ The 2006 Census figures recorded 105,000 Australians homeless on any given night.¹⁷

In our submission to the Senate Economics Committee inquiry into the Government's economic stimulus initiatives, ACOSS recommended that the Government meet its original stimulus funding commitment to social housing, either by reinstating the \$750 million to social housing stimulus or committing this funding to a future affordable housing growth fund.¹⁸ A long term commitment to the growth of affordable housing stock is needed to meet the high level of housing need in Australia.

Commonwealth Rent Assistance (CRA) is a non-taxable supplementary payment provided by the Australian Government to help with the cost of private rental housing. It is available to private renters, non-profit housing tenants and state/territory owned and managed Indigenous housing tenants in some jurisdictions who pay rents above certain levels. Commonwealth Rent Assistance (CRA) is received by approximately 1 million people.¹⁹

¹³ Prime Minister, House of Representatives Hansard, Tuesday 3 February, pg 11-12.

¹⁴ National Housing Supply Council (2009) 'State of Supply' report, p vxii and 98.

¹⁵ Australian Institute of Health and Welfare, Australia's Welfare 2007, at 237.

¹⁶ AIHW, Public Rental Housing 2006-07: Commonwealth State Housing Agreement national data report.

¹⁷ ABS, 'Counting the Homeless 2006'.

¹⁸ Available at <http://www.acoss.org.au/Publications.aspx?displayID=4&subjectID=6>.

¹⁹ As at 8 June 2007, there were 943 718 income units entitled to receive CRA. See Steering Committee for the Review of Government Service Provision at 16.14.

CRA currently subsidises a small fraction of rents in high rent locations, leaving income support recipients and low income families to pay most of their rent from often inadequate incomes. CRA is not intended to achieve full affordability (i.e. less than 30% of income spent on rent). Indeed, 32% of CRA recipients pay more than 30% of income on rent after CRA. However, without CRA, 59% of these households would pay more than 30% of income on rent. In the current market, CRA remains an important, though inadequate, measure to improve housing affordability.

The extent to which the benefits of increases in CRA shift from tenants to landlords is not known and is likely to vary between different housing markets and different Rent Assistance changes. We therefore propose a housing affordability package that combines an increase in investment in public and non-profit housing to improve the supply of low cost housing over the medium term with a modest increase in CRA to relieve financial hardship among low income households already paying high private rents.

Recommendation 10: Establish a long-term Affordable Housing Growth Fund.

An Affordable Housing Growth Fund should be established with a down-payment of \$750 million in the first year with sustained increased long-term ongoing funding. This funding should be strictly designated for expanding the stock of affordable housing. The fund should support Affordable Housing Programs providing a range of different levels of subsidy to meet the needs of households with different income levels.²⁰ Program guidelines should enable housing providers to draw on a range of Affordable Housing Programs to deliver maximum affordability and provide mixed tenure developments.

Cost: \$750 million²¹ (\$1,000 million in 2011-2012)

Recommendation 11: Review Commonwealth Rent Assistance and increase the maximum rate of CRA

CRA should be reviewed to ensure that it best meets the needs of all low income renters. As a first step, the maximum rate of CRA should be increased by 30% (approximately \$15 per week) for low income households currently receiving the highest rate of CRA.

Cost: \$500 million

TOTAL COST: \$1250 million (\$1,000 million 2011-2012)

²⁰ For example, including Band A deeply subsidised housing (e.g. set at a maximum of 30% of income), Band B dwellings attracting a more shallow subsidy (e.g. NRAS dwellings set at about 20% below market rent) and Band C shared equity affordable home purchase schemes.

²¹ This amount over 2 years is equivalent to the amount of social housing stimulus funding which was re-directed to other programs in the re-calibration of the package.

Indigenous Communities

Indigenous Australians are among the lowest income and most socially excluded population groups in Australia. They continue to experience very high levels of disadvantage, as is reflected in the 17-year life expectancy gap, low rates of employment, high rates of homelessness and overcrowding and high rates of poverty.

Recent NATSIS data shows that despite some gains in Indigenous employment and education over the six years to 2008, large gaps remain, with educational attainment rates around half those for non-Indigenous Australians and the unemployment rate at three times the non-Indigenous employment rate.

Although much recent national policy attention has been focussed on remote Indigenous communities, 75% of the Indigenous population lives in major cities and regional areas. Forty-five per cent of Indigenous people aged 0-18 years live in highly disadvantaged areas.

Significant levels of COAG funding have been committed to initiatives for Indigenous people, with Government estimates of \$4.6 billion across early childhood, health, remote housing, economic participation and remote service delivery.²²

Since the 2009-10 Budget, the Commonwealth and state and territory governments have established the National Indigenous Reform Agreement (NIRA) as a framework for pursuing the Closing the Gap agenda. The Agreement sets out the objectives, outcomes, outputs, performance indicators and performance benchmarks agreed by COAG and provides links to relevant National Agreements and National Partnership agreements. These are:

- Indigenous Early Childhood Development;
- Remote Service Delivery;
- Indigenous Economic Participation;
- Remote Indigenous Housing;
- Closing the Gap in Indigenous Health Outcomes; and
- Remote Indigenous Public Internet Access.

A number of other National Partnerships are being developed.

The Closing the Gap targets are aimed at six specific areas, which are reflected in the NIRA, including: early childhood, schooling, health, economic participation, healthy homes, safe communities and governance and leadership.

The 2009-10 Budget delivered \$1.271 billion over 5 years in new spending on Indigenous initiatives. Of this funding, \$807.4 million was allocated to specific Northern Territory initiatives. Most of the additional health funding (of \$232 million) was directed to the NT, with no new spending on national health programs.

Since the last Budget, the Government has implemented its Community Development Employment Project (CDEP) reforms, which have abolished CDEP in

²² National Indigenous Reform Agreement (Closing the Gap) and page A-31.

non-remote areas and replaced CDEP wages in remote communities with income support payments. A number of CDEP positions have been converted to fully funded positions to support the delivery of Government services.

Mainstream employment services in remote and regional Indigenous communities should be redesigned in response to the specific labour market conditions and disadvantages faced by these communities and to better integrate them with community controlled local services, including by opening up more flexible pathways through the sequence of support; and providing a flexible pool of additional funds for investment in work experience that is better suited to the needs of the communities.

ACOSS' Budget recommendations are designed to re-focus Indigenous funding to encompass urban, regional, rural and remote Australia through investment in national programs which are largely administered by Indigenous community organisations for their local communities.

Recommendation 12: Improve national Indigenous health outcomes through investment in the capacity of Aboriginal primary health care services

Additional funding of \$440 million/year over five years should be provided to Aboriginal Community Controlled Health Services for service infrastructure and to achieve parity for GP salaries to support quality workforce retention and recruitment. Service infrastructure investment should include the development of new clinics, medical equipment and transport. Recurrent funding should cover competitive wages, non-PBS medical consumables and utilities.

Cost: \$440 million (\$440 million in 2011-2012)

Recommendation 13: Expand the number of fully-funded jobs in remote communities

The number of fully funded jobs in local essential services in remote areas should be expanded considerably through relevant mainstream programs, in cooperation with local community-led organisations and state and local governments.

Cost: \$80 million (\$90 million in 2011-2012)

TOTAL COST: \$520 million (\$530 million 2011-2012)

Community Sector Development

Not-for-profit social services play a vital role in sustaining and supporting people on low incomes or who are unable to access basic and essential services that many people take for granted. As governments have increasingly out-sourced the provision of those services to community organisations, the drive for government savings has left the sector under-funded and facing increasing challenges to sustain the support they provide. Key indicators of this trend include the striking pay disparities between social service employees in the not-for-profit sector as compared with similar roles performed in the government and business sectors; and the increasing difficulties faced by the sector in attracting and retaining staff. Not only does this create untenable working conditions for the employees upon whom the delivery of social services depends; it also threatens the ongoing existence of services that people on low incomes and their families depend upon.

In the face of these problems, the development and sustainability of the community sector have taken on increasing importance in recent times. The Productivity Commission's *Inquiry into the contribution of the not-for-profit sector* has been particularly timely in this regard. Following extensive consultation and research, the Productivity Commission produced a range of recommendations that will bring about much-needed reform in the sector. The key recommendations supported here relate to the regulation, measurement and evaluation of the sector, which are vital for ensuring that community organisations are best-placed to meet the ongoing support needs of people on low incomes or who are unable to access services on an equal footing with other Australians.

The establishment of a Centre for Community Service Effectiveness would promote best practice approaches to evaluation. While there are a number of options for how such a Centre might operate, the proposal here is costed on the basis of a clearinghouse model.

ACOSS also supports an independent regulator, consolidating various regulatory functions into a national entity. The regulator would be capable of endorsing the charitable status of organisations based on a modern legislative definition of charitable purpose. Gift deductible status should be extended to organisations endorsed as charities whose dominant purpose is to improve the circumstances of disadvantaged people. Given that many of these functions are already being undertaken by a range of bodies including the Australian Securities and Investments Commission, this recommendation would involve a realignment of existing expenditure more than the allocation of new revenue. The additional costs associated with the referral of regulatory functions that are currently done on a state or territory basis are likely to be minimal.

Recommendation 14: Provide funding for the establishment of a Centre for Community Service Effectiveness

As recommended by the Productivity Commission in its October 2009 Draft Report on the contribution of the not-for-profit sector, this Centre would promote best practice approaches to measurement and evaluation in the sector.

Cost: \$1.5 million (\$1 million 2011-2012)

Recommendation 15: Provide funding for the establishment of an independent regulator of the not-for-profit sector

As recommended by the Productivity Commission in its October 2009 Draft Report on the contribution of the not-for-profit sector, an independent regulator would consolidate various existing and new regulatory functions into a national entity.

Cost: \$1.5 million (\$1 million 2011-2012)

TOTAL COST: \$3 million (\$2 million 2011-2012)

Social Security

Higher unemployment has forced many more people to rely on social security payments. In September 2009 there were 650,427 people on Newstart Allowance, including 280,138 who have received this payment for over 12 months. This is an increase of 157,869 over a 12 month period²³. The percentage of unemployed lone parents rose by almost 5 per cent between June 2008 and June 2009²⁴, increasing reliance on Parenting Payments and Newstart Allowance.

A rise in unemployment brings severe financial hardship to those affected, along with their families. Research by ACOSS indicates that unemployed people and sole parents face a much higher risk of financial hardship than most other groups in the community. For example 57% of Parenting Payment recipients and 28% of Newstart Allowance recipients could not afford to pay utility bills on time compared with 12% of all Australians. Over 40% of both groups could not afford dental treatment when needed.²⁵

A major reason for this is the very low level of social security allowance payments for unemployed people. In late 2009 the base rate of Newstart Allowance for unemployed adults was just \$228 per week. This has not increased in real terms since the early 1990s. The payment for unemployed young people living independently is \$186 per week. These amounts are \$108 and \$150 less than pension rates, respectively. The gap between pension and allowance payments widened substantially when the \$32 increase granted to pensioners in the 2009 Budget was not extended to recipients of social security allowance payments, nor to sole parents on Parenting Payment Single (which was previously paid at pension rates).

The Henry Review of the tax-transfer system provides an opportunity to remove these anomalies and place social security payments on a firmer footing - an objective assessment of the minimum income needed by Australians of all ages to live decently to replace the present divide between 'pension' and 'allowance' payments. As a result of the recommendations of the related Harmer Review on pensions, single pension rates are now benchmarked to two thirds of the rate paid to a married couple, to take account of the higher costs of living alone. This resulted in a substantial increase in the single pension rate. As a first step towards a fairer social security system based on people's actual living costs, we recommend that this benchmark apply to Newstart Allowance payments as well. This requires a \$45 per week rise in the single rate of Newstart Allowance, which should also extend to Austudy and Abstudy payments and the Youth Allowance for those living independently of their parents. Payments for sole parents on Newstart Allowance would also increase.

²³ Department of Education, Employment and Workplace Relations (DEEWR), *Labour Markets and Related Payments* September 2009.

²⁴ Whiteford, Peter, October 2009 *Family Joblessness on the Rise* Australian Policy Online.

²⁵ ACOSS 2008, *Missing out, hardship in Australia*, ACOSS Info Paper – see www.acoss.org.au.

Low income families find that the cost of supporting dependent young people, including food, clothing and school expenses, rises substantially as they grow older. Yet the social security payments for these families often decline. Youth Allowance payments for dependent young people over 15 years have not kept up with increases in Family Tax Benefits for younger children. For example, the income support available to a low income family to support a child falls by \$14 per week when the child reaches 16 years and moves from Family Tax Benefits to Youth Allowance.

Recommendation 16: Increase Allowance payments for single people by \$45 per week

To ease hardship, reduce the gap between base rates of allowances and pensions for single people, and to raise allowance payments for single people to a similar proportion of the married couple rates as applies to pensioners, single rates of Newstart Allowance and other Allowance payments including Austudy Payment, Abstudy Payment, the independent rate of Youth Allowance, and Special Benefit should be increased by \$45 per week from 1 July 2010. The maximum rate of Parenting Payment Single should also be raised to this new single Allowance rate for adults.

Cost: \$1,200 million (\$1,300 million in 2011-2012)

Recommendation 17: Recognise the higher costs of older children

To better reflect the higher costs of raising children and young people as they grow older, Youth Allowances for families with 'dependent' young people aged 16 to 24 years should be raised from July 2010 by \$15 per week

Cost: \$200 million (\$200 million in 2011-2012)

TOTAL COST: \$1,400 million (\$1,500 million 2011-2012)

Tax: Revenue recommendations to offset expenditure recommendations

Australia is the eighth lowest taxing country among the 30 OECD nations.²⁶ Australians are not over-taxed, but they are taxed unfairly and inefficiently. The main problem is an array of tax shelters, loopholes and tax expenditures that enable well off people to avoid paying tax at the appropriate marginal rate.

Taxpayers can reduce the marginal tax rates on their income by:

- sheltering income in a private company or trust to take advantage of the 30% tax rate applying to companies or the income-splitting opportunities (e.g. with a lower-taxed family member) available through a private trust;
- sacrificing salary for superannuation, which enables a tax-payer on the top marginal rate to reduce their tax rate from 45% to 15%; and
- taking advantage of the concessional tax treatment of large termination payments such as 'golden handshakes', which in many cases are also taxed at the relatively low rate of 15%.

If the following shelters and concessions were removed or better targeted, this could save the revenue approximately \$1.4 billion in 2011-12. In addition, almost \$4 billion could be saved by withdrawing the tax cuts slated to commence from July 2010. Together, these measures would finance the expenditure proposals in this submission and contribute to efforts to restore the Budget to surplus. These tax cuts are the eighth in as many years and clearly unaffordable at a time when many essential services are starved of funds.²⁷

Our proposal to reform the tax treatment of superannuation contributions has a different objective and is revenue neutral. It is designed to target tax concessions for contributions more towards low and middle income earners, who are more likely to rely on age pensions in retirement and less likely to save without tax incentives. The present tax treatment of superannuation is highly inequitable and inefficient. Well over one quarter of the value of tax concessions for contributions goes to the top 5% of taxpayers while those on the lowest marginal tax rate derive little or no benefit from them. The main change proposed is to replace the flat 15% tax on employer contributions with an annual capped Government co-contribution.

Recommendation 18: The Government should withdraw the final tranche of tax cuts

Withdraw the tax cuts scheduled to commence from 1 July 2010.

Revenue: \$3,700 million (\$3,900 million in 2011-12)

²⁶ OECD 2009, Revenue Statistics.

²⁷ These tax cuts reduce tax by around \$150 per year for a taxpayer on \$25,000, by around \$400 for a taxpayer on \$50,000 and by around \$1,300 for a taxpayer on \$200,000.

Recommendation 19: The Government should replace existing tax concessions for superannuation with a fairer and simpler annual co-contribution

A two-tier co-contribution, paid annually into the relevant superannuation fund(s), should be introduced to replace all existing tax concessions and co-contributions for superannuation contributions. The co-contribution should:

- (i) Apply to the sum total of all contributions (whether compulsory or voluntary);
- (ii) Be paid at the rate of 100% of contributions up to a low flat annual contributions ceiling (to boost superannuation savings for people on low incomes), plus 30% for additional contributions up to a higher flat annual ceiling (sufficient to encourage a modest level of saving beyond superannuation guarantee contributions by an employee on an average full-time wage).

Employer superannuation contributions should be taxed at source through the PAYG system at the relevant marginal income tax rate.

Revenue: neutral

Recommendation 20: The Government should curb use of trusts and companies as tax shelters

The sheltering of personal income from tax using discretionary trusts and private companies should be curbed by:

- (i) Introducing a withholding tax on income that is not distributed by private companies to share-holders by the end of each financial year, above a threshold that makes allowance for the reinvestment needs of the company. The rate of this tax should be equal to the difference between the corporate tax rate and highest marginal rate of personal income tax plus Medicare Levy.

Revenue: \$700 million in 2010-11

- (ii) Either taxing private trusts in like manner to private companies (as above), or by attributing income back to the person or persons who control the trust, as is the case in social security income tests.

Revenue: \$500 million in 2010-11

Recommendation 21: The Government should tax lump sum termination payments more fairly and consistently

The special 'tax free thresholds' that currently apply to redundancy payments should extend to other termination payments such as 'golden handshakes' (apart from superannuation and 'invalidity payments') and any income above those thresholds should be taxed at the employee's marginal tax rate rather than current tax rates for Eligible Termination Payments (15% or 30%).²⁸

Revenue: \$200 million (\$200 million in 2011-12)

TOTAL REVENUE: \$5,100 million (\$4,100 million 2011-2012)

²⁸ An extra tax free threshold will benefit many people on low incomes who lose their jobs, but high income earners with large termination payments would pay more tax because this threshold is lower than in the tax arrangements for these payments introduced last year.