



## Budget Priorities Statement

2017-18



February 2017



## **Who we are**

The Australian Council of Social Service is a voice for the issues affecting low income and disadvantaged people & the peak body for the community services sector in Australia.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

## **What we do**

ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

First published in 2017 by the  
Australian Council of Social Service

Locked Bag 4777  
Strawberry Hills, NSW, 2012 Australia  
Email: [info@acoss.org.au](mailto:info@acoss.org.au)  
Website: [www.acoss.org.au](http://www.acoss.org.au)

ISSN: 1326 7124  
ISBN: 978 0 85871 901 9

© Australian Council of Social Service

This publication is copyright. Apart from fair dealing for the purpose of private study, research, criticism, or review, as permitted under the Copyright Act, no part may be reproduced by any process without written permission. Enquiries should be addressed to the Publications Officer, Australian Council of Social Service. Copies are available from the address above.

Front cover image © ACOSS publications, used under



# Contents

Table of abbreviations	4
1 Overview	5
1.1 Budget strategy	5
1.2 Overview of recommendations	16
2 Raising adequate revenue for public needs	19
2.1 Taxing investment income fairly and consistently	19
2.2 Adequate, fair and sustainable retirement incomes	22
2.3 Sustainable funding for health, aged care and the NDIS	29
2.4 Strengthening the personal income tax system and curbing avoidance	35
2.5 Business taxes	38
2.6 Social taxes	40
2.7 Taxation of charities	45
3 Increasing employment and reducing poverty for people of working age...	46
3.1 Alleviating poverty	46
3.2 Employment services	54
4 Reducing child poverty: family payments reform	61
4.1 A fairer reform agenda	63
5 Improving access to affordable housing	65
5.1 Affordable housing targets	67
5.2 Improving adequacy of existing funding agreements	67
5.3 Establishment of an Affordable Housing Growth Fund	68
5.4 Creation of a new affordable rental private investment scheme	68
5.5 Reform housing taxation	69
5.6 Increase of financial assistance to low income renters	70
5.7 Improve funding and policy response to homelessness services	72
6 Improving access and affordability of essential human services	74
6.1 Health	75
6.2 Early childhood education and care	80
6.3 Community Services	84
6.4 Aboriginal and Torres Strait Islander Budget Measures	87



## Table of abbreviations

ATO	Australian Taxation Office
ACCS	Additional Child Care Subsidy
CCB	Child Care Benefit
CCR	Child Care Rebate
CCS	Child Care Subsidy
CPI	Consumer Price Index
CDEP	Community Development Employment Programs
CDP	Community Development Program
CGT	Capital Gains Tax
ECEC	Early Childhood Education and Care
EMSN	Extended Medicare Safety Net
FTB	Family Tax Benefit
GDP	Gross Domestic Product
GFC	Global Financial Crisis
JET	Jobs Education and Training
IMF	International Monetary Fund
LISTO	Low Income Superannuation Tax Offset
OECD	Organisation for Economic Cooperation and Development
PHI	Private Health Insurance
PPL	Paid Parental Leave
SAPTO	Seniors and Pensioners Tax Offset
WET	Wine Equalisation Tax



# 1 Overview

## 1.1 Budget strategy

### Setting long term goals

The Federal Budget is much more than an accounting exercise. It is ultimately about people and our communities, and the priorities and goals we set for our country.

The choices made in the budget tell us what the government of the day stands for and the goals it wishes to pursue on our behalf.

Crucially, the Federal Budget pays for essential community services and support payments that we all depend on at different times in our lives. Through a progressive personal income tax system we all contribute according to our ability to pay. The contributions go into a pool with company and other tax contributions, and enable us to fund the essential needs of a healthy society. These span universal healthcare, education, disability and aged care services, to the lifeline support for people who experience tough times through unemployment or illness, as well as support for families or older members of our community. This is the social contract that has served our nation well for generations, ensuring social cohesion and paving the way for prosperity. By investing in our people and communities we create a strong, prosperous and resilient society that can withstand any shocks – both internal and external.

Much can be done in the Federal Budget to lay the foundations for our ongoing prosperity as a nation. However, the goals need to be the right ones. We need the debate to move away from whether the country's credit rating is AAA or AA+, or whether the budget will return to surplus in 2021 or 2022. Our budget goals must focus on our economic, social and environmental development, including supporting employment growth and workforce skills, strengthening public infrastructure, delivering the best education and health outcomes for all, improving housing affordability and reducing homelessness.

The Federal Budget needs to reflect policies that bring the country together with these shared goals, rather than dividing us. It needs to be based on values that choose love over hate, care over disregard, community over self. This is where the energies of our Government and Parliament should be directed.

In line with the Sustainable Development Goals, economic growth must be sustainable and inclusive. It must balance and integrate social and environmental dimensions, if we are to achieve ongoing prosperity.

At a time when private investment is weak, it is essential that government lift its contribution to public infrastructure. This will improve efficiency and strengthen our economy, society, and the natural environment in the long run. Both the OECD and International Monetary





Fund (IMF) have recommended that governments in wealthy countries including Australia boost investments of this kind.<sup>1</sup>

This would be more cost effective and have a much larger short term impact on lifting employment opportunities and productivity than the government's proposed company income tax cuts. In this submission we call for substantial new contributions to social and affordable housing, as essential infrastructure, which would reduce poverty by improving housing affordability for people paid the least, as well as boosting employment and economic growth.

Policy makers across the world are increasingly aware that there is much more to social and environmental wellbeing than Gross Domestic Product (GDP).

In Australia, as elsewhere, the public is weary of short term, opportunistic policy making. The government should work with the community to set realistic but challenging long-term goals including to strengthen productivity, reduce poverty, restore full employment, make housing affordable, and reduce carbon pollution. It should use the Federal Budget as a tool to achieve these aims. The United Nations' 'Sustainable Development Goals' to which the Australian Government, along with other nations are now committed, provide a possible template to set long term goals for public policy.

#### Some of the Sustainable Development Goals Australia has committed to achieve

- Reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions
- Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
- Ensure that all girls and boys have access to quality early childhood development, care and pre-primary education
- Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation
- Double the global rate of improvement in energy efficiency
- Full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value
- Progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average

---

<sup>1</sup> IMF Deputy Managing Director Tao Zhang (2016), Meeting the Challenges of Growth and Infrastructure Investment, Conference on Meeting Asia's Rebalance and Growth Challenge, Sydney, Australia, December 2016. Available: <http://www.imf.org/en/news/articles/2016/12/01/sp120216-meeting-the-challenges-of-growth-infrastructure-investment>; OECD (2016), Australia, economic forecast in Economic Outlook Vol. 2016 Issue 2, November 2016'. Available: <http://www.oecd.org/economy/australia-economic-forecast-summary.htm>



## Securing adequate revenue now and into the future

Commonwealth, State and Territory governments face major budget challenges. These are not about whether the deficit is \$40 billion or \$35 billion next year. They are about the ability of those governments to meet the community's needs and expectations over the next few decades; while building up a fiscal 'buffer' so that governments can stimulate and revive the economy in the event of another global recession and keep public debt sustainable. A robust revenue base is essential for providing the great supports and services like health, housing, education and income support that are the bedrock of prosperity for all people and communities in Australia. The main problem is that, as the sixth lowest taxing country among 34 OECD nations, we do not have an adequate and sustainable revenue base.<sup>2</sup>

Over the eight years since the Global Financial Crisis (GFC) in 2008, public revenues have repeatedly fallen below expectations, mainly due to declining company and personal income tax revenues as the mining boom subsides (Figure 1). This should have been anticipated when the boom was under way, but previous governments 'spent' the proceeds on eight successive income tax cuts, unsustainable superannuation tax breaks, and poorly targeted spending programs. If Commonwealth revenue had remained at the same level (as a share of GDP) as it was before the 2000-01 tax cuts, the forecast budget deficit for 2016-17 would be \$3 billion rather than \$37 billion (0.2% of GDP rather than 2.2%).<sup>3</sup> Since the election of this Federal Government there have been further tax cuts, including a personal income tax cut for people with taxable incomes over \$80,000, which has already cost the Federal Budget about \$4 billion over the forward estimates. The Government is now also proposing cuts to the company tax rate at an estimated cost of \$1.8 billion in 2019, rising to \$14 billion in 2026.<sup>4</sup>

---

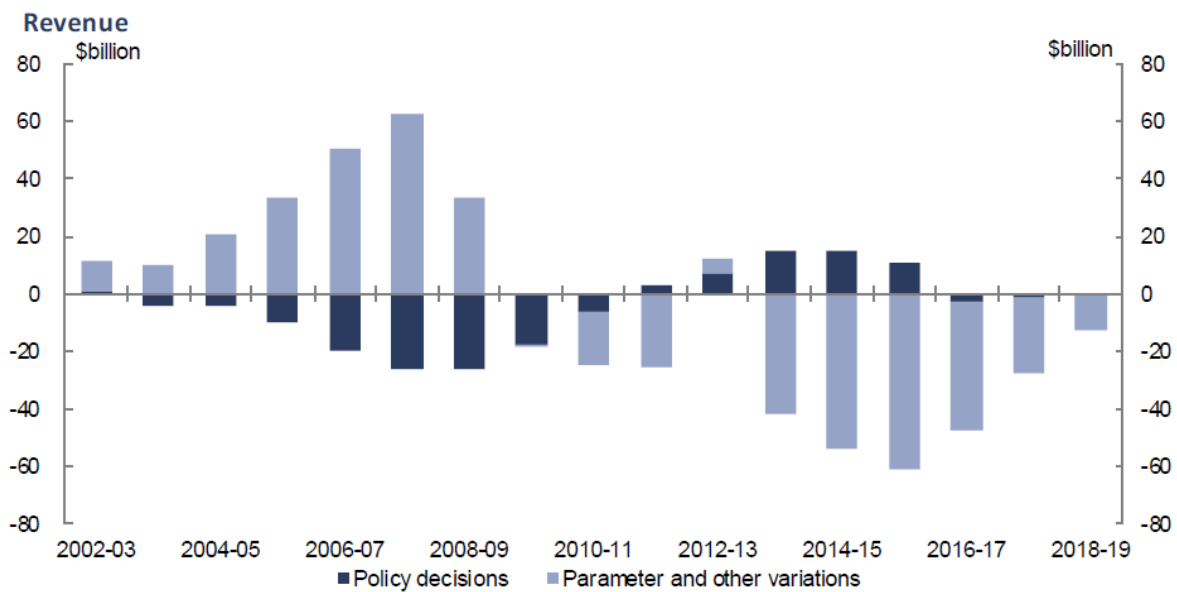
<sup>2</sup> OECD (2014), Revenue Statistics.

<sup>3</sup> Commonwealth general government revenue as a share of GDP fell from 25.9% in 2000-01 to 23.9% in 2006-07. The underlying cash deficit for 2016-17 is estimated at 2.2% of GDP. Source: <http://www.data.gov.au/>

<sup>4</sup> Kouparitsas, M et al (2016), 'Analysis of the long term effects of a company tax cut', Treasury Working Paper 2016-02. Available:

<http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2016/TWP2/Downloads/PDF/Treasury-Working-Paper-2016-02.ashx>

Figure 1: Impact of changes to revenue estimates for each year, 2002-03 to 2018-10<sup>5</sup>



Source: Parliamentary Budget Office (2014), 'Projections of Government spending over the medium term'

Note: 'policy decisions' mainly refer to tax cuts or increases. 'Parameter variations' refer to changes in economic conditions (the boom and its aftermath)

On the spending side of the Federal Budget, the main source of cost pressures as the population ages is in services rather than cash benefits. Australia does not have a 'welfare blowout'. Due to our relatively low benefits and strict income-testing, Australia spends well below the OECD average level on cash benefits (at 9% of GDP in 2013 compared with a 12.4% OECD average), and only one-quarter of this goes to people of working age, including on unemployment payments.<sup>6</sup> There has been a long term decline in reliance on working age payments.<sup>7</sup> In 2013 just 5% of people of working age relied on social security for more than 90% of their income; compared with 7% in 2001<sup>8</sup> The key areas of future pressure on public budgets are essential services such as health, aged care and the NDIS, not Newstart Allowance, the Parenting Payment or Disability Support Pensions.

<sup>5</sup>Parliamentary Budget Office (2016), 'Impact of policy divisions and parameter variations on Australian Government revenue and spending estimates', as at 2015-16 Mid-Year Economic and Fiscal Outlook.

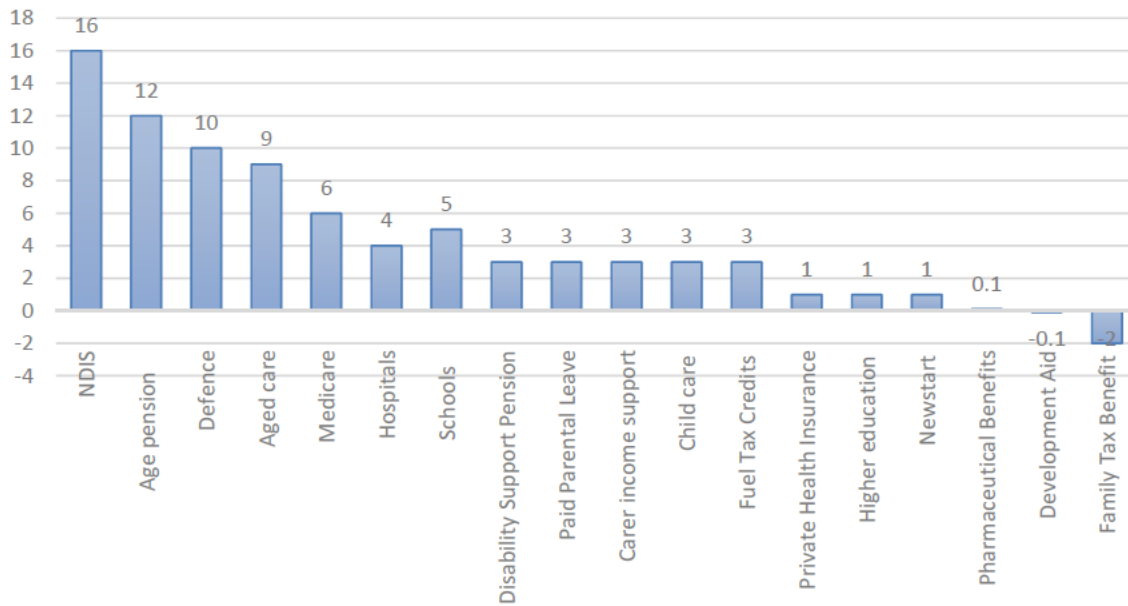
<sup>6</sup>OECD (2016), OECD Social Expenditure database, [https://stats.oecd.org/Index.aspx?DataSetCode=SOEX\\_AGG](https://stats.oecd.org/Index.aspx?DataSetCode=SOEX_AGG). Most expenditure on cash payments is for Age Pensions and family payments.

<sup>7</sup>Wilkins, R (2016), 'The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14' Melbourne Institute of Applied Economic and Social Research University of Melbourne p. 36

<sup>8</sup>Peter Whiteford at: <http://www.australianreview.net/digest/2015/10/whiteford4.htm>



Figure 2: Contribution of major programs to all growth in spending, including 2014 Budget changes (%) 2013-2023



Source: Parliamentary Budget Office (2014) *Projections of Government spending over the medium term*

Note: This was modelled prior to budget changes in 2015 and 2016, notably the tightening of the pension assets test

The solution to these budget challenges is not to cut income support for people already living on the brink, and below the poverty line, nor to shift the costs of services to users, which hits people on low and modest incomes. This approach is neither fair nor sustainable and the Parliament has repeatedly rejected it. The Federal Government should abandon the proposed further cuts to income support that would adversely affect people on low and moderate incomes, which have not yet passed the Parliament. These proposed cuts have now been on the budget books for two years, undermining budget transparency [see box below].

## Unlegislated spending cuts should be abandoned

Along with other harsh and inequitable measures, it is critical to remove the following unlegislated budget cuts:

- Cutting Family Tax Benefit Part B for sole parents with children aged 17+ and abolishing end of year supplements, without full offset measures (\$2.7 billion over 4 years)
- Longer waiting periods and lower rates of payment for young people who are unemployed, and extending the one week waiting period to more payments (\$789 million)
- Freezing the free area for allowances which will reduce incomes and incentives for those working part-time (\$69 million)
- Abolishing the Pensioner Education Supplement and Education Entry Payment, which will result in income losses of up to \$35 pw for people studying to improve their employment prospects, and tougher portability rules for pensioners travelling overseas (\$580 million)
- Higher Pharmaceutical Benefits Scheme co-payments (\$722 million)
- Lower Parental leave payments for those with paid leave from employers (\$491 million)

These cuts have now been inappropriately linked to funding the National Disability Insurance Scheme (NDIS) in the current Omnibus Bill before the Lower House.

Instead, the government should identify the main areas of direct budget spending and tax concessions that are either growing most strongly or are no longer 'fit for purpose' and undertake long term budget planning to improve the cost effectiveness of those programs. This was the approach agreed by business, union and community peak bodies at the National Reform Summit in November 2015 [see box below]. For example, in health too much public expenditure is devoted to acute care and too little to primary care and prevention.

ACOSS has supported earlier savings measures where we have judged that expenditures were too generous or poorly targeted. This submission advocates for more steps in this direction. However, budget problems cannot be solved by 'cutting waste' alone. In most areas of public spending, the 'waste' has already been removed after years of stringent expenditure control.

## National Reform Summit – fiscal policy principles

- Governments have a key role to play in delivering quality services, a social security safety net and economic and social infrastructure essential for economic growth
- All expenditure programs, including direct and tax expenditures, should be subject to rigorous evaluation to ensure efficiency and effectiveness over time
- Where major spending program redesign is undertaken, it should seek to improve service quality and equitable access, not just efficiency
- Income support payments should be targeted to those who most need them and gaps in the safety net closed, such as by improving the adequacy of income support for unemployed people, affordable housing for people on the lowest incomes and services to people with a disability
- People on low incomes or who are otherwise vulnerable should be protected from the impacts of fiscal reform

We encourage the Government to build on these agreed foundations as it develops its fiscal strategy for the next financial year and beyond.

SOURCE: 'Statement from the National Reform Summit', a joint statement endorsed by the Australian Chamber of Commerce and Industry, the Australian Council of Trade Unions, the Australian Council of Social Service, the Australian Industry Group, the Australian Youth Affairs Coalition, the Business Council of Australia, COTA, and Seniors Australia, <http://www.acoss.org.au/wp-content/uploads/2015/08/National-Reform-Statement-full.pdf>

This is demonstrated by changes to family payments in recent years. At the start of the decade, governments set out to reduce poorly targeted spending in this area. For example, they tightened income tests and abolished the 'Baby Bonus' and 'Schoolkids Bonus' - both fixed amounts going to households regardless of incomes. Then they went much further, carving \$7 billion from Family Tax Benefits since 2010.<sup>9</sup> There is now little left to cut without harsh impacts to people in the lower half of the family income distribution and pushing more children into poverty. Further cuts to family payments, currently before Parliament in the Omnibus Bill, would do exactly that.

Governments need a robust revenue base to fund essential services and support payments. If we exclusively pursue cuts to budget deficits through cuts in spending, these measures will reduce the services, supports and payments to people who are already struggling financially. In the 2014 and 2015 budgets alone, over \$15 billion (over four years) was cut from vital community services including Aboriginal and Torres Strait Islander services, community legal centres and refuges for victims of domestic violence.<sup>10</sup> In addition, \$80 billion is being cut from Commonwealth funding to states and territories for health and

---

<sup>9</sup> Grattan Institute [2016], 'Why every generation feels entitled'. The Conversation, Thursday 15 December 2016. Available: <https://theconversation.com/why-every-generation-feels-entitled-70405>

<sup>10</sup> ACOSS calculations



schools over the next decade. We advocate reversing these damaging cuts to essential community services.

Australia faces a choice between ever-increasing reliance on user charges for essential services (such as health, aged care and education) or raising tax revenues. For example, while user charges for home care and nursing home accommodation are steadily rising, only 16% of people over 64 years pay any income tax due, in large part, to superannuation and other tax concessions.<sup>11</sup> This is unsustainable.

## Re-casting budget priorities

Budgets are about priorities. This government must prioritise a budget that is true to our country's stated values of fairness and equality. During the boom years, Commonwealth expenditures rose, but too much of the extra spending was devoted to inefficient and poorly targeted programs such as the Private Health Insurance rebate, superannuation and housing tax concessions, the Seniors Supplement and the Baby Bonus. Critical problems including unaffordable housing, unemployment and family payments well below poverty levels, and chronic under-investment in mental and dental health, have been neglected for decades and the impact is most strongly felt by people on the lowest incomes.

High housing costs are a major source of financial stress, especially for private tenants with the lowest 20% of incomes, with four out of five paying more than 30% of their income in rent. Housing costs are also the main cause of Australia's dangerously high household debt levels, since average house prices are now 4-5 times average annual household earnings.<sup>12</sup>

Australia has a severe shortfall of social and affordable housing, including a shortage of over 500,000 rental dwellings that are both affordable and available to the lowest income households.<sup>13</sup> While state and territory governments have a key role to play in boosting housing supply, including through reform of urban planning and state taxes, the Commonwealth cannot continue to take a back seat in housing policy. We advocate a multi-pronged national affordable housing strategy including reform of housing taxation, direct investment in affordable housing stock; incentives for private sector investment in affordable housing; improved financial support to low-income renters; and secure and adequate support for homelessness services.

Unemployment rose by half after the Global Financial Crisis and labour market conditions are still weak. In November 2016 it was estimated that there were approximately ten people

---

<sup>11</sup> Grattan Institute (2016) Op. Cit.

<sup>12</sup> Ryan Fox and Richard Finlay (2012), 'Dwelling prices and household income, Reserve Bank of Australia Bulletin, December Quarter 2012', available at: <http://www.rba.gov.au/publications/bulletin/2012/dec/pdf/bu-1212-2.pdf>.

<sup>13</sup> National Housing Supply Council (2013): Housing supply and affordability issues 2012-13. Available: <http://rsss.anu.edu.au/sites/default/files/PeterWhiteford.pdf>



looking for more paid work for every job available.<sup>14</sup> Some groups are particularly affected, including young people, older workers, people with disabilities, Aboriginal and Torres Strait Islanders, people from culturally and linguistically diverse backgrounds and women returning to paid work after caring for young children. A growing number of people employed part time are finding it difficult to secure the working hours they need to earn a decent living. Of particular concern is the entrenchment of long-term unemployment, with over 70% of people receiving Newstart and Youth Allowances at a point in time having to rely on income support for more than a year.

Unemployed people generally receive little help from employment services because these are not funded to offer more than an occasional interview, help with a CV and job search training and, at best, a few months of vocational training. Employment service funding contracts and incentives discourage patient investment in people who are most disadvantaged in the labour market. This is a false economy. Investment in well-designed employment assistance, including wage subsidies and training, for people who are unemployed long term or at risk, would ultimately pay for itself.

Those affected by the rise of unemployment must live on the lowest unemployment benefit in the OECD<sup>15</sup>. At \$38 a day for a single adult, the Newstart Allowance is well below the cost of the essentials of life, making it much harder for people to search effectively for jobs. At \$65 a week, Rent Assistance for a single adult is a fraction of typical rents in major urban centres, where most jobs are located. As a first step to ease the most severe poverty, we propose a \$54 a week increase in payments for single people who are unemployed or studying fulltime. This is particularly urgent considering that the pension was increased in 2009 due to it being inadequate, without any rise in the lower unemployment and sole parent payments.

Since the publication of its own 'welfare review' two years ago, the Federal Government has flagged its intention to reform the system of payments for working age people. We urge the government to take this opportunity to redesign a complex and inequitable payment structure that leaves unemployed people and students on 'allowance' payments that are at least \$174 a week lower than the frugal pension rate, and entrenches poverty among people relying on this payment. Past policies have moved whole cohorts of people onto this much lower payment, who would previously have accessed at least the pension level of income support, particularly single parents, people with disabilities and older people.

A core principle of social security reform is that payment levels are based on financial need. One of this submission's key proposals is the establishment of a Social Security Commission to provide independent expert advice to government on the living costs and needs of people

---

<sup>14</sup> Ratio includes both unemployed and underemployed and is derived by ACOSS from Australian Bureau of Statistics, November 2016 data: 'Job Vacancies Australia, Cat. 6354.0', Table 1, and 'Labour Force, Australia, Cat. 6202.0', Table 22.

<sup>15</sup> Whiteford, Peter 'Adequacy of social security benefits for working age households: a comparative assessment' Available: <http://rsss.anu.edu.au/sites/default/files/PeterWhiteford.pdf>



receiving social security payments and report regularly to the Parliament on the adequacy of payments, their indexation, and income test arrangements.

The Social Security Commission should also assess the adequacy of family payments. Urgent action should be taken in this budget to lift the level of the unemployment payment and improve Family Tax Benefits for families on low incomes - especially sole parent families - to reduce our shamefully high level of child poverty. In 2014, 731,300 (or one in six) children were estimated to be living below the poverty line.<sup>16</sup> Family payments should be restructured so that they no longer decline as children grow older and their cost rises. Payments for school age children should increase, and a supplement should be introduced to assist sole parents with the extra costs of raising children alone.

Our key priorities in health are to improve the quality and accessibility of health services, including oral and preventive health services, for people on low incomes. Additional expenditure could be offset by redirecting wasteful expenditure in the health system including by abolishing the Private Health Insurance Rebate and the Extended Medicare Safety Net, which mainly benefit higher income earners using relatively expensive health services. ACOSS is deeply concerned about the progressive undermining of schemes to assist low income households with essential dental costs, including dental services for adults with low incomes. We have called for many years for a robust system of supports with dental health care costs for people with low incomes. This long standing 'gap' in public health services must be filled.

## Strengthening public revenue and reforming the tax system

The case for tax reform is compelling and ACOSS has worked actively with diverse stakeholders, including business groups and with government to build momentum for reform and to identify shared goals. We believe that reform must be structural and must grow the revenue base fairly, steadily and efficiently. It must focus on major tax concessions which have unintended or inequitable impacts including superannuation and housing investment concessions.

We have consistently argued against reform proposals that greatly reduce the overall progressivity of the tax system, such as raising the Goods and Services Tax to pay for income tax cuts as a first resort. We welcomed the government's abandonment of such proposals, which would not have materially contributed to future economic growth. Similarly, we have argued against 'reform' proposals that consist of little more than cuts in tax rates and undermine the public revenue we need to meet essential health, education and social services costs.

Tax reform can contribute to economic development as well as raise revenue, but the benefits of simply cutting tax rates to encourage paid work, investment or saving are often

---

<sup>16</sup> ACOSS / SPRC (2016), 'Poverty in Australia Report 2016'. Available: <http://www.acoss.org.au/wp-content/uploads/2016/10/Poverty-in-Australia-2016.pdf>





exaggerated. ACOSS opposed the personal income tax cut for people on taxable incomes of over \$80,000 for this reason, arguing that a greater priority was to reform the interaction of the tax and transfer system for low paid and part time workers, particularly women. The government's proposed company income tax reductions would reduce future revenues by an estimated \$1.8 billion in 2019 rising to \$14 billion in 2026, while the Treasury projects that it will increase household spending power in approximately 20 years' time by less than 0.7%: a poor return for a costly investment.<sup>17</sup> Further, there is no evidence to suggest that concentrating company tax reductions on small rather than large companies would make the economy more productive or that it would lead to more and better jobs.

The best approach to income and business tax reform is to remove tax concessions and loopholes that are economically harmful as well as unfair, and use the savings to reduce tax rates over time as well as meeting the community's need for essential services and public infrastructure. Many existing business tax concessions are biased towards some industries and against others, while others lack a clear purpose. For example, fuel tax offsets for off-road use disproportionately benefit the mining industry and the case for these tax offsets rests on the assumption that the only purpose of fuel taxes is to pay for our roads. Yet these taxes also play a part in reducing carbon pollution and funding government services. There is also a risk that tax cuts for particular sectors such as 'innovative' firms will reward investments that would have been made anyway and create new tax avoidance opportunities.

A good example of tax reform that would improve the efficiency of investment as well as housing affordability is to reduce the '50% discount' on taxes for capital gains (income from assets such as housing) and reduce deductions for such investment ('negative gearing'). This would reduce speculative investment in rental properties chasing capital gains and remove distortions in the tax treatment of investment income. Part of the proceeds could be used for more effective incentives for new investment, especially in affordable housing and by institutional investors. Curbs on 'negative gearing' would also help reduce household debt, which is among the highest in the OECD and is a far greater economic risk than our below-average public debt level.

Billions of dollars in public revenue are lost to international corporate tax avoidance practices such as shifting debts and expenses to higher tax jurisdictions and profits to low-tax jurisdictions or tax hideouts. We welcome the government's recent steps to improve the transparency of these cross-border transfers and share information with overseas tax authorities. Given the seriousness and scale of this problem, more should be done. We propose tightening the 'thin capitalisation' rules to curb artificial debt-shifting and new requirements to publish information on the 'beneficial ownership' of companies and trusts. At a minimum, the present requirement for the Australian Taxation Office (ATO) to publish

---

<sup>17</sup> Kouparitsas, M et al (2016), Op.Cit. Discussed in ACOSS (2016), 'Treasury Laws amendment (Enterprise tax plan) Bill 2016, Submission to Senate Economics Legislation Committee'. Available: <http://www.acoss.org.au/wp-content/uploads/2016/09/ACOSS-submission-to-the-Treasury-Laws-amendment-Enterprise-tax-plan-Bill-2016.pdf>



information on the incomes and tax paid by public companies with over \$100 million in annual income should extend to private companies and trusts with the same income.

## A note on costings

ACOSS is committed to presenting considered, evidence-based and responsible proposals to government for budget reforms. Crucial to this process is our capacity to model impacts on revenue and expenditures. As a result of cuts in federal funding, ACOSS no longer has access to an up-to-date affordable modelling tool like Stinmod to run costings for our policy proposals. Previously, ACOSS used the Stinmod interface developed by NATSEM, but this has not been updated since 2013 when NATSEM lost federal funding. As such, costings in this submission are based on data from 2012/13, with annual indexation. As a result, our budget impact assessments are estimates.

Lack of public access to affordable modelling tools like Stinmod limits the capacity of policy and advocacy organisations to develop comprehensive policy proposals, particularly budget proposals. ACOSS understands that Treasury will be making its own model public at some stage. It is important that government fund a user-friendly interface of its microsimulation model that is accessible to organisations like ACOSS so that they can reliably model policy proposals.

## 1.2 Overview of recommendations

We propose modest additional expenditures of the order of \$8 billion in 2017-18 in key priority areas, which will be substantially funded by savings measures worth an estimated \$9.7 billion, resulting in a net saving of \$1.7 billion. In 2018-19, our budget proposals will save \$19.9 billion, achieving a net saving of \$9.4 billion after delivering on our spending proposals.

Importantly, the expenditure savings and reductions in poorly targeted tax breaks would accumulate over time, making room in the budget for necessary future expenditures in such areas as health, aged care and disability services as the population ages.

The budget deficit would be reduced by \$9.4 billion in 2018-19 representing 0.5% of GDP, almost halving \$19 billion deficit for that year.<sup>18</sup> More importantly, in future years the impact of the savings measures would grow, helping offset necessary increases in the cost of essential services including health, aged care and the NDIS.

Key expenditure and revenue proposals are summarised in the table below.

---

<sup>18</sup> Weight D, Davidson P, Makeham-Kirchner A, Watt D, Bartsch I, Gobbett H (2016), 'The 2016-17 Budget: a quick guide' Available: [http://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/rp/rp1516/Quick\\_Guides/Budget1617](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1516/Quick_Guides/Budget1617)



Table 1: Summary of recommendations

	2017-18		2018-19	
	Cost (\$m)	Saving (\$m)	Cost (\$m)	Saving (\$m)
<b>EXPENDITURE MEASURES</b>				
Increase of allowance payments for single people by \$54 a week	1900		1950	
Indexation of allowance payments to wages as well as prices	100		110	
Replacement of working credit scheme with income bank	300		310	
JobActive improvements	100		100	
Reform family payments	1200		1240	
Establishment of Affordable Housing Growth Fund	750		1000	
Review of and increase to Commonwealth Rent Assistance	775		800	
Effective preventive health mechanisms	150		154	
Increased investment in affordable, accessible dental care	1200		1230	
Removal of increased co-payments for PBS medications	450		540	
Restoration of community service funding levels to pre 2014-15 Budget Levels	0		1886	
Indexation of community services funding to wages	379		391	
Extension of deductible gift recipient status	700		800	
<b>TOTALS</b>	<b>8004</b>	<b>0</b>	<b>10531</b>	<b>0</b>
<b>TAX AND SAVINGS MEASURES</b>				
Exemption of 50% of personal capital gains from Capital Gains Tax to be reduced from 50% to 25% over 10 years		0		500



	2017-18		2018-19	
	Cost (\$m)	Saving (\$m)	Cost (\$m)	Saving (\$m)
Phase out tax concessions from the disposal of small business assets		150		300
Phase out deductions for personal investment expenses ('negative gearing')		150		300
Superannuation fund earnings and a new health and aged care services fund		0		1300
Medicare Levy changes		4000		4100
Tightening of age-based tax concessions		700		700
Curbing tax avoidance through private trusts		0		1500
Curbing tax avoidance through private companies		0		1200
Review of tax concessions		400		500
Curbing tax avoidance by companies operating internationally		0		500
Abolition of fuel tax credits for off-road use		0		2000
Abolition of immediate deduction for mining exploration		500		300
Sugar tax for sweetened drinks		0		500
Changes to alcohol excise		0		2300
Removal of Private Health Insurance Rebate (redirecting half the savings to public hospitals, community-based health services, dental health services and preventative health services.)		3400		3500
Abolition of Extended Medicare Safety Net		420		430
<b>TOTALS</b>	<b>0</b>	<b>9720</b>	<b>0</b>	<b>19930</b>
<b>TOTAL COST</b>	<b>\$8,004</b>		<b>\$10,531</b>	
<b>TOTAL SAVINGS</b>	<b>\$9,720</b>		<b>\$19,930</b>	
<b>NET TOTAL (savings)</b>	<b>\$1,716</b>		<b>\$9,399</b>	

Note: Table only includes recommendations with measures that are \$100 million and over.

## 2 Raising adequate revenue for public needs

Australia is the sixth lowest taxing country of 34 OECD countries, ahead of only Mexico, Chile, the United States, Switzerland and Korea.<sup>19</sup> In the year of the GFC, tax revenue fell by 2% of GDP. Eight years later, in 2015-16, it was 21.9%: 1.8% of GDP less than its pre-GFC level of 23.7% of GDP.<sup>20</sup> The main reason for this slow and halting revenue recovery is that the mining boom has subsided. It has not been replaced by new drivers of economic growth. In addition, eight successive tax cuts were offered during the boom years, and poorly designed tax concessions (especially for superannuation) were expanded.

As indicated in the Overview, it is clear that both Federal and State tax revenues will have to rise in future years to help restore public budgets and meet the cost of services for an ageing population, including funding growing areas of priority expenditure such as the National Disability Insurance Scheme and needs-based schools funding. This should be done in a way that minimises any harm to equity or economic development. Income tax bracket creep cannot do all the work to restore public revenue. On the other hand, we cannot afford a repeat of the tax cuts that seriously eroded income tax revenues during the 2000s. Income taxes are the fairest way to raise public revenue and governments should strengthen that tax base, not undermine it. This can be achieved by removing or reducing the impact of the most poorly designed, inefficient and inequitable tax shelters.

Whenever the income tax base is narrowed by deliberate tax shelters or unintended loopholes, this means that higher tax rates are required to raise the same amount of revenue. There is a case for taxing investment income at lower rates than income from paid work on economic efficiency grounds given that capital is more mobile and sensitive to tax levels. It is vital, however, to ensure that taxes on different investment incomes are as consistent as possible. Otherwise, the tax system will distort economic decision-making in ways that are harmful to Australia's economic development.

### 2.1 Taxing investment income fairly and consistently

One of the most harmful distortions in the tax treatment of investments is the 50% discount on tax rates for capital gains received by individuals and trusts. Treasury estimates that the lost revenue from this tax break costs \$6 billion per annum.<sup>21</sup> This encourages excessive

---

<sup>19</sup> OECD, 'Revenue Statistics, OECD Member Countries: Comparative Tables'. Available at: <https://stats.oecd.org/Index.aspx?DataSetCode=REV> Data for 2013.

<sup>20</sup> Morrison, Scott and Cormann, Mathias (2015): 'Mid-Year Economic and Fiscal Outlook 2015-16', Commonwealth of Australia, Canberra. Available: [http://www.budget.gov.au/2015-16/content/myefo/download/MYEF0\\_2015-16\\_Final.pdf](http://www.budget.gov.au/2015-16/content/myefo/download/MYEF0_2015-16_Final.pdf)

<sup>21</sup> Treasury (2016), 'Tax Expenditures Statement 2015', Commonwealth of Australia. Available: [http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2016/Tax%20Expenditures%20Statement%202015/Downloads/PDF/2015\\_TES.ashx](http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2016/Tax%20Expenditures%20Statement%202015/Downloads/PDF/2015_TES.ashx)



speculative investment in property and other assets yielding capital gains and it is one of the reasons for our inflated home prices. The concessional treatment of capital gains compared with other investment income (such as interest and active business income) diverts investment from other purposes as well as fuelling boom and bust cycles in the economy. The concessional tax treatment of capital gains also overwhelmingly benefits the top 20% of taxpayers, who receive two-thirds of all capital gains. We propose that this concession be halved, so that three-quarters of capital gains are taxed.

The 'Henry Report'<sup>22</sup> recommended a common (lower) tax discount for most major forms of investment income apart from superannuation and owner occupied housing. This would increase tax rates on capital gains and reduce those applying to other investment incomes such as bank interest and housing rents. This proposal has merit but is best introduced as part of a wider reform of the tax system.

This tax distortion is exacerbated by the unlimited deductions for losses on investments in property and other assets yielding capital gains such as shares, agricultural schemes, and collectables. Australia is unusually generous in placing few restrictions on these deductions. This has encouraged the practice of 'negative gearing' where investors (especially in property) deliberately incur losses on their investment for a number of years to maximise deductions against their other income. These deductions (including interest on loans) are poorly matched with income from the investment, which mainly takes the form of capital gains. The deductions are typically claimed against wages, which are taxed every year at the individual's marginal tax rate, but income from these investments mainly takes the form of capital gains which are only taxed at half that rate, and often years later when the asset is sold. The result is an even stronger tax bias in favour of debt-financed investment in property shares and other assets.

Negative gearing is discussed further in Chapter 5 (Housing). Our proposal is to quarantine deductions for expenses relating to passive investment in housing, shares, collectables and similar assets purchased after 1 January 2017 to offset income received from those assets, including capital gains realised on their subsequent sale. Assets acquired before that date would be 'grandfathered' so that deductions can still be claimed under the present rules. Part of the revenue saved would be devoted to a two-tier rental housing investment incentive (tax offset) for the construction of new dwellings whose building costs fall below a (relatively high) value. The incentive would be paid at a substantially higher rate (either as a tax offset or direct payment) for the construction of new dwellings used to provide affordable housing (where rents are held at least 20% below market rents). This incentive, unlike the existing building depreciation allowance, would be available for a maximum of ten years following construction. Consideration should be given to replacing the existing 2.5% 'capital works allowance' for dwellings built after 1985 (which is poorly designed and applies for up to 40

---

<sup>22</sup> Henry Review (2010), 'Australia's Future Tax System' Commonwealth of Australia, Canberra. Available: [https://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs\\_reports.htm](https://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm)





years after construction) with the new incentive, which would increase revenue savings from the reform.

The new rental housing incentive would form part of a wider set of affordable housing policies discussed in Chapter 5. Unlike negative gearing, they should strengthen investment in new housing stock and could support institutional investment in rental housing. As part of the broader affordable housing strategy in Chapter 5, targets should be set for the share of housing attracting the incentive that is affordable. The impact of the incentive on rental housing investment, especially affordable housing, should be reviewed within three years of its implementation.

In addition to the 50% 'discount', the sale of certain small business assets attracts further concessions: the 50% tax discount is doubled and there are exemptions for capital gains held for over 15 years and those used for 'retirement purposes.' Together, these concessions mean that many small business owners can avoid paying Capital Gains Tax (CGT) altogether, an outcome that is inequitable and hard to justify.

The original purpose of the additional small business concessions was to enable small business owners to use the sale of their business assets to fund their retirement. However this is a risky approach to retirement saving and these special tax breaks encourage over-investment in business assets as against other strategies to improve business profitability and to save for retirement. Small business owners should be encouraged to save for their retirement through superannuation rather than by avoiding tax on capital gains.

The integrity of CGT would also be strengthened by our recommendations to reduce opportunities for the avoidance of CGT by shifting assets into self-managed superannuation funds, discussed below.

### **Recommendation 1: Capital Gains Tax**

The exemption of 50% of personal capital gains from Capital Gains Tax should be reduced from 50% to 25%, phased in over ten years.

Saving: \$0 (\$500 million in 2018-19)

### **Recommendation 2: Small business Capital Gains Tax concessions**

The following tax concessions for capital gains from the disposal of small business assets should be phased out from 1 July 2017:

- the additional 50% discount for these capital gains;
- the exemption for gains on assets held for over 15 years; and
- the exemption for gains used for retirement purposes.

Saving: \$150 million (\$300 million 2018-19)



### Recommendation 3: Deductions for personal investment expenses

- (1) Income tax deductions for expenses (such as interest payments on debt) relating to passive investments in assets yielding capital gains (such as housing, shares and collectables) should be limited to income received from those assets, including capital gains realised on subsequent sale. This should apply to all new investments of this type entered into after 1 January 2018.
- (2) Part of the revenue saved from this measure should be used to introduce a two-tier rental housing investment incentive paid as an annual tax offset for a fixed period (such as 10 years) in respect of new dwellings or improvements for residential rental purposes, below a fixed construction cost. A higher rate would apply to dwellings defined as 'affordable rental housing', as part of a wider package of incentives to support investment in affordable housing.

Saving: \$150 million (\$300 million in 2018-19)

## 2.2 Adequate, fair and sustainable retirement incomes

The current set of superannuation and age-based tax concessions are not fit for purpose and disproportionately benefit people on higher incomes. Along with the Age Pension and essential services such as health and aged care, their purpose should be to enable people to achieve an acceptable living standard in retirement. Instead, they have become a wealth and estate management tool for higher income earners, who do not need additional public support for their retirement, and are unlikely to rely on an Age Pension in any event. This is undermining the personal income tax base for older people at a time when expenditures on health and aged care for an ageing population are projected to increase strongly. At the same time, tax incentives for contributions are skewed towards high income earners and provide little or no benefit to people with low incomes.

Superannuation tax concessions are the largest component of tax expenditures, totalling \$30 billion in 2016-17, almost as much as the cost of the Age Pension.<sup>23</sup>

Far from alleviating budget pressures as the population ages, current superannuation tax expenditure settings are contributing to our budget problems. In 2012, some 30% of the value of superannuation tax breaks goes to the top 10% of income earners and only 20% are received by the bottom 50% of income earners.<sup>24</sup> Men in the top 10% of the wage distribution receive more from government in superannuation tax exemptions than they would if they received the full Age Pension.<sup>25</sup> The Federal Government has taken some good reforms in this area, and we warmly welcomed some of the major components of this package.

---

<sup>23</sup> Australian Government (2016) 'Budget Statement No 1', Commonwealth of Australia.

<sup>24</sup> Treasury (2013) 'Highlights of Treasury paper presented to Superannuation Roundtable in April 2012', Commonwealth of Australia.

<sup>25</sup> Ibid



However, this needs to be seen as a first stage of further reform that must remain a priority for fixing the retirement income system, so that it can deliver security for the community, particularly people on low and modest incomes, and for the long term.

## Taxation of superannuation contributions

Tax concessions for superannuation contributions cost \$16 billion, mainly due to the flat 15% tax applied to employer contributions of up to \$30,000-35,000 a year. This concessional tax rate is inequitable, saving many high income earners over 30 cents in tax per dollar contributed by their employers, while low income earners pay as much tax on their superannuation as they do on their wages. Individuals can also contribute up to \$180,000 a year 'after tax' (e.g. voluntary employee contributions) and they can then take advantage of the tax breaks for super fund earnings (discussed below). In addition, they can 'bring forward' up to three times this amount in a single year. As a result, many high income earners are able to use superannuation as a general wealth accumulation and bequest planning device, since the amounts they can accumulate in their accounts are well above what they need for a decent living standard in retirement.

We warmly welcomed four changes to the tax treatment of contributions announced by the government in the 2016 budget, which make the system fairer than it is now:

- (1) The restoration of a tax offset for contributions (now called 'Low Income Superannuation Tax Offset' (LISTO)) for individuals earning less than \$37,000 a year: This ensures that individuals below the tax free threshold do not pay more tax on their super than they would otherwise pay on their wages (an estimated 1,100,000 people earn less than \$20,000, of whom 60% are women).
- (2) The reduction in the annual 'cap' for concessional contributions from \$30,000-35,000 to \$25,000 (only the top 3% of super fund members contribute more than this).
- (3) Extension of the existing 15% 'surtax' for contributions for high income earners to individuals earning \$250,000 to \$300,000 (only the top 1% of wage earners are affected).
- (4) Non-concessional contributions would be capped at \$100,000 a year though the three year 'bring forward' provision remains in place.

At the same time, three backward steps were taken, which will mainly benefit high income earners:

- (1) A new tax deduction for employee contributions, which would mainly benefit people on the top tax rate.



(2) Extension of tax breaks for 'catch up contributions':

This would mainly benefit men with high incomes rather than women with low incomes, since few people can afford to contribute over the proposed annual 'cap' of \$25,000.<sup>26</sup>

(3) An increase in the rebate for 'spouse contributions' which again mainly benefits men on high incomes, who can afford to contribute for their partner.

Together, these poorly targeted new concessions cost \$1.5 billion.<sup>27</sup>

The government's superannuation reforms help prevent low income earners from being financially worse off if they invest in super, and curb the largest tax breaks for high income earners. Yet they leave the flawed and complex structure of tax breaks for contributions unchanged. These should be a simpler system in which contributions are taxed at the employee's marginal tax rate and an annual superannuation rebate is paid into superannuation accounts. Tax would be deducted by employers from the contributions they forward to superannuation funds and the rebate would be paid by the ATO into the fund at the end of the tax year.

The rebate would be structured according to a '100-20-20' formula: 100% rebate up to a low level of annual contributions, plus a 20% rebate up to an annual concessional contributions cap of \$15,000. The purpose of the 100% (dollar for dollar) component of the proposed rebate is to boost superannuation savings for people on very low incomes, especially women in low paid part time jobs.

The purpose of the 20% rebate is to support compulsory saving for retirement and encourage voluntary saving to achieve an acceptable standard of living in retirement, taking account of Age Pension entitlements.

The proposed rebate would simplify the system and make tax support more visible to encourage retirement saving. Although it would not be income-tested, it would greatly improve equity in superannuation. Up to the annual cap, each dollar contributed would attract the same tax concessions (100% and 20%) regardless of income level and the source of the contribution. It is consistent with the superannuation reform proposals in the Henry Report, except that it would not reduce employees' current disposable incomes. It would leave the majority of superannuation fund members better off in retirement, while curbing concessions for high income earners.

The annual contributions cap would be adjusted to ensure that the replacement of existing tax concessions for contributions with the new rebate is revenue neutral (so the \$15,000 figure is illustrative).

---

<sup>26</sup> The Grattan Institute estimates that only 51,000 women earning less than \$79,000 a year make pre-tax contributions of more than \$25,000, compared to 153,000 men earning more than \$79,000 a year (Grattan Institute (2015), 'Superannuation tax targeting').

<sup>27</sup> ACOSS (2016), 'The Government's superannuation reforms: How to ensure super works for all, not only the well-off'. Available: <http://www.acoss.org.au/wp-content/uploads/2017/01/acoss-brief-onGovernments-super-policy16.pdf>



To limit tax concessions for superannuation fund earnings and benefits for people contributing large amounts to superannuation, the 'non-concessional contributions cap' should be reduced from three times the (now lower) concessional cap, and people should no longer be allowed to accumulate the annual cap over a three year period. Higher contributions caps for older workers and lifetime contribution caps may appear to be fair at face value, but in overall terms they mainly benefit people on the highest incomes, who have the greatest capacity to take advantage of these concessions. They are also contrary to the purpose of superannuation which is to support long term saving, rather than 'last minute' contributions.

#### **Recommendation 4: Superannuation contributions**

- (1) All tax concessions for superannuation contributions (including the 15% employer contributions tax rate, deductions for contributions, and rebates for contributions by low income earners and for spouses) should be replaced in a revenue neutral way by a two-tier annual rebate paid into the fund, that is capped at a contribution level sufficient to support (along with the Age Pension) an acceptable retirement income for a typical worker.
- (2) The rebate would be structured as follows:
  - 100 cents per dollar contributed from any source up to \$500 (indexed to movements in average fulltime earnings), to support retirement saving by low paid part time workers and replace the Low Income Superannuation Tax Offset;
  - plus 20 cents per additional dollar contributed from any source up \$15,000 (indexed to movements in average fulltime earnings).
- (3) The rebate should be reduced to the extent that an individual withdraws funds from their superannuation account in the same year as they make a contribution, so that only net additions to savings attract a tax concession.
- (4) The annual 'non-concessional contributions cap' should be reduced to three times the new concessional cap, and the ability to contribute up to three years' contributions within the cap in a single year should be removed.
- (5) The 'catch up' provisions for concessional contributions should be abolished.

Saving: revenue neutral

#### **Encouraging later retirement**

To keep the economy growing and fund essential services as the population ages, it is vital that more mature-age people retire later, or retire gradually by working on a part time or temporary basis after leaving their fulltime jobs. One way to encourage people to do so is to raise the preservation age for access to superannuation from 55 years so that it eventually



meets the forecast Age Pension age of 67 years (with important exemptions for particular groups).

A higher qualifying age for the Age Pension cannot be justified because this would mainly impact on older people with the lowest incomes and the least choice over the timing of retirement. This is because many older people have a disability, chronic illness or have to care fulltime for a family member.

In contrast, a higher superannuation preservation age would mainly affect those who have greater choice over the timing of retirement because they have substantial savings. It should be kept in mind that those savings, and the tax concessions that support them, are intended for retirement purposes rather than 'early retirement'.

The preservation age should continue to rise beyond the legislated age of 60, at one year per annum from 2025, until it reaches age 67 in 2032.

A higher preservation age is likely to have a substantial impact on the workforce participation decisions of those who do have a choice to retire later (mainly people on higher incomes). It would also send a strong signal to employers that people are generally expected to continue paid work until at least 67 years.

It is important to emphasise that this reform would not begin to affect access to superannuation until 2025, by which time we expect typical retirement ages will have increased significantly. Nevertheless early access arrangements should be established for individuals who have little choice but to retire sooner due to disabilities or caring roles. Options include allowing access from age 60 (the preservation age that will apply when the proposed reform commences in 2025) for people whose impairments or caring roles would ordinarily qualify them for social security payments (Disability Support Pension or Carer Payment) whether or not they actually receive those payments. Account should be also taken of the lower life expectancy of Aboriginal and Torres Strait Islander peoples.

Alternately, withdrawals could be allowed earlier than the preservation age for any purpose up to modest annual and lifetime limits. If implemented in conjunction with an increase in the level of compulsory saving this should have no adverse impact on living standards in retirement. In any event many people on low incomes have as much need to draw upon their savings (for example due to unemployment, or to meet child rearing costs) during working life as they do after retirement.

### **Recommendation 5: Superannuation preservation age**

The preservation age should be progressively raised from 60 years (the present legislated target) to 67 years by 2032, subject to the following exceptions:

- (1) Allow continued access to superannuation from 60 years for individuals who are unable to continue in paid work due to disabilities, poor health or caring roles. This may include those whose impairments or caring roles would ordinarily qualify them





for certain social security payments (such as the Disability Support Pension or Carer Payment)

- (2) Alternately, if superannuation guarantee contributions are increased above 9.5%, allow all superannuation fund members, after at least five years of saving, to withdraw a modest proportion of their superannuation balance for any purpose, within lifetime limits, before they reach the preservation age.
- (3) In raising the preservation age, make allowance for the lower life expectancy of Aboriginal and Torres Strait Islander peoples.

Saving: \$0 (\$0 in 2018-2019)<sup>28</sup>

## Taxation of superannuation after retirement

Once a superannuation account begins paying a pension, the interest earnings of the fund are no longer taxed (in the 'accumulation phase' they are taxed at 15%). Together with the removal of taxes from superannuation benefits from 2007, this means that income from superannuation is untaxed. As well as seriously eroding public revenue, this gives rise to tax avoidance opportunities that have little or nothing to do with saving for retirement.

People can avoid paying tax on capital gains accrued through their working lives by keeping assets in a self-managed superannuation fund until they reach the age of 60 and the fund pays them a pension, at which point the fund's earnings, including capital gains, are tax free.

In addition, using 'transition to retirement' pensions and by other means, individuals aged 55 years and over, older people can 'churn' their wages and investment income through their superannuation accounts and reduce their effective tax rate on at least part of that income to either zero or 15%. They can do so without actually saving more for retirement.

Individuals can readily avoid the existing 17% tax on superannuation assets passed to their estate by shifting superannuation assets from concessional to non-concessional accounts. In this way, superannuation has become an estate management tool as well as a tax avoidance tool.

The government has adopted some very welcome measures to reduce the scope for tax avoidance by high income and wealthy individuals by taking advantage of the excessively generous tax treatment of superannuation after retirement:

- A \$1.6 million limit on superannuation assets attracting the zero tax rate on fund earnings in the 'pension phase' (only the top 1% of fund members have this much wealth in superannuation).

---

<sup>28</sup> The Productivity Commission estimated if the preservation was increased to 65 by 2043, workforce participation among older workers would rise by around 2 percentage points in 2055 and revenue and expenditure savings of the order of \$7 billion would accrue in that year. See Productivity Commission (2015), 'Superannuation policy for post-retirement'.



- A 15% tax on fund earnings in 'Transition to Retirement' accounts (this will help curb the 'churning' strategies discussed above).
- Removal of the 'refund' of contributions tax after the death of a fund member.

These changes essentially reduce post-retirement tax concessions for a wealthy minority. However, as with contributions taxes, they do not alter the flawed structure of taxation of superannuation in the retirement 'phase'.

The Henry Report recommended that fund earnings be taxed at the same rate in both accumulation and retirement phases, though at less than 15%. Given the need to meet the growing cost of health and aged care services as the population ages (discussed below), and the fact that taxes on superannuation benefits have been abolished, there is a strong case for applying the standard 15% tax rate to fund earnings in both phases.

This would greatly improve the integrity of the income tax system for older people. It would also greatly simplify superannuation because there would no longer be any need to operate separate 'accumulation' and 'pension' accounts. In addition, steps should be taken to ensure that accrued capital gains from assets held in self-managed funds are properly taxed in retirement, and that the 17% tax on superannuation assets passed on to a fund member's estate cannot be avoided. The purpose of superannuation is to improve retirement incomes, not those of adult children.

The use of this churning strategy to avoid personal income should be curbed by subtracting any benefit payments from annual contributions attracting tax concessions so that only net contributions are taxed at the concessional rate.

#### **Recommendation 6: Superannuation fund earnings post-retirement**

- (1) The 15% tax on fund earnings in the 'accumulation' phase should progressively be extended to the 'pension' phase over a five-year period from July 2017 (with a 3% increase each year).
- (2) This tax should be offset by a 15% rebate (minus any imputation credits) for taxpayers over the preservation age whose income (including Age Pension, earnings and investment income) falls below that taxpayer's tax free threshold (taking account of the proposed adjustments to the Senior Australians and Pensioner's Tax Offset (SAPTO)). The rebate would be calculated each year by the ATO and deposited into a superannuation fund chosen by the taxpayer.
- (3) Ensure that capital gains accrued during working life are taxed appropriately when assets held within self-managed superannuation funds are disposed, or on retirement.
- (4) Ensure that transfers from superannuation accounts to the estates of deceased fund members (apart from spouses and dependent children) are taxed at the statutory rate (17%).



- (5) Revenue collected from these measures (which would rise substantially in later years) should be earmarked (along with the Medicare Levy increase in Recommendation 6 and changes to age –based tax concessions in Recommendation 7) for public expenditure on health, aged care and disability services.

Saving: \$0 (\$1,300 million in 2018-19)

## 2.3 Sustainable funding for health, aged care and the NDIS

As shown in the Overview, the main expenditure pressures on future public budgets are the growing cost of health, aged care and disability services. This is a social gain not a fiscal loss. As a wealthy country, it makes perfect sense to invest in services that enable us to lead healthier lives, to respond to the needs of an older population and to end the social and economic exclusion of people with disabilities.

To ensure that everyone benefits from improvements in health care and disability services, and resources are used cost-effectively, these essential services should be publicly financed and purchased, and offered to those who need them on a universal basis. This also strengthens the social compact between citizens and government that essential services are provided in return for the taxes we pay. The alternative – that ‘users pay’ and are helped to do so with government subsidies – leads to ‘two-tier’ systems that disadvantage people with low and modest incomes, the ‘capture’ of subsidies by relatively well-off individuals and service providers, higher overall costs to government and poorer outcomes.

While there is scope to improve the cost effectiveness of health care funding and services (including by abolishing the Private Health Insurance Rebate Extended Medicare Safety Net as proposed in Chapter 6), it is clear that future governments will lack the revenue they need to fund universal health, aged care and disability services. This goes to the heart of the budget challenges faced by Commonwealth, State and Territory Governments today.

Recent ‘flashpoints’ include unresolved dispute between the Commonwealth and State and Territory governments over the funding of health care, and the Government’s claim that the National Disability Insurance Scheme (NDIS) is ‘under-funded’. The NDIS is a visionary reform which, if implemented properly, will have far-reaching benefits for people with disabilities, carers and society. As with other social needs identified in this submission that have been neglected for years, guaranteeing decent services to people with disabilities and their carers is a major public financial commitment.

There has been recent political debate over whether there is a \$4 billion funding ‘gap’ for the NDIS and whether social security payments for financially vulnerable people should be cut to close it. This has caused distress to people with disabilities who rely on the NDIS as well as the sole parents, unemployed people, people with disabilities, and families with low incomes threatened with budget cuts. This is the wrong way to pay for major social reform.



A fair and sustainable solution must be found to fund essential health, aged care and disability services, based on people's 'ability to pay'. While this problem cannot be solved in a single budget, we propose that two steps be taken in this one:

- Strengthen the Medicare Levy
- Reform tax concessions for retired people that effectively exclude many people who can afford to do so from the obligation of paying personal income tax.

## Medicare Levy

The Medicare Levy has served Australia well as a funding source for essential health care services even though it does not cover their full cost. In 2013 there was bipartisan agreement, and broad public support, for an increase of 0.5% in the Medicare Levy (from July 2014).

In order to address the revenue challenge we face to fund universal services, one option debated is to increase the existing Medicare Levy by 0.5% to 2.5%. We conservatively estimate this would raise \$4 billion in 2017-18.<sup>29</sup>

Our preferred option, which would raise a similar amount, is to remove the exemption for holders of private hospital insurance from the Medicare Levy high-income surcharge (which increases the Levy by 1.0% to 1.5% for singles earning over \$90,000 and families with children earning over \$180,000). This is a more progressive approach as it only affects households that are very likely to have a capacity to pay. The removal of the exemption is unlikely to have a significant impact on private health insurance cover among these households since they are not income-constrained. In any event, as we argue in Chapter 6, a reduction in private health insurance cover is unlikely to reduce the cost to governments of public health care.

Estimates of the impact on public revenue and households at different incomes are given in the table below.

---

<sup>29</sup> Based on modelling of options to raise the Medicare Levy in 2016-17 undertaken by the Australian National University Centre for Social Research and Methods for 'The Australian' newspaper: 'Nick Xenophon's Medicare Levy plan.' 'The Australian' 16/2/17. <http://www.theaustralian.com.au/national-affairs/health/nick-xenophons-medicare-levy-plan-to-hit-families/news-story/79c98828faa2fa779604b73823a885c6>.

The revenue estimate is conservative since no account is taken of the impact of wage inflation or population growth from 2016 to 2017.

Table 2: Impact of Medicare Levy changes (in 2016-17)

Household income group	Average household income (\$)	Increase Medicare Levy by 0.5%		Remove surcharge exemption *	
		Average change in annual income (\$)	Average change in annual income (%)	Change in annual income for average earner (\$)	Change in annual income for average earner (%)
top 20%	278,000	-1,300	-0.5%	-4,200 (singles & families)	-1.5% (singles & families)
4th 20%	133,000	-353	-0.3%	-1,625 (singles only)	-1.25% (singles only)
3rd 20%	86,000	-145	-0.2%	-900 (singles only)	-1.0% (singles only)
2nd 20%	51,000	-63	-0.1%	0	0%
lowest 20%	24,000	-3	0%	0	0%
Revenue		\$4,000m		\$4,000m	

Source: Australian National University Centre for Social Research and Methods and ACOSS calculations. We have adjusted the average incomes for the income groups for inflation from 2013 to 2016.

\* Surcharge of 1.0% to 1.5% applies to singles with incomes above \$90,000 and couples or families with incomes above \$180,000, so the impact depends on family type as well as income. The estimated impacts shown here are for families and single people with average earnings for each household income group (shown in the second column) rounded to the nearest \$10,000.<sup>30</sup>

Due to the high 'tax free thresholds' for the Medicare Levy, a 0.5% increase in the Levy would be progressive, raising a higher share of income (0.5%) from the top 20% of households than from the middle 20% (0.2%) and the lowest 20% (0%). The impact on a middle-income family with two children (\$145 a year) would be much less than the Government's proposal to abolish Family Tax Benefit supplements for families with incomes below \$80,000 (costing the same family \$390 a year).<sup>31</sup> A similar low-income family would not be affected by the Medicare Levy increase but would lose \$780 a year under the

<sup>30</sup> Australian Taxation Office (2017), 'Income thresholds and rates for the Medicare levy surcharge' (webpage), available at: <https://www.ato.gov.au/individuals/medicare-levy/medicare-levy-surcharge/income-thresholds-and-rates-for-the-medicare-levy-surcharge/>

<sup>31</sup> This takes account of the related proposal to increase Family Tax Benefit (Part A) payments by \$10 per week per child.



Government's proposal. Unlike the Government's proposal, a higher Medicare Levy would raise revenue on the basis of ability to pay.

Our preferred option - to remove the exemption for holders of private hospital insurance from the Medicare Levy high-income surcharge - would be highly progressive. Only families in the top 20% of households earning over \$180,000 would be affected, paying an extra 1.5% of their income. Among single people without children, only those in the top three quintiles would be affected and the impact would rise with income. A single person earning \$90,000 would pay \$900 a year more, a single person earning \$130,000 would pay \$1,625 more and a single individual earning \$280,000 would pay \$4,200 more.

Many high income-earners affected by this proposal have already benefited from the recent tax cut of up to \$315 a year for individuals earning over \$80,000 a year. Those with incomes above \$180,000 will also benefit from the removal of the 2% temporary budget repair levy, which expires in July 2017.<sup>32</sup> For example, the single person earning \$280,000 in the example above would save \$2,315 from these two changes - reducing the overall cost of the removal of their Medicare Levy surcharge exemption to \$1,885 a year.

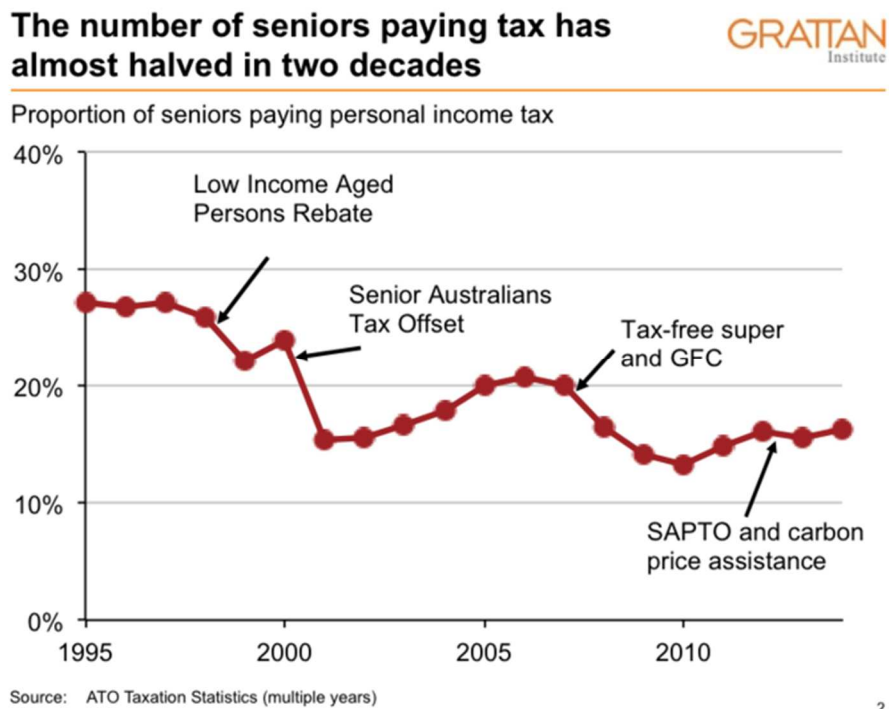
## Age-based tax concessions

Retirement-related tax concessions are seriously undermining the personal income tax base among older people. As the population ages, governments will face increasing and legitimate demands on health and aged care services. However, only 16% of individuals over the age of 64 pay any income tax, despite increases in the incomes of this age cohort from employment, investments and superannuation (figure 3). This is not sustainable.

---

<sup>32</sup> <https://www.ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-individuals/Temporary-Budget-Repair-levy/>

Figure 3: Proportion of seniors paying personal income tax



2

Source: Grattan Institute (2016), *The age of entitlement: age-based tax breaks*  
<https://grattan.edu.au/wp-content/uploads/2016/11/879-Age-of-entitlement.pdf>

Due to growth in user charges for aged care and the government's 2014 budget decision to cut the indexation of health funding for the States (reducing funding by \$14 billion in a decade's time), older people are legitimately worried that health and aged care services may not be available to them when they are needed. Australia faces a choice: should essential health and aged care services be paid for through user charges or by raising funds through the tax system based on people's ability to pay?

Security in retirement is about much more than superannuation and the pension. The other key pillars of a decent retirement are affordable housing (discussed in Chapter 5) and affordable health and aged care. There is little point in accumulating substantial funds in superannuation (supported by generous tax breaks) if a large share of this has to be spent on user charges for essential services. This is not an appropriate purpose for superannuation.

The fairest way to pay for the increasing cost of these services is through the personal income tax system so that people of all ages contribute according to their ability to pay. This requires major changes to age-based tax concessions:

1. reducing the generosity of tax breaks for superannuation post-retirement as proposed in Recommendation 6 (especially by taxing fund earnings in the retirement phase (but not benefits) at the same 15% rate as in the 'accumulation phase'); and





2. restricting the Seniors and Pensioners Tax Offset (SAPTO) to pensioners and reducing its generosity.

The revenue savings from these changes should be earmarked (though, as with the Medicare Levy, not strictly hypothecated), to restore sustainable funding for health and aged care services. The government should also give a commitment that essential health and aged care services will be universally available to those who need them, and publicly funded.

The SAPTO is a tax rebate for pensioners and individuals of pension age who have too many assets to qualify for the pension. The Treasury estimates its annual cost at \$700 million.<sup>33</sup> It began as a rebate to prevent individuals receiving the maximum rate of pension (with private income below the 'free area') from having to pay income tax. Over the years it has become a general tax free threshold of \$32,000 for singles and \$58,000 for a couple over the pension age 64 years, in addition to any tax free superannuation payments. This is 50% higher than the effective tax free thresholds for people of working age, which is inequitable. It cannot be justified on work incentive grounds since additional tax breaks for older workers are as likely to encourage them to retire later because they can reach their retirement income target sooner.

We propose that the SAPTO be replaced with a rebate for people eligible for pensions only, which is sufficient to exempt the pension and private income within the 'free area' from income tax, and no more.

In addition, the Medicare Levy 'tax free' threshold for older people should be adjusted to the same level that applies to individuals under pension age.<sup>34</sup>

### **Recommendation 7: Strengthening the Medicare Levy**

The exemption from the Medicare Levy high-income surcharge (applying to families earning more than \$180,000 and single individuals without children earning more than \$90,000) who take out private hospital insurance cover should be abolished from July 2017.

Saving: \$4,000 million (\$4,100 million in 2018-19)

### **Recommendation 8: Age-based tax concessions**

- (1) The SAPTO should be replaced by a tax offset for recipients of pension payments designed to exempt the pension plus private income within the pension 'free area' from income tax, restricted to individuals entitled to a social security pension.

---

<sup>33</sup> Treasury (2016), 'Tax Expenditure Statement 2015', Commonwealth of Australia, Canberra. [http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2016/Tax%20Expenditures%20Statement%202015/Downloads/PDF/2015\\_TES.ashx](http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2016/Tax%20Expenditures%20Statement%202015/Downloads/PDF/2015_TES.ashx)

<sup>34</sup> Grattan Institute (2016), 'The age of entitlement: age-based tax breaks' <https://grattan.edu.au/wp-content/uploads/2016/11/879-Age-of-entitlement.pdf>



- (2) The Medicare Levy exemption threshold for people over 64 years should also be equal to the relevant pension plus the 'free area'.

Revenue collected from these measures should be earmarked (along with the Medicare Levy) for public expenditure on health and aged care services along with revenue from the superannuation tax changes in Recommendation 6.

Saving: \$700 million (\$700 million in 2018-19)

## 2.4 Strengthening the personal income tax system and curbing avoidance

Tax avoidance arrangements have proliferated over the last few decades due to the failure of successive governments to remove shelters and loopholes from the income tax system. The three most important of these are superannuation, the treatment of capital gains and related deductions, and the inconsistent tax treatment of different entities especially private trusts and companies. Reforms to reduce the damage done to the integrity of the tax system by the first two of these tax shelters were discussed above, but if these changes are implemented there is a risk that high income earners will turn to the remaining tax shelters, especially private trusts and companies.

Private trusts (especially discretionary trusts) can be used to avoid income tax by splitting income with a family member, delaying or avoiding payment of CGT, and by passing on the benefits of investment tax breaks from the trust to its beneficiaries (unlike the tax treatment of companies). Although the intention of the current tax policy is that any income that is not taxed in the hands of beneficiaries is instead taxed in the hands of the trust, this is not consistently applied. In addition, as 'Operation Wickenby' revealed, private trusts are often used to evade tax by making transfers of assets more difficult to trace. Private trusts are much more widely used than in the past both for investment and active business purposes. The number of private trusts grew by 50% from 470,000 to 713,000 over the decade to 2012.<sup>35</sup> A major reason for this is their use to avoid income tax.

The Review of Business Taxation (Ralph Review)<sup>36</sup> recommended that private trusts be taxed as companies to improve consistency in the tax treatment of different entities. This would also curb tax avoidance through private trusts by imposing a 30% withholding tax on income received by the trust, and by denying them the 'flow through' of tax preferences which applies to trusts (but not companies). On the other hand, it would enable high income

---

<sup>35</sup> Australian Taxation Office (2012): 'Taxation Statistics, Commonwealth of Australia. [2012-13]', Trusts, table 1. Available: <https://data.gov.au/dataset/taxation-statistics-2012-13/resource/79aeec03-7596-47f8-86db-b02ca6496699>

<sup>36</sup> Review of Business Taxation (1999): 'A Tax System Redesigned: More certain, equitable and durable'. Available: <http://www.rbt.treasury.gov.au/>



earners to exploit the gap between the company tax rate and higher personal tax rates by retaining income in the company, so this weakness in the tax treatment of private companies would also have to be removed.

We propose that private trusts (both fixed and discretionary) be taxed as companies, subject to exemptions along the lines recommended in the Ralph Review, including complying superannuation funds and disability trusts.

The use of 'cashbox companies' to avoid personal income tax by retaining income in a private company (where it is taxed at 30% rather than the owner's marginal tax rate) should be curbed by taxing retained earnings (minus a reinvestment allowance) in private companies at the top marginal tax plus Medicare Levy. This tax treatment would also apply to private trusts taxed as companies under the change proposed above. Where the owner of the private company would ordinarily face a lower personal tax rate than 30%, they could distribute company income to themselves in the form of dividends or higher wages.

This reform would be especially important if the company tax rate is lowered for small to medium sized entities (mainly private companies) as the government proposes. This would otherwise provide windfall gains to high income-earners using companies as business vehicles.<sup>37</sup>

The use of private companies and trusts to avoid or evade tax is facilitated by a lack of transparency in public reporting, especially regarding the ownership, control, income and assets of private trusts. The ATO publishes tax information for public companies with income exceeding \$100 million and private companies with turnover exceeding \$200 million. There is no sound reason for the lower threshold for private companies, and the absence of public data on high-income trusts is a glaring gap in our tax transparency regime.

The House of Representatives Taxation Committee recommended that the government give Treasury an ongoing mandate to conduct prioritised reviews of tax expenditures and publish the results.<sup>38</sup> If the government subjected tax expenditures to the same rigorous budget scrutiny as direct expenditures, it could save billions of dollars every year. Large tax expenditures have risen by \$22 billion in the last two years and now amount to 7.8% of GDP.<sup>39</sup>

Revenue savings from the handful of major tax expenditures could save at least as much as is achieved through regular reviews of a much larger number of smaller direct expenditures. For these reasons, the OECD has suggested that tax expenditures that are

---

<sup>37</sup> We understand the proposed company tax reductions would only apply to active businesses and not companies used for passive investment purposes (such as investment in real estate where this is not carried out as an active business); but it is not straightforward to distinguish between the two, so any corporate tax cut is also likely to benefit many wealthy passive investors.

<sup>38</sup> Standing Committee on Tax and Revenue (2015), 'The Tax Expenditures Statement', Nov 2015. Available: [http://www.aph.gov.au/Parliamentary\\_Business/Committees/House/Tax\\_and\\_Revenue/Tax\\_Expenditures/Report](http://www.aph.gov.au/Parliamentary_Business/Committees/House/Tax_and_Revenue/Tax_Expenditures/Report)

<sup>39</sup> Ibid.



comparable with direct expenditures should be included within any public expenditure 'ceilings', and the following guidelines were developed under its auspices:

- 'Under nominal or structural deficit or operating/current balance rules tax expenditures should either be included in the total expenditure cap that is set every year during budget preparation or in a special tax expenditure cap.'
- 'All tax expenditures should be reviewed in the same way as regular expenditures in the annual budget process. They should be reviewed by the financial staff of spending ministers and the budget bureau in the same way as regular expenditures.'<sup>40</sup>

Tax expenditures that are poorly targeted or difficult to justify include:

- the SAPTO, discussed above;
- the Private Health Insurance (PHI) Rebate<sup>41</sup>; and
- 'grandfathering' arrangements for previous tax concessions for non-superannuation termination payments and unused leave entitlements, apart from bone-fide redundancy payments.

### **Recommendation 9: The use of private trusts to avoid personal income tax should be curbed**

- (1) From 1 July 2018, private trusts (both discretionary and fixed) should be taxed as companies. This would not apply to collective investment vehicles of certain categories of excluded trusts including complying superannuation funds, disability trusts, and trusts established pursuant to court orders.
- (2) From July 2018, the ATO should extend its 'corporate tax transparency' data to provide information on all business and investment entities (including companies, trusts and partnerships) with annual total income over \$100 million.

Saving: \$0 (\$1,500 million in 2018-19)

### **Recommendation 10: Private companies**

From 1 July 2018, income retained in private companies, apart from a reinvestment allowance comprising a fixed proportion of the assets of the company, should be taxed at the top marginal rate of personal income tax plus Medicare Levy.

Saving: \$1,200 million in 2018-19

---

<sup>40</sup> OECD (2004) Best practice guidelines: off budget and tax expenditures. GOV/PGC/SBO(2004)6 at 4.

<sup>41</sup> This rebate is mainly paid as a direct grant, though some claim it as a tax offset. Proposed changes to the rebate are discussed further in Chapter 5.



## Recommendation 11: Tax expenditures

(1) From 1 July 2015 the following tax concessions should be removed or tightened:

- The Private Health Insurance Rebate should be abolished <sup>42</sup>
- 'Grandfathering' arrangements for previous tax concessions for non-superannuation termination payments and unused leave (apart from bone-fide redundancy payments) should be removed.

(2) The Government should identify those tax expenditures that have a similar character to direct expenditures, attribute them to the relevant expenditure Departments, and include them in an annual Expenditure Review process through a process of 'envelope budgeting.'

Saving: \$400 million (\$500 million in 2017-18)

## 2.5 Business taxes

Tax rules that apply to business activities impact investment behaviour and the efficiency of business models. As a general approach, business tax reform should aim to improve economic efficiency and the productivity of investment. The current business tax system distorts investment decisions in economically and environmentally harmful ways. Tax reform should remove harmful distortions and support productive economic activities that are likely to yield stable gains for investors, decent employment opportunities, and reduced environmental harm. Taxation rules should also ensure that business activities that yield profits are contributing fairly and efficiently to the collection of public revenue to meet public needs.

This submission argues for the removal of business tax concessions that are no longer "fit for purpose". This requires scrutiny of the purpose of each concession and whether that purpose remains important: Is that purpose being achieved, or has the concession arrangement developed into a tax loophole with harmful effects?

Globally, it is now recognised that governments must collaborate to prevent harmful and unfair tax avoidance and evasion by corporate and other business entities. The G20 countries have set the standard that: "Profits should be taxed where the economic activities deriving the profits are performed and where value is created." The OECD argues that tax cheating by multinational companies can "produce unintended and distortive effects on cross-border trade and investment" and that "it distorts competition and investment within each country by disadvantaging domestic players".<sup>43</sup> Further, multinational companies engaged in tax avoidance "may profit from these opportunities and have unintended competitive advantages

---

<sup>42</sup> The savings in direct expenses arising from this measure are costed in Chapter 4.

<sup>43</sup> OECD, 'Addressing Base Erosion and Profit Shifting', OECD Publishing, <http://dx.doi.org/10.1787/9789264192744-en>, 2013, p. 39.



compared with other businesses, such as small and medium sized enterprises, that operate mostly at domestic level”.<sup>44</sup>

The Federal Government has implemented some welcome reforms to tackle corporate tax base erosion and to prevent the shifting of profits offshore (called ‘base erosion and profit shifting’). However, more needs to be done. Too many corporations operating profitably in Australia pay little or no tax to contribute to the funding of public infrastructure and services. Improving the financial transparency of multinational companies operating in Australia would help change this behaviour. Transparency rules should extend to other legal entities (especially private trusts) that are often created to avoid accountability. Further, the ‘thin capitalisation’ rules designed to prevent the shifting of debt to Australia to avoid tax should be strengthened and the use of ‘tax havens’ or secrecy jurisdictions for this purpose should be discouraged.

Many existing business tax concessions benefit particular industries - especially those that are well established and influential - without meeting a clear public purpose. In doing so they indirectly disadvantage other industries, including emerging sectors. For example, the existing diesel fuel tax offset for off-road use, together with immediate deductions for mining exploration costs, disproportionately benefit the mining industry. There is no particular public benefit in special tax concessions for the mining industry over and above other economic activity that contributes to economic growth and employment opportunities. The original rationale for this tax offset was that the purpose of fuel excise was exclusively to fund publicly-used roads. This rationale is questionable. Fuel taxation is a mechanism for generating general government revenue. It also recognises the harmful effects on the environment of burning fossil fuels.

## **Recommendation 12: International business tax avoidance**

1. Base Erosion and Profit Shifting by companies operating internationally should be curbed by making the following changes from July 2018:
  - (1) Tighten thin capitalisation rules so that allowable debt deductions are based on a company’s global debt-equity ratio.
  - (2) Improve the transparency of reporting on business income and taxation flows by requiring public disclosure of the ultimate beneficial ownership of companies registered in Australia; requiring the ATO to publicly release ‘high level reports’ under the OECD country-by-country reporting initiative in regard to companies with turnover above \$750 million; and requiring the ATO to share information on the tax status of trusts and partnerships as well as companies with other tax authorities pursuant to international agreements.

---

<sup>44</sup> Ibid.



- (3) Apply special withholding taxes on transfers of funds to 'secrecy jurisdictions' that do not provide effective information exchange pursuant to international treaties.

Saving: \$500 million in 2018-19

### **Recommendation 13: Fuel tax credits**

Fuel tax credits for off-road use, except agriculture, should be abolished from July 2018.

Saving: \$2,000 million in 2018-19

### **Recommendation 14: Deductions for mining exploration**

The immediate deduction for mining exploration should be abolished from July 2017.

Saving: \$500 million (\$300 million in 2018-19)

## **2.6 Social taxes**

As in other wealthy countries, the social, health, and economic costs of harmful addictions are increasing in Australia, including the over-consumption of sugar (contributing to growing rates of obesity and diabetes and other chronic illnesses), and binge drinking (contributing to poor health outcomes, as well as domestic and community violence).

While these products are not necessarily harmful in themselves, over-use creates what economists call 'negative externalities': they impose costs on the wider community including immediate family and health services. Leaving decisions to consumers in markets where the price does not reflect both the personal and social costs from consumption leads to over-consumption, due in part to incentives for producers to encourage this, for example by advertising sugary drinks to children.

Higher tax rates on harmful products ('social taxes' or 'pigovian taxes') are a key part of effective strategies to reduce these social harms, though tax measures must be accompanied by effective regulation, promotion, and support services.

The objective of these taxes is not to increase public revenues in the long term (since well-designed social taxes reduce the consumption of harmful products) and do not necessarily include reducing overall consumption of related products such as gambling or alcohol (though in most cases that is a by-product of reform). The aim is to reduce consumption to the extent that there is clear evidence that it is socially harmful, and the market price fails to capture the full personal and social costs of harmful consumption

Social taxes should be embedded in comprehensive harm reduction strategies including regulatory reforms and direct expenditures on relevant services (especially preventive





health care programs, which are chronically under-funded compared with acute care<sup>45</sup>). This approach has been successfully used to reduce tobacco use, which is declining at all income levels (though it is still much higher among low income earners) due to comprehensive strategies pursued by governments to reduce tobacco addiction including through regulation (advertising, plain packaging), health promotion and taxation.

Unlike tobacco excise, 'social taxes' applying to gambling, alcohol, and sugar are applied inconsistently, leading to inequities and gaps in coverage.

## Sugar tax

Australia has one of the highest rates of obesity in the OECD and both are increasing (especially among children), triggering recent and future increases in the prevalence of chronic illness such as diabetes.<sup>46</sup> Obesity is rising dramatically in Australia: one in four adults are estimated to be obese, up from one in ten in the early 1980s, and about 7 per cent of children are obese. Excessive sugar consumption is linked to high levels of obesity and associated health problems, and should be curbed. A good place to start is to discourage the production and consumption of water-based drinks with added sugar, since these often have a very high sugar content and have no nutritional value.<sup>47</sup> A proposed tax on sweet beverages in the UK (to commence in 2018) will apply to drinks with sugar content above 5g/100ml and at a higher rate of up to 24p/litre for drinks with over 8g of sugar per 100ml. It is estimated to raise £520m a year, earmarked for preventive health and fitness programs for children. Soft drink manufacturers have already announced they intend to reduce the sugar content of their products to bring them under the thresholds for higher taxation.<sup>48</sup>

---

<sup>45</sup> Funding for preventive health care programs operated by non-government organisations was substantially cut in the 2014 Federal Budget.

<sup>39</sup> Combined rates of overweight and obesity were 63% in 2012, up from 56% in 1995 and 61% in 2007-8. There is no national strategy to prevent increases in obesity and no national authority to lead this work since the Australian National Preventive Health Agency was abolished in 2014. [PHAA (2016), 'Policy-at-a-glance – Prevention and Management of Overweight and Obesity in Australia Policy']

<sup>47</sup> See Obesity Policy Coalition <http://www.opc.org.au/downloads/positionpapers/policy-brief-reduce-sugary-drinks.pdf> and <http://www.opc.org.au/downloads/positionpapers/policy-brief-australian-tax-sugar-sweetened-beverages.pdf>

<sup>48</sup> Mexico introduced a 10% tax on drinks with high sugar content in 2014. After a year, sales of sugary drinks dropped by up to 12%. [WHO (2015), 'Using price policies to promote healthier diets'.]

Figure 4



Source: The Economist, 28/11/15

We propose a volume-based ‘sugar tax’ on water-based drinks with added sugar (not including pure fruit juices) along similar lines of the proposed British tax on sugary drinks. Revenue from these reforms should be earmarked for preventive health and health promotion programs, including healthy eating and sports programs in schools, and a public subsidy for the transport of fresh food to remote areas. In remote Aboriginal and Torres Strait Islander communities a fresh food transport subsidy would be a direct, equitable and cost effective way to improve health. This could be modelled on a Canadian program, ‘Nutrition North America’.<sup>49</sup>

These reforms should be undertaken as part of a wider strategy to reduce harmful consumption of sugar including regulatory reform (especially to restrict advertising targeting children and improve the transparency of labelling of food and beverages, and restrictions on the financing of sporting and similar activities by producers), and health promotion campaigns.

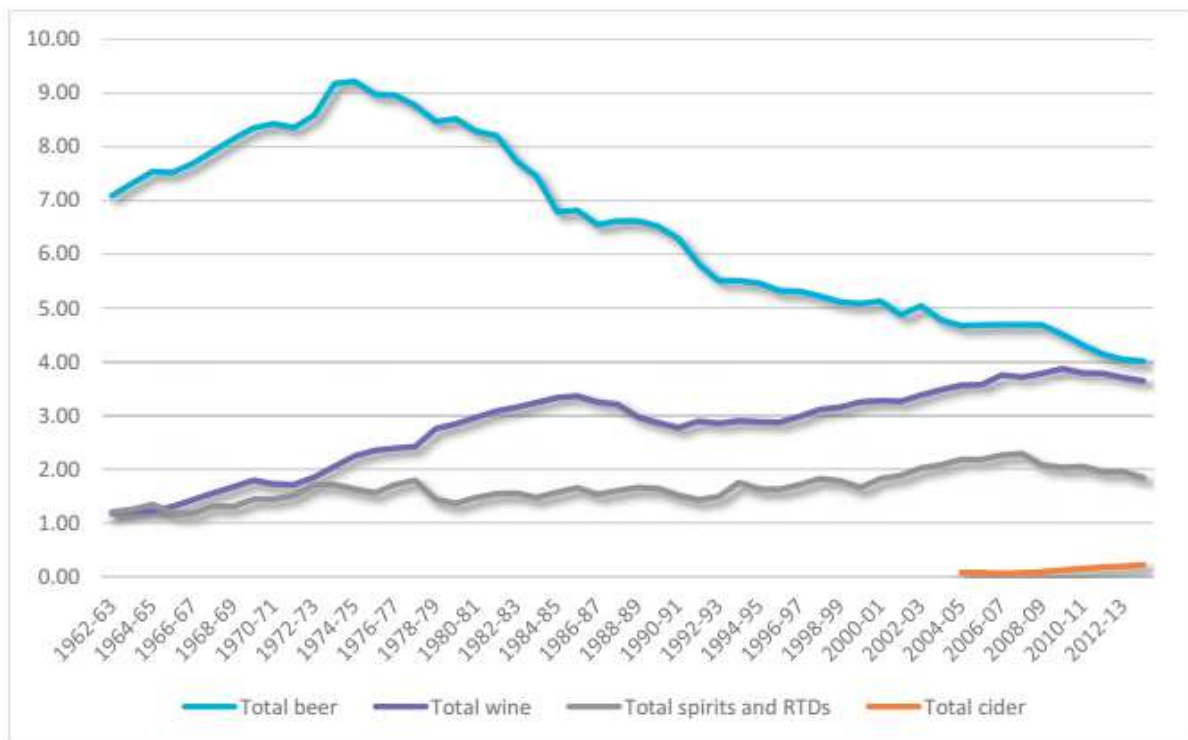
## Alcohol taxes

Overall alcohol consumption has fallen in Australia. However, there has been persistent growth in consumption of wine, and growing concern about the impact of cheaper wines on people who over-consume them, their families and communities.

---

<sup>49</sup> The Canadian Government provides a transport subsidy to food providers in remote, isolated regions. Funding is based on the total weight of fresh food products shipped to eligible communities, who must then pass on the savings to consumers. The program receives \$60 million (CA) per year.

Figure 6: Annual consumption of alcohol (litres of pure alcohol per capita), Australia



Source: ABS Apparent Consumption of Alcohol, Australia, 2013-14

Source: FARE 2014, Submission on the 'Rethink' Tax Discussion Paper

The tax system treats different forms of alcohol inconsistently, in particular by taxing cheap wines at lower rates than other drinks with lower levels of alcohol such as beer.

The Wine Equalisation Tax (WET) and WET Rebate should be abolished and wine and ciders taxed at (two) uniform rates according to alcohol volumes that lies between the tax rate for brewed full strength beer and spirits.<sup>50</sup>

Revenue from these reforms should be earmarked for preventive health programs, including programs to prevent Foetal Alcohol Spectrum Disorders, and transitional support for small wine-growers.

These reforms should be embedded in a wider strategy to reduce harmful consumption of alcohol including regulatory reform (especially regarding advertising and financing of sporting and similar activities by producers) and health promotion campaigns.

<sup>50</sup> According to modelling by ACIL-Allen Consulting for FARE (ACIL-Allen Consulting 2015, 'Alcohol tax reform economic modelling'); a common volumetric tax rate for wine at \$56.46 (half way between the full strength draught beer rate of \$33.16 and the spirits rate of \$79.77) would raise \$2.3B in annual revenue and reduce overall alcohol consumption by 7.1% (mainly by raising the cost of cask wines). The Henry Report also proposed a uniform volumetric tax.



We are aware that, in many cases the proposed changes to alcohol taxation and a sugar tax would increase prices for people on low incomes, since taxes on consumption are generally regressive.<sup>51</sup> However, beyond this 'first round effect', the well-established health and wellbeing effects of these measures directly benefit people's economic security over the long term, provided the higher taxes are well targeted and implemented as part of a comprehensive harm reduction package. It is essential that revenues collected from these reforms be earmarked for programs that help prevent and treat the social and health impacts associated with these products. These programs should especially target, and benefit, low income households.

### **Recommendation 15: A 'sugar tax' on sweetened drinks**

- (1) As part of a comprehensive strategy to reduce sugar consumption (especially among children) where this is harmful to health, and to better incorporate related health and social costs into its price; from 1 July 2018 a two-tier volumetric 'sugar tax' should be introduced for water-based drinks with added sugar (excluding pure fruit juices) at rates of 30 cents per litre for drinks with 5-8 grams of added sugar per 100ml, and 40 cents per litre for those with over 8 grams of added sugar per 100ml.
- (2) The revenue from this excise should be earmarked for expenditure on preventive health care services, health promotion schemes focussing on healthy eating and fitness, fitness programs for children and young people, and fresh food transport subsidy for remote areas.

Saving: \$500 million in 2018-19

### **Recommendation 16: Alcohol excise**

- (1) As part of a comprehensive strategy to reduce alcohol consumption where this is harmful to health, and to better incorporate related health and social costs into its price, from July 2018 the WET and WET Rebate should be abolished, wine should be taxed at a uniform rate of \$56 per litre and ciders at \$33 per litre.
- (2) The revenue from this excise should be earmarked for expenditure on preventive health care services, including prevention of foetal alcohol syndrome.

Saving: \$2,300 million in 2018-19

---

<sup>51</sup> That is, they raise more revenue per dollar of income from low income households than higher income households. For example, gambling expenditure is 1.15% of household expenditure for the lowest income quintile, almost double the average for all households (0.66%). SACOSS (2016), 'Losing the jackpot: South Australia's Gambling Taxes'. Available:

<https://www.sacoss.org.au/sites/default/files/public/documents/Reports/Losing%20the%20Jackpot.pdf>



## 2.7 Taxation of charities

This submission sets out in Chapter 6 a range of important recommendations to improve the adequacy and effectiveness of community services in Australia. In addition, the tax treatment of charities generally, including those involved in important ‘social benefit’ activities, needs to be reformed. Currently, the tax treatment of charitable organisations is inequitable and inconsistent. While some charities including ‘Public Benevolent Institutions’ attract gift deductibility, others with similar public benefits and charitable purposes do not. For example, charities which advocate policies to government to reduce homelessness do not generally have gift deductibility while those that provide services directly to homeless people do. Both serve an important charitable purpose: the provision of shelter for homeless people.

### **Recommendation 17: Deductions for charitable gifts**

Extend deductible gift recipient status to those charities whose dominant purpose is altruistic and for the public benefit.

Costing: \$700 million (\$800 million in 2018-19)

## 3 Increasing employment and reducing poverty for people of working age

### 3.1 Alleviating poverty

Spending on income support for people of working age (Youth Allowance, Newstart and family payments) currently comprises about 31% of government spending on social security payments. The proportion of people receiving a working age payment has declined dramatically since the early 1990s, reflecting improved economic conditions and changes to payment eligibility criteria. Access to various payments has been tightened over the past ten years as governments moved to restrict spending on social security. The Age Pension age is rising to 67 from 65 (and previously 60 for women) and qualification criteria for the Disability Support Pension has been restricted. Parenting payments have been limited to parents whose youngest child is under 8 (or under 6 if they are partnered), which has seen many sole parents moved onto the lower-paid Newstart Allowance (discussed in further detail in Chapter 4).

The upshot of these changes is that there is a growing number of people receiving lower rate social security payments (mainly Newstart), which increases the likelihood they live in poverty. At the same time, a larger proportion of people receiving Newstart have a partial work capacity due to illness or disability or because they are primary carers of children. These groups have more difficulty finding suitable employment and remain on unemployment payments for extended periods of time.

Despite pension and allowance recipients facing similar costs of living, the gap between allowance and pension payments has grown from less than \$60 per week in 2008 to \$174 per week today. This payment gap has grown because of the \$30 per week increase in pensions in 2009 (which was not extended to people receiving allowances or parenting payments), and inferior indexation of allowances, which are only indexed to price movements and not wages. Furthermore, Newstart has not been increased in real terms in 23 years when it rose by just \$2.90 per week above the Consumer Price Index (CPI).

#### Lifting Allowance levels

The low level of allowances is a major contributor to poverty. The single rate of Newstart is at least \$109 per week below the poverty line.<sup>52</sup> Youth Allowance is \$158 per week below the poverty line.<sup>53</sup> The latest ACOSS Poverty Report found that allowance recipients are at highest risk of living in poverty of all social security recipients.<sup>54</sup> The latest Salvation Army

---

<sup>52</sup> Defined as 50% of median income.

<sup>53</sup> ACOSS, SPRC (2016), op cit, p. 28

<sup>54</sup> Ibid.



*National Economic & Social Impact* survey found that people receiving Newstart had just \$15 per day in disposable income left after paying for their housing. Eighty-six per cent of respondents were unable to afford five or more essential items, which is described as experiencing severe deprivation.<sup>55</sup>

Governments have justified the low rate of allowances by claiming they are a short term payment and therefore are there to 'tide people over'. However, 71% of people receiving Newstart have received income support for 12 months or more. Further, the severity of living on such low incomes cannot be justified for even short periods of time, given the chaos that flows from even shorter periods of severe financial deprivation and the negative effects on health and wellbeing and capacity to actively pursue paid work

ACOSS has called for many years for an increase to allowances for single people (including Newstart and student payments) to reduce the most severe poverty and also the gap between those payments and pensions. The Henry Report called for an increase to Newstart as have the Business Council of Australia and KPMG, arguing that the low rate of payment presents a barrier to employment.<sup>56</sup>

The low rate of allowances has contributed to an increase in the poverty rate among sole parents, which rose from 26% in 2003/04 to 29% in 2013/14. This is because of the Welfare to Work changes that moved sole parents from Parenting Payment Single onto Newstart Allowance when their youngest child turns 8, seeing their income drop by \$83 per week (as at September 2016).

Budgets since 2014 have sought to cut income support payments to people on the lowest incomes to achieve savings. There remain approximately \$7 billion worth of unlegislated social security cuts, including denying young people income support for five weeks, cutting supplementary payments for education and training and reducing the incomes of sole parents with teenage children by up to \$65 per week.

In this budget, the government must abandon the approach to budget measures of cutting the incomes of those with the least. Instead, it should focus on how to lift the incomes of the three million people living in poverty, including 731,000 children. As a first step, it should increase allowances by \$54 per week (for single people), which would be the sole most effective immediate measure to alleviating poverty in Australia.

---

<sup>55</sup> The Salvation Army (2016) 'National Economic and Social Impact Survey' Key Findings: [http://www.salvationarmy.org.au/Global/Who%20we%20are/publications/2016/ESIS/ESIS\\_16\\_Key%20Findings.pdf](http://www.salvationarmy.org.au/Global/Who%20we%20are/publications/2016/ESIS/ESIS_16_Key%20Findings.pdf) pp. 5 & 9

<sup>56</sup> KPMG (2016), A new reform agenda for Australia Available: <https://home.kpmg.com/au/en/home/insights/2016/12/reform-agenda-australia.html>





## Establishment of Social Security Commission & reformation of working age payments

Increasing single allowances by \$54 per week would bring the single allowance rates to 66.33% of their equivalent couple rate, in line with pension settings. In addition, base rates of payment should be indexed to wage movements so that they do not fall behind community living standards and the gap between pensions and allowances does not grow.

We propose that an independent Social Security Commission be established to advise government on payment rates, means-testing perimeters and indexation arrangements. The commission would consider spending on social security, the impact of employment incentives, and would report regularly to the Parliament. ACOSS envisages that the commission would play a key role in designing a system of payments in line with ACOSS's proposal for payment reform as outlined in its submission to the McClure Review: a base rate of payments sufficient to meet basic living costs, supplemented by add-on payments that cover the extra costs of individual's circumstances (disability, children, job search, etc).<sup>57</sup>

This kind of reform would remove arbitrary inequities between payments and ensure payment rates reflect basic financial needs.

## Reform of working credit: Income Bank

The income tests for Newstart and Youth Allowance (Other) are complex and inconsistent, despite recipients being in similar circumstances. They act to reduce the adequacy of the overall incomes of people in low paid employment, especially for people with intermittent casual work. The complexity of the system also gives rise to overpayments and debts.

Newstart recipients may earn \$52 per week before their allowance is reduced by between 50 and 60 cents in the dollar. A Youth Allowance recipient looking for paid work may earn up to \$71.50 per week before their payment is affected. As the income tests are quite harsh, most people who get paid work have their allowance reduced. Where the person is undertaking casual employment, they often need to give Centrelink an estimate of what their income may be for the reporting fortnight, which leads to errors and inadvertent under- or overpayments.

The recently introduced harsh and inaccurate Centrelink automated debt detection and collection system reinforces the complexity imposed on people receiving an unemployment payment who are in and out of casual paid work. In addition to it being difficult to accurately report income from casual employment, there is a real risk that government will wrongly

---

<sup>57</sup> ACOSS (2014), 'Submission to Review of Australia's Welfare System'

[http://www.acoss.org.au/images/uploads/ACOSS\\_welfare\\_review\\_submission\\_2014-FINAL.pdf](http://www.acoss.org.au/images/uploads/ACOSS_welfare_review_submission_2014-FINAL.pdf)



detect and calculate an overpayment if the person has undertaken any kind of employment at all.<sup>58</sup>

To make reporting of income easier and increase the real incomes of people in low paid casual work, ACOSS proposes that people receiving an unemployment payment have access to an “income bank”, similar to that available to students or Age Pensioners. Both allowances have a working credit system that operates, on the face of it, like an income bank, but in reality is complicated and inconsistent with income test thresholds. For Newstart Allowance, a working credit accrues by up to \$48 per fortnight if earnings are less than \$48 per fortnight (which bears no relation to the income-free threshold of \$52 per week). The maximum amount of working credit a Newstart recipient may accrue is \$1,000 and Youth Allowance (Other) is \$3,500, which are relatively small amounts and take extended periods of time without paid work to accrue under current policy settings.

An income bank of \$4,000 for Newstart and Youth Allowance (Other) that accrues in full over six months without work would ease transitions into employment and enable people who secure on temporary or casual employment to increase their real incomes. It would be easier to understand than the current working credit system and better enable people to track how much they can earn before their payments reduce. It would also likely reduce the incidence of debts arising because of estimated earnings that may naturally differ from their actual earnings (as discussed above).

In the Mid-Year Economic and Fiscal Outlook, a \$27.5 million income bank pilot was announced to encourage Newstart and Youth Allowance (Other) recipients to do seasonal agricultural work. The measure commences 1 July 2017 and will allow Newstart recipients to earn \$5,000 from seasonal horticultural work that is at least 120 kilometres away from their usual place of residence without their payment being affected.

This pilot acknowledges the problems faced by people undertaking insecure seasonal or casual work because of the potential loss of income support without the certainty of future employment. ACOSS’s proposal, while not as generous, would extend this pilot to all Newstart and Youth Allowance (Other) recipients regardless of the paid work they carry out, in recognition that the problems for people regarding seasonal agricultural work apply to short term, insecure, casual work generally.

## Income management and the Cashless Debit Card

Despite successive reviews of income management finding that it has failed to address a range of social issues it was stated to overcome,<sup>59</sup> income management continues to operate

---

<sup>58</sup> Knaus, Christopher (2017), ‘Centrelink staff told not to fix mistakes in debt notices – whistleblower’ <https://www.theguardian.com/australia-news/2017/jan/19/centrelink-staff-told-not-to-fix-mistakes-in-debt-notices-whistleblower>

<sup>59</sup> Bray, R; Gray, M; Hand, K and Katz, I (2014), ‘Evaluating New Income Management in the Northern Territory: Final Evaluation Report’. Available:



in the Northern Territory and several regions around Australia. First introduced in the Northern Territory in 2007, more than \$1 billion has been spent on income management. Governments have justified income management as a tool to address a range of issues from alcohol abuse, to increasing employment. People subjected to income management have between 50% and 70% of their income support payments restricted to a 'Basics Card', which cannot be used to purchase alcohol, cigarettes, pornography or gambling products (prohibited goods).

Most people under income management are compulsorily income managed (rather than volunteering for the program). The latest review of compulsory income management found this approach ineffective in addressing stated social problems because most people subjected to it were not spending more than half of their income on prohibited goods.<sup>60</sup> It also found that building capacity in communities (community development) is far more important in addressing social issues and that this could not be achieved by 'simply imposing restraints' like income management.<sup>61</sup>

In this context, ACOSS has also been critical of the introduction of 12 month trials of a cashless debit card in Ceduna and Kununurra. These trials also impose restraints on targeted communities by compulsorily restricting 80% of people's income support payments to a cashless card that cannot be used to purchase alcohol or gambling services. Unlike income management which only applies to specific cohorts of income support recipients, the cashless debit card applies to all recipients of working age payments who live in the trial sites.

No evaluation framework has been made public for the cashless debit card, nor is there information about how much is being spent on the trials. Spending on income management varies between \$2,000 and \$13,000 per person and it is likely a similar amount is being spent on individuals in Ceduna and Kununurra.

ACOSS calls for the cessation of compulsory income management and cashless debit cards in light of the evidence they fail to address a range of social problems governments believe they will address. Provisions can be made for people who wish to volunteer for the programs. Opt-in schemes should be co-designed with communities and include wrap-around supports such as drug and alcohol, financial counselling and social support services.

## Community Development Programme (CDP)

CDP is the principal rural and remote employment program for people aged 18-49 receiving a working age payment. People subject to CDP in these areas and who have a full time work capacity must carry out 25 hours of designated activity, five days per week, for 46 weeks of

---

[https://www.dss.gov.au/sites/default/files/documents/12\\_2014/evaluation\\_of\\_new\\_income\\_management\\_in\\_the\\_northern\\_territory\\_full\\_repor.pdf](https://www.dss.gov.au/sites/default/files/documents/12_2014/evaluation_of_new_income_management_in_the_northern_territory_full_repor.pdf) p. 320

<sup>60</sup> Ibid

<sup>61</sup> Ibid. p. 321



the year. The obligation to participate commences immediately upon receiving an unemployment payment. CDP obligations placed on people in rural and remote areas are far more onerous than Work for the Dole which applies to other people on an unemployment payment. Work for the Dole obligations commence following 12 months of receiving an unemployment payment and require a person to participate in designated activities for typically 15 hours per week, and for six months in every year. Most people compelled to undertake CDP are Aboriginal or Torres Strait Islander people

A person must complete their CDP obligations to receive income support. Those participants who are required to work 25 hours per week receive an hourly payment well below the minimum wage, although they may be required to do work that is normally done by employees, including in private businesses. This is unlike the former Community Development Employment Program (CDEP) where participants were paid an award wage for hours of work done. It also contrasts with the PaTH program, which provides both training and an income supplement for periods of work experience. The inappropriate and harsh requirements under CDP are contributing to an extraordinarily high rate of penalties imposed on CDP participants. The number of penalties imposed on CDP participants in the first year of the program (2015/16) was almost as high as those under jobactive (146,654 versus 207,633), despite the program being one-twentieth the size of jobactive.<sup>62</sup>

Most people are penalised under the No Show No Pay provision, where they lose ten per cent of their income support payment for each day they do not attend their CDP activity without a valid reason. While, technically, the for-profit and not-for-profit CDP providers have the discretion to allow non-attendance – for example if they believe that a penalty may be harmful or that another engagement strategy may be more effective – they are financially penalised where they do this. Again, this is in contrast to the arrangements in jobactive and Disability Employment Services where providers retain their discretion to choose the approach that is best suited to the individual. Again, this contributes to both the burden of penalties on participants and to the administrative burden on both providers and DHS. The high failure rate confirms that there are serious systemic problems with the structure of CDP and ACOSS is deeply concerned that large numbers of people already in poverty are losing access to even meagre income support payments.

The majority of CDP participants who do access paid work only secure casual employment (7,404 of 10,500).

Only 3,433 people who commenced employment have stayed employed for 26 weeks of more (less than a third of all who have commenced work). Between 1 July 2015 and 29 October

---

<sup>62</sup>Senate Finance and Public Administration Legislation Committee 'Answers to questions on notice' Supplementary Budget Estimates 2015 – 2016, Question 188, [http://www.aph.gov.au/Parliamentary\\_Business/Senate\\_Estimates/fapactte/estimates/sup1617/pmc/index](http://www.aph.gov.au/Parliamentary_Business/Senate_Estimates/fapactte/estimates/sup1617/pmc/index)



2016, just 1,765 people receiving a working age payment in CDP regions moved off and did not return to income support.<sup>63</sup>

The Department of Prime Minister and Cabinet have acknowledged that “of the most disadvantaged 1 percent of areas in the country, 95 per cent fall in parts of remote Australia that are serviced by the CDP”.<sup>64</sup> It also acknowledged that, ‘[e]ven if all jobs in remote communities were filled by job seekers there would be a significant labour over supply.’ In other words, more onerous obligations and excessive penalties are falling on our most disadvantaged communities, despite the fact that people in these communities have few opportunities to move into work.

In 2015, the then Aboriginal and Torres Strait Islander Social Justice Commissioner reported concerns about the potentially discriminatory nature of the obligations imposed on income support recipients under the CDP scheme. Indigenous organisations and leaders have called for the scheme to be substantially overhauled, and for a new scheme to be established that includes a commitment to providing waged work for remote Australians.

People receiving unemployment payments living in remote areas should not be subjected to more onerous activity requirements compared with people under other employment programs, particularly when lack of job opportunities is the key reason for unemployment. The approach to employment programs in remote areas must be tailored to reflect the unique conditions in these areas. Many people subjected to mutual obligation requirements face multiple disadvantages without adequate access to appropriate assessment or services. Any employment program must be designed with this in mind, ensuring that those who lack service access are not further penalised by the employment services and income support system.

In the short term, ACOSS recommends that the government:

- Reduce the current Work for the Dole requirements applied to CDP participants to a level more closely aligned to requirements elsewhere;
- Provide local flexibility in the arrangement of days and hours of participation and associated supervision and administrative arrangements; and
- Revise CDP contractual arrangements to allow providers to determine when to recommend breaches based on community and individual circumstances without penalty.

---

<sup>63</sup> Senate Finance and Public Administration Legislation Committee (2016), ‘Answers to Questions on Notice – Supplementary Budget Estimates 2016 – 2017 Prime Minister and Cabinet Portfolio, Question 202’ [http://www.aph.gov.au/Parliamentary\\_Business/Senate\\_Estimates/fapactte/estimates/sup1617/pmc/index](http://www.aph.gov.au/Parliamentary_Business/Senate_Estimates/fapactte/estimates/sup1617/pmc/index) p.2.

<sup>64</sup> Department of Prime Minister and Cabinet, 2016, ‘Submission to the Senate Finance and Public Administration Legislation Committee Inquiry into the Social Security Legislation Amendment (Community Development Program) Bill 2015’, p.3.



ACOSS also recommends that the government establish an inclusive, Indigenous-led review process to redesign the CDP with a view to:

- Establishing a program framework that would give local communities greater control over the design and implementation of employment services in their own location;
- Providing positive rewards for engagement, rather than relying on punitive measures;
- Focussing attention and resources on long term economic and social development goals.

Any scheme should include a commitment to the establishment of additional, waged work opportunities.

### **Recommendation 18: Increase Allowance payments for single people by \$54 per week**

(1) Allowance payments for single people should be increased by \$54 per week from March 2018, and benchmarked to 66.3% of the combined couple rate of Allowances (a higher rate in the case of sole parents) as is the case for pension payments. This applies to people on Newstart Allowance, Widow Allowance, Sickness Allowance, Special Benefit and Crisis Payment.

(2) Allowance payments for single people on youth and student payments (Austudy Payment, Abstudy Payment and Youth Allowance) who are either over 24 years of age or 18-24 years and living away from the parental home should also be increased by \$54 per week from March 2018 and benchmarking of those payments to 66.3% of the couple rate should be phased in.

Costing: \$1,900 million (\$1,950 million in 2018-2019)

### **Recommendation 19: Index Allowance payments annually to movements in earnings**

From July 2017, Allowance payments for people aged 17 to Age Pension age, and those over pension age not eligible for an Age or Veteran's Pension, should be indexed annually to movements in wages as well as to movements in prices.

Costing: \$100 million (\$110 million in 2018-19)

### **Recommendation 20: Establish a Social Security Commission**

A Social Security Commission should be established as a statutory authority to advise the government and Parliament on a regular basis on the financial needs of people relying on social security payments, appropriate relativities between them, and the budgetary costs and implications for employment incentives of policy options to improve payment adequacy.

Costing: \$5 million (\$7 million in 2018-19)



### **Recommendation 21: Replace the working credit scheme with a \$4,000 income bank**

From 1 July 2017, replace the working credit scheme for Newstart and Youth Allowance (Other) recipients with a \$4,000 income bank that accrues from the day they start receiving the allowance and would reach the full amount after six months (where the person has been without work). The income bank should be indexed to the Consumer Price Index annually.

Costing: \$300 million (\$310 million in 2018-19)

### **Recommendation 22: Abolish compulsory income management and the cashless welfare card trials**

Compulsory income management and trials of the cashless welfare card should be abolished in all states and territories. Transition arrangements should be put in place for individuals and communities wishing to retain voluntary income management and cashless card schemes. Opt-in schemes should be co-designed with communities and include wrap-around supports such as drug and alcohol, financial counselling and social support services.

Saving: \$95 million (\$97 million in 2018-19)

### **Recommendation 23: Reform Community Development Programme**

The Community Development Programme must be reformed to prevent further disadvantage to communities, which has arisen, in part, because of the onerous requirements it imposes on participants. Reform must be Indigenous-led, with a new program co-designed with communities. There must be a focus on the delivery of waged work, recognising the distinct lack of employment opportunities in remote areas.

Costing: revenue neutral

## **3.2 Employment services**

At 5.7% in December 2016, unemployment remains stubbornly high. Further, over half a million people - 70% of those receiving unemployment payments - have had to rely on income support for more than 12 months and many face major barriers to work. Once people are unemployed long term, their future job prospects diminish. Reducing prolonged unemployment is the most important task for our employment services system and should be a core focus of public investment and policy.

Australia under-invests in employment assistance. In 2014, the Australian Government spent 0.26% of GDP, half the OECD average of 0.53% on active labour market programs.<sup>65</sup>

---

<sup>65</sup> OECD Social expenditure database. Available: <https://www.oecd.org/social/expenditure.htm>





'jobactive' is the government's main employment program. The government contracts external profit and not-for-profit providers to assist unemployed people through job search assistance and referral for work experience, training and other support. After years of funding reductions in employment services, most unemployed people receive little more than help to prepare a CV, assistance with job search, and regular interviews which are as much about supervising compliance with benefit requirements as helping them find paid work.

The reasons for this lie in the jobactive funding arrangements. Providers receive annual service fees of \$510 per annum to assist the most disadvantaged people (those in Stream C) and a one-off up-front 'Employment Fund' credit of \$1,200 to invest in work experience training and other supports. Unlike the previous 'Job Services Australia' program, this fund is not replenished on an annual basis once a person becomes unemployed long term, except to fund 'Work for the Dole' places.

While on the face of it the Employment Fund targets substantial help for the most disadvantaged unemployed people, in practice providers have been discouraged from using it by administrative requirements and restrictions. When they have drawn from the fund, too much of this money has been spent on low-intensity assistance such as very short training courses and fares assistance. The Fund would be more cost effective if it was clearly targeted towards high-intensity interventions such as work experience, training, professional services and relocation assistance for more disadvantaged unemployed people (especially those unemployed long term). Assistance with incidental costs such as fares could be separately funded.

jobactive providers also receive payments for employment outcomes, but this generally encourages them to concentrate on low-cost interventions that move people who are already closer to paid work into jobs quickly, rather than patient investment in those with significant barriers to employment. While higher outcome payments give providers more scope (and incentive) to invest in people unemployed long term, a typical outcome payment for an individual unemployed for 12 months in Stream 'C' who remains in employment for 6 months is \$5,500. If an effective work experience, training or other intervention improves this person's job prospects by 10% (an above-average result), then a provider investing more than \$550 would not benefit financially. Yet a sustained 10% improvement in the job prospects of people who are unemployed long term would greatly reduce unemployment over time.

In 2016 approximately \$250 million was spent on the Work for the Dole program. This is the 'default' program for people unemployed long term, which they are required to join for six months of every year. Participation in work for benefits schemes has little impact on people's employment prospects. An evaluation of Work for the Dole in 2014 found that the average impact of participation in the program on the probability of employment was just



two percentage points.<sup>66</sup> An evaluation of the United Kingdom's equivalent scheme, 'Mandatory Work Activity', found that participation had no statistically significant effect on people's employment prospects.<sup>67</sup>

The main drawback of work for benefits schemes is that the kind of work experience participants receive is usually far removed from paid employment opportunities. If, on the other hand, they were engaged in regular productive employment, then participants should be paid the legal wage. It is not reasonable to require people to join a program that will not improve their job prospects, especially where it involves working for less than the minimum wage – as is the case for those required to work for benefits for 25 hours a week.

As discussed above, a harsher variant of Work for the Dole, the CDP is compulsory for people living in remote areas, most of whom are from Aboriginal and Torres Strait Islander communities. The CDP requires all adults between 18 and 49 who are receiving income support to work for their benefits 5 days a week for 25 hours, for 11 months a year.

In the 2016 budget the government announced a new scheme for unemployed young people, the 'Youth Jobs PaTH' program. This is being funded in large part by diverting funds from Work for the Dole and the program shifts the emphasis to work experience in regular employment settings. ACOSS welcomed these aspects of Youth Jobs PaTH but remains very concerned about other aspects of the scheme. In addition to wage subsidies, which we support, unemployed people will be referred to unpaid 'internships' of up to 12 weeks – much longer than the existing four week unpaid 'work experience' scheme. The main problem with the internships is that in order to benefit from the work experience and maximise the chances that the host will keep them on as employees, the 'interns' will need to engage in productive work for which they will not be paid for up to 12 weeks.<sup>68</sup> Their unemployment payment, together with the proposed \$100 'incentive payment', will be less than the hourly minimum wage for working hours over 15 per week in most cases, yet the internships may extend to 25 hours a week. There are also risks that young people may be pressured to work longer hours; that existing employees may be displaced; and occupational health and safety and insurance arrangements are inferior to those that apply to regular aid employees.

ACOSS will not support the program unless these problems are resolved, including by:

- capping the number of hours in internships or increasing the 'incentive' payment to ensure that the combination of income support and incentive payments provides the equivalent of a minimum hourly wage or training wage (where accredited training is provided);

---

<sup>66</sup> Employment Department (2015), 'Work for the Dole 2014-15 Evaluation Report'. Available: <https://docs.employment.gov.au/node/35376>

<sup>67</sup> Feargal McGuinness, House of Commons Library (2014): 'Work Experience Schemes', 27 June 2014.

<sup>68</sup> ACOSS (2016), 'Policy briefing: the Youth Jobs PaTH scheme'. Available: [http://www.acoss.org.au/wp-content/uploads/2016/05/ACOSS-policy-briefing\\_Youth-Jobs-PaTH-program\\_May-2016.pdf](http://www.acoss.org.au/wp-content/uploads/2016/05/ACOSS-policy-briefing_Youth-Jobs-PaTH-program_May-2016.pdf)



- ensuring that 'interns' are mentored, and protections put in place to prevent exploitation and ensure their health and safety are not compromised;
- ensuring that participation is genuinely voluntary, with the option to leave without penalty at any stage;
- safeguards are put in place to prevent 'churning' of people through internships, and displacement of existing workers; and
- provision of adequate financial assistance with the costs of participation (especially travel) in the compulsory training component of the scheme.

Wage subsidies for temporary paid employment in regular paid work do not carry the same risks as the proposed internships, and they are effective in giving people who have been unemployed for prolonged periods valuable work experience, and employers the opportunity to test whether they are suitable to fill vacancies. ACOSS welcomed the government's decisions in 2015 and 2016 to streamline the various wage subsidy schemes for different population groups into a single program and to remove spending caps on that program. Unfortunately, in the 2016 MYEFO the government backtracked on these commitments and re-imposed caps on the scheme. This is shortsighted since well-designed wage subsidy schemes are likely to pay for themselves through future savings in unemployment benefits.

To increase the flexibility of employment assistance for people who are disadvantaged in the labour market, restrictions on access to vocational and other training through jobactive should be removed. As long as support for training is restricted to preparation for a specific job, opportunities for people whose skills are out of date to improve their employability are arbitrarily restricted. Governments invest in vocational education and training because the skills and qualifications obtained by students improve their career prospects and life chances. People who are unemployed should not be denied those opportunities. Instead, training should be better linked to employment by strengthening the role for employers in the job services system.

A close working relationship between employment services providers, training organisations and employers is essential to improve the employment prospects of people disadvantaged in the labour market. As with the previous Job Services Australia system, jobactive throws up hurdles to such cooperation. These include competition among individual providers (which means that employers are often approached by many different providers when they would prefer to establish a lasting relationship with one); the limited resources available to providers to invest in the work required to establish these relationships in the first place (for which they cannot use Employment Fund credits); and a reward structure that emphasises quick outcomes.

In collaboration with the Business Council of Australia and the Australian Council of Trade Unions, ACOSS identified these barriers to a partnership approach to employment services, and advanced a set of recommendations to resolve them including:



- national and regional employment brokers;
- the establishment of local networks or boards of employers, training and employment service providers;
- rewards for employment outcomes lasting one year; and
- allowing providers to use Employment Fund resources to finance the preparatory work required to establish formal partnerships with employers.<sup>69</sup>

Many people who have been out of paid work for a long time and young people with limited qualifications who are seeking paid work for the first time, would benefit from skills assessment and career counselling. This would help them identify the occupations that suit their skills and aspirations and the training and other support they need to secure employment in this line of work. Previous programs such as the Jobs Education and Training (JET) scheme and the Employment Preparation program for sole parents, carers and mature age workers returning to paid work were relatively effective in identifying and strengthening 'latent skills' and improving future employment prospects, at a modest cost to the budget.<sup>70</sup> These schemes offered career counselling, a fund for service providers to invest in vocational training tailored to individual needs, and assistance to locate suitable child care where needed.

Assistance of this kind is not widely available through jobactive because providers are not resourced to offer it, and the abovementioned restrictions to investment in vocational training. We propose that a new career transitions program be developed for administration by jobactive providers or as a stand-alone scheme.

#### **Recommendation 24: A career transitions program**

- (1) A career transitions scheme should be introduced either within or outside the jobactive system, to offer career counselling, skills assessment, and access to suitable training at an early stage of unemployment to the following people in receipt of working age income support payments who are seeking to enter or return to paid employment and have not had experience of paid work over the last 12 months:
  - primary care-givers of children or people with disabilities and people who recently relinquished the caring role (who would also be offered help to secure alternative care);
  - people of mature-age (50 years or over);

---

<sup>69</sup> ACOSS, Business Council of Australia and Australian Council of Trade Unions, 'Partnerships to secure jobs for disadvantaged jobseekers' Available: [http://www.acoss.org.au/wp-content/uploads/2017/01/Joint\\_Statement\\_Partnerships\\_to\\_Secure\\_Jobs\\_for\\_Disadvantaged\\_Jobseekers\\_FINAL\\_30.6.2014.pdf](http://www.acoss.org.au/wp-content/uploads/2017/01/Joint_Statement_Partnerships_to_Secure_Jobs_for_Disadvantaged_Jobseekers_FINAL_30.6.2014.pdf)

<sup>70</sup> Department of Employment and Workplace Relations (2006), 'Employment assistance, a net impact study'.



- young people (under 25 years) who have not completed Year 12 or equivalent education and are not participating in the Transition to Work program.
- (2) For those identified as significantly disadvantaged in the labour market, career counselling should be integrated with other forms of assistance, including where appropriate paid work experience in regular jobs.
  - (3) The impact of the scheme on employment and training outcomes should be evaluated, for example by implementing it in stages and comparing results for participants and non-participants from the same target groups.

Costing: \$50 million (\$70 million in 2018-19)

### **Recommendation 25: Improving the effectiveness of jobactive**

- (1) From July 2017, service fees for jobseekers who are unemployed for more than 12 months, or in Streams B or C, should be increased from \$255 to \$355 each six months.

Costing: \$50 million (\$50 million in 2018-19).

- (2) Funds earmarked for Work for the Dole (including for Work for the Dole Coordinators) should be untied and reallocated into the Employment Fund to assist individuals who are unemployed long term with work experience, training and other assistance that improves their job prospects.

Saving: \$250 million (\$250 million in 2018-19).

- (3) Credits should be made to the Employment Fund in respect of each jobseeker at the commencement of 12 months and 24 months of unemployment, equivalent to those made at the commencement of the unemployment spell, to assist with barriers to employment and help finance 'mutual obligation' activities.

Costing: \$300 million (\$300 million in 2018-19)

- (4) The Employment Fund should be divided into two parts:
  - a. an 'investment fund' for substantial investments in activities and services that improve employment prospects (above and beyond assessment and job search assistance), such as work experience, training, relocation assistance, and professional services; and
  - b. an 'incidental expenses' fund for expenses faced by jobseekers and providers (such as travel to interviews, work related clothing and equipment, and use of interpreters) which is notionally distributed according to local need for these services (for example, based on remoteness and English-language proficiency).
- (5) Employment Fund credits should be available for training whether or not this is linked to a specific job, and for the purpose of establishing 'demand-led' schemes,



that is, a formal agreement with an employer to supply them with workers drawn from people who are either unemployed long term or classified within Streams B or C, and to mentor and train those workers for positions with the employer.

- (6) The impact of the above changes should be evaluated, for example by comparing employment outcomes for similar unemployed people who receive different forms of assistance through the Employment Fund.

Total costing for this Recommendation: \$100 million (\$100 million in 2018-19)

## 4 Reducing child poverty: family payments reform

The latest ACOSS *Poverty in Australia* report released in October 2016 found that there are 731,000 Australian children living in poverty, representing 17.4% of children under the age of 15. This figure has increased by two percentage points over the past ten years.<sup>71</sup>

This is despite Australia being one of the wealthiest countries in the world, experiencing 20 years of sustained economic growth. Children in sole parent families are at particularly high risk of poverty: 40% of all children in poverty in Australia live in sole parent households.

The lack of any paid income in a family is the major cause of child poverty in Australia with 70% of all children in poverty living in households with no paid work.<sup>72</sup> This is also the major poverty risk among sole parent families.<sup>73</sup> We can, and must, do better.

2017 marks 30 years since former Prime Minister Bob Hawke's pledge to eliminate child poverty. This anniversary provides a focus for reflection about our progress since then.

While the Hawke government failed to achieve its ultimate objective, it successfully reduced child poverty in Australia by 30%. The family payments system was at the heart of this effort. Gains were achieved through a package of reforms to family assistance, including benchmarking payments to the costs of children and providing significant increases for low income families. The linking of family payments to wage movements was a core part of this policy package.

Since then, successive government decisions have eroded the adequacy of income supports including the family payments system, particularly payments for sole parent families.

Key changes in the last decade include:

- The movement of sole parents with primary school aged children from Parenting Payment Single to the lower Newstart Allowance (first under the 2006 'Welfare to Work' changes then in 2013 when the remaining grandfathered group transitioned). In 2013, this moved 80,000 sole parents onto Newstart with a sole parent family with two children losing \$60 per week. The transition from pension to allowance payments when the youngest child reaches eight years currently results in the loss of \$83 per week and puts single parents and their children at higher risk of poverty.
- The delinking of family payments and wage movements in 2009, with payments now indexed only to prices. This has already reduced payments by approximately \$20 per week.
- The exclusion of Parenting Payment Single from the pension increase in 2009.

---

<sup>71</sup> Op.Cit.

<sup>72</sup> Peter Whiteford (2009), 'Family Joblessness in Australia', A paper commissioned by the Social Inclusion Unit of the Department of Prime Minister and Cabinet, p.4.

<sup>73</sup> OECD (2011), 'Families are Changing', p. 40.





Poverty data shows an increase in poverty in single parent families over the last decade, with an increase following the Welfare to Work changes in 2006 and the movement of the 'grandfathered' group of sole parents onto the Newstart Allowance in 2013. The other policy change likely to influence poverty rates over time is the 2009 removal of wage indexation of family payments, which are now only indexed to CPI, gradually eroding the value of payments.

The latest proposals to cut family payments currently before the Senate would reduce financial assistance to low income families. The changes would have the greatest impact on sole parents with teenage children. A sole parent with two teenage children aged 13 and 15 would lose up to \$20 per week. A sole parent with a teenager aged 17 will lose \$65 per week. The impact of the proposed changes on single parents is of most concern due to their already high poverty rates and the barriers to labour force participation

The core purpose of Australia's family payment system is to protect against child poverty, by supplementing the incomes of parents on low or modest incomes. Family payments are intended to cover the extra costs of children (e.g. food, housing, and clothing) but not the additional costs of child care.

The Federal Government has already legislated further cuts to family payments. With support from the Opposition, legislation was passed on 30 November 2015 to limit Family Tax Benefit (FTB) Part B to couple families with children under 12 years of age, delivering savings of \$525 million over the forward estimates. This took effect on 1 July 2016. In September 2016, further changes to family payments were legislated with support from the Opposition, including removing the Part A supplement for families on incomes of more than \$80,000 pa (saving \$1.6 billion/4 years), freezing indexation of FTB income thresholds (along with Paid Parental Leave (PPL) thresholds, saving \$331 million/4 years) and removing a \$1,000 per annum additional payment for families with new babies (saving \$367 million/4 years).

The outstanding unlegislated cuts to family payments have been recently modified and are now included in an Omnibus Bill, together with other social security cuts and proposed reforms to childcare. The outstanding cuts to the family payment system are argued to be necessary to pay for the additional costs of the proposed new childcare package and to fund the NDIS (see Chapter 6). This is about applying inappropriate political pressure at the expense of fairness.

Rapidly phasing out remaining end of year FTB Part A and B supplements (currently \$726 per child per year for Part A and \$354 per family for Part B) by reducing them in two steps over two years.

1. Abolishing FTB Part B for single parents under 60 years of age at the beginning of the calendar year their youngest child turns 17.
2. Increasing FTB Part A by \$10 per week for each child up to age 19 years, which would cost an additional \$2.3 billion over the forward estimates.



These unlegislated cuts would deliver estimated further savings to government of approximately \$2.7 billion over the forward estimates, and result in severe cuts to payments for low income families.

ACOSS has long advocated reform of the family payments system but is deeply concerned that the proposed reforms will cause serious financial harm to many low income and vulnerable families, including single parent families who have already experienced a number of cuts to payments in the last decade and are at high risk of poverty. The remaining unlegislated reforms do not have a legitimate policy objective. They will affect those on the lowest incomes most, including single parent and low income couple households.

Analysis of the changes to family payments proposed shows that, if all of the changes come into effect:

- A sole parent (under 60) with one child aged 17 years would lose roughly \$3,400 per year.
- Most families will be worse off due to the loss of supplements. The Part A supplement is \$730 per year per child and would be partly offset by the Part A increase of \$520 per annum (resulting in a loss of \$210 per child per annum). The Part B supplement is \$354 per family. A dual income family with one primary school aged child would be \$210 a year or \$4 a week worse off. A single income family with a child in primary school would be \$560 a year worse off, or \$10 a week.

The proposed changes fail to address the major structural flaws in the family payments system. They would mean that assistance decreases as children get older, despite children becoming more expensive. They would do nothing to arrest the decline in the value of the payments by reference to community living standards resulting from the decision by the previous Labor government to reduce indexation to prices only. The small boost to Part A (\$10 a week) would not offset the losses resulting from the withdrawal of the end of year supplements and the cuts to Part B and would only be paid to about three-quarters of FTB Part A recipients. ACOSS strongly opposes cuts to family payments for low income families, as being a further regressive measure that will increase poverty rates among families which already experience unacceptably high levels of poverty and deprivation.

## 4.1 A fairer reform agenda

ACOSS advocates the urgent need for reform of the family payments system to achieve the following objectives:

1. to reduce child poverty in Australia and ensure all children have an acceptable standard of living;
2. to provide a stable and adequate foundation for the family payment system into the future, by benchmarking payments to the costs of children as they grow older, and indexing them to movements in wages and not just to CPI;
3. to encourage paid workforce participation for those who have capacity to work by removing barriers or disincentives.



The current family payments system is failing to deliver on its core purpose of protecting families with children from poverty. In particular, the current system involves:

- The steady decline in the value of maximum payments compared with community living standards (and compared with pension rates for adults), since indexation was reduced from linking to wage movements down to CPI alone in 2009. This has already resulted in more than \$20 a fortnight reduction in the value of the payment.
- The lack of a clear rationale for the maximum rates of payment for children of different ages and from different family types.
- Inadequate support for the costs of older children, who are much more expensive.
- Inadequate support for single parents with the extra costs of raising a child alone (the Part B payment for single parents, which was originally intended to fulfil this purpose, reduces once the youngest child turns five despite increasing household costs).

The following set of recommendations is designed to address these problems, reduce child poverty and support increased workforce participation.

### **Recommendation 26: Reform family payments to better target assistance and reduce child poverty**

The following changes are proposed as a package of reforms, in conjunction with proposals to increase allowance payments (see Chapter 3) and establish a payments commission to recommend payment benchmarks:

- **Index family payments to wage movements as well as to CPI:** Restore previous benchmarking of maximum rates of family payments to pension rates, based on the age of each child.
- **Replace FTB Part B for *single parent families* with a Sole Parent Supplement:** The supplement should be benchmarked to the costs of children of different ages and reflect the diseconomies of scale experienced by sole parents. As a starting point, the Supplement should be set at a level which brings sole parent families with children in the middle and teenage years at least up to the same income level as families with children under 8 (currently receiving Parenting Payment Single), in conjunction with increases in unemployment payments. On current figures, this would require a Supplement to the value of \$114 per week for a sole parent family with one child in the middle years. For a sole parent with one primary school age child the proposed changes would result in a total income equal to 87% of the couple pension rate. The purpose of the supplement is to ensure that this relativity correctly reflects the extra costs of raising a child alone.

Costing: \$1,200 million (\$1,240 million in 2018-19)<sup>74</sup>

---

<sup>74</sup> This is an estimate only. Detailed modelling is required to assess the budget impact of this proposal.

## 5 Improving access to affordable housing

In the last year, national reviews of federalism and tax reform, which presented opportunities for review and reform of affordable housing policy settings and funding arrangements, have been abandoned. The work of the Affordable Housing Working Group continues and must enable consideration of affordable housing financing mechanisms, state planning reforms and regulatory mechanisms. It is important that the Council of Australian Governments (COAG) communique of December 2016, foreshadows consideration of housing and homelessness issues in 2017. This has been a key and repeated recommendation of ACOSS and peak bodies in the housing and homelessness spheres for many years.

A national affordable housing strategy should be developed in partnership with community, industry and housing policy experts, in negotiation with state and territory governments and the Opposition, and be underpinned by specific targets. The scope of the strategy should extend to include:

- reform of housing taxation;
- direct investment in the growth of affordable housing stock and incentives for private sector and institutional investment in affordable housing;
- an increase in financial support to low income renters; and
- sustained and adequate support for homelessness services.

ACOSS unequivocally rejects the view expressed by some that affordable housing is mainly a state and territory government issue and is alarmed by recent reports that the Federal Government may plan to withdraw from the National Affordable Housing Agreement (NAHA) altogether. The Commonwealth has significant scope to influence the direction of housing reforms through multiple fiscal, economic and social policy settings, and through its role in COAG. Using these levers, there is scope for the Commonwealth to not only deliver substantially increased affordable housing stock and to relieve rental stress, but to improve rental standards and tenancy regulation across the country.

The 2016-17 Federal Budget failed to deliver new investment in affordable housing programs or to reverse the cuts to the National Rental Affordability Scheme (in the 2014 budget) and the National Partnership Agreement on Homelessness. While homelessness services and the people who rely on them received a welcome reprieve in December 2016 with the announcement of a further one year extension of the agreement with indexation, this funding excludes the capital and research components previously funded and provides no longer term certainty to services which have been in limbo since 2014.

The lack of policy attention and government investment in affordable housing and homelessness is economically and socially dangerous.

High housing costs are the biggest source of financial stress in many households, particularly those on low incomes. ABS data for 2013-14 show that 34% of lower income



households in private rental pay more than 30% of gross household income as rent with 11% of these households having housing costs greater than 50% of their income. A further 10% of households teeter on the edge of rental stress with housing costs consuming 25-30% of income.<sup>75</sup>

ACOSS and SPRC's latest *Poverty in Australia* report revealed that, when taking housing costs into account, the vast majority of people living below the poverty line were in rental housing in 2014 (60%), with most in private rental housing (44%) compared with 11% in public housing (due to lower housing costs for public housing tenants). Only 16% of people living below the poverty line were homeowners, with a slightly higher proportion being mortgagees than outright owners.<sup>76</sup>

Home purchase prices continue to rise nationally, rising fastest in our two major cities (Sydney and Melbourne), which between them house 40% of the population. Average Australian house prices are approximately 4-5 times average annual household earnings.<sup>77</sup>

Australia has a shortfall of housing supply, estimated by the most recent reputable assessment as over 500,000 rental dwellings that are both affordable and available to the lowest income households.<sup>78</sup>

One result of these pressures is that many people become, or remain homeless due to a lack of affordable housing. More than 105,000 people were counted as homeless on census night in 2011, an increase from just over 89,000 in 2006.<sup>79</sup> The latest Australian Institute of Health and Welfare report on homelessness shows that 279,000 people sought help from specialist homelessness services during 2015-16: up from nearly 256,000 in 2014-15 and a 33% increase since 2011.<sup>80</sup> Notably, around 60% of clients identified housing affordability and financial difficulties as a reason for seeking assistance, which has remained fairly steady for the past 3 years.

---

<sup>75</sup> Australian Bureau of Statistics (2015): 'Housing Occupancy and Costs, 2013-14, Catalogue No. 4130.0, Table 15.

<sup>76</sup> See ACOSS and SPRC (2016), 'Poverty in Australia 2016', at: <http://www.acoss.org.au/wp-content/uploads/2016/10/Poverty-in-Australia-2016.pdf>

<sup>77</sup> Ryan Fox and Richard Finlay (2012), 'Dwelling prices and household income', Reserve Bank of Australia Bulletin, December Quarter 2012, available at: <http://www.rba.gov.au/publications/bulletin/2012/dec/pdf/bu-1212-2.pdf>.

<sup>78</sup> National Housing Supply Council (2013), 'State of Supply Report 2012'. The actual figure is 539,000. The figure of 539,000 is arrived at as follows: In 2009-10 there were 857,000 renter households in the bottom 40% of the income distribution, and 1,256,000 dwellings rented at an affordable price for these households. However, 937,000 of these dwellings were rented by households in higher income groups, leaving only 319,000 available for rent by low income households – a shortfall of 539,000.

<sup>79</sup> Australian Bureau of Statistics (2011) 'Estimating Homelessness 2011', p5

<sup>80</sup> Australian Institute of Health and Welfare (2016), 'Specialist homelessness services 2015-16' available at: <http://www.aihw.gov.au/homelessness/specialist-homelessness-services-2015-16/>.

## 5.1 Affordable housing targets

To drive an affordable housing reform agenda, it is recommended that the Federal Government adopt clear targets to increase the supply of affordable housing and reduce homelessness as follows:

- halve homelessness by 2020 (to 50,000 people experiencing homelessness on any given night and 125,000 persons requiring specialist homelessness services each year);
- halve the shortfall in housing supply available and affordable to the bottom 40% of household incomes by 2025; and
- meet the shortfall in housing supply available and affordable to the bottom 40% of household by 2035, thereby ending homelessness caused by lack of housing.

At least 50% of new affordable housing stock should be allocated for those in the bottom 20% of household incomes. Affordable new housing stock should meet accessibility and energy efficiency standards.

## 5.2 Improving adequacy of existing funding agreements

Housing programs are currently funded through the National Affordable Housing Agreement (NAHA) and related Special Purpose and National Partnership payments. The National Special Purpose Payment (SPP) (which delivers funding agreed under the NAHA) is the major funding mechanism for affordable housing programs. The NAHA funding includes funding for homelessness services (estimated at approximately \$250 million) with the balance spent on housing. The agreement is ongoing, with \$1.3 billion allocated in 2017-18.

In our last budget submission, we suggested that the future of the NAHA or replacement national agreement was likely to be determined by the current review of the federation. With the abandonment of the formal federation review, the process for review and reform of the NAHA is unclear, as is the scope for external stakeholder engagement in any redesign of the agreement. The recent reports that the Federal Government may be planning to abandon its commitments under the NAHA are alarming.

ACOSS has consistently advocated that a new NAHA was needed to ensure significantly improved transparency and accountability, with more stringent reporting requirements about outcomes. While the development of a future agreement may take some time, a process for review and reform mapped out, with meaningful opportunities for community, industry and academic experts to be actively involved in the process (i.e. such major reforms should not just be negotiated behind closed COAG doors), steps must be taken in the interim to improve accountability under current funding arrangements. ACOSS strongly opposes the Federal Government withdrawing from the NAHA altogether.

Funding for Aboriginal and Torres Strait Islander housing is currently provided under the National Partnership Agreement for Remote Indigenous Housing (NPARIH). This is a 10-year



agreement due to expire in 2018. The Agreement was designed to reduce overcrowding, increase housing supply, improve the condition of existing housing and improve the management of rental housing. A review of the agreement is currently underway.<sup>81</sup> While recognising the gains that have been achieved under NPARIH, it is vital that Commonwealth Government leadership be maintained in this area while the severe housing affordability and overcrowding challenges experienced by Aboriginal and Torres Strait Islander communities persist. Therefore, we urge the Commonwealth, States and the Northern Territory to negotiate adequate and sustainable funding arrangements extending beyond 2018 for Aboriginal and Torres Strait Islander housing. This should extend beyond remote communities, recognising the importance of Aboriginal community controlled housing in regional and urban areas as well, and the linkages between safe and adequate housing in all areas and broader 'Closing the Gap' objectives. Governments should provide certainty for affected communities well in advance of the expiry of the current agreement.

### 5.3 Establishment of an Affordable Housing Growth Fund

To meet shortfalls identified by the National Housing Supply Council of at least 500,000 properties available and affordable to the bottom 40%<sup>82</sup> will require an investment mix over 20 years of more than \$150 billion. Governments cannot be expected to meet that target alone but must develop incentives to attract it from institutional and other private sources.

The government should establish an Affordable Housing Growth Fund to increase the supply of affordable housing through government investment. The fund should be strictly designated for expanding the stock of affordable housing by providing direct capital funding to State and Territory Governments. Program guidelines should enable housing providers to draw on a range of financial and planning levers to deliver maximum affordability and provide mixed tenure developments. Funding in the first year should be delivered through a revived Social Housing National Partnership Payment to the states and territories for capital funding of social housing stock, until future funding arrangements are determined.

### 5.4 Creation of a new affordable rental private investment scheme

The Federal Government has a vital role to play in unlocking private finance in affordable rental housing at scale through the establishment of a national incentive and finance scheme.

---

<sup>81</sup> See 'Remote Housing Review' announced by the Minister for Indigenous Affairs on 18 November 2016.

<sup>82</sup> National Housing Supply Council, Op.Cit.





With the discontinuation of the National Rental Affordability Scheme in the 2014-15 budget, there is a significant gap in current policy and funding arrangements. It is imperative that the funding gap that must be filled to support an ongoing pipeline of investment opportunities – and enable annual targets to be realised – is acknowledged. In Chapter 2 ACOSS presents tax reform options to generate this funding.

The Affordable Housing Working Group has been investigating options for the design of such a scheme and has recommended the establishment of a bond aggregator model at the national level.

It is vital that such any financial incentive scheme be national in scope to ensure viability, with State and Territory schemes unlikely to be able to achieve the scale required without support from the Federal Government. Schemes should be designed to enable investors to use a combination of different incentives to maximise growth in affordable housing stock.

Housing supply bonds have been successful overseas in financing affordable housing and could play an important role in attracting new forms of private investment at scale in Australia. The model proposed by the Australian Housing and Urban Research Institute (AHURI) would involve a combination of government funding and private bond finance indirectly subsidised through tax incentives and government guarantees.<sup>83</sup> The costs of establishing such a scheme here have been estimated at \$25 million in the first year (\$145 million over four years), which could raise approximately \$2 billion in bonds and generate more than 7200 new dwellings, in addition to the costs of setting up a housing finance intermediary. While making a long term commitment, it may be desirable to stage the development of such a model, with the establishment of the financial intermediary and a modest bond issue, backed by a guarantee, used initially to promote market responses.

ACOSS welcomes the proposal to develop a bond aggregator model nationally but stresses that the AHURI proposal requires government funding that can be generated by reform to current tax concessions available for housing purposes.

## 5.5 Reform housing taxation

Tax concessions for housing purposes are, at least in theory, designed to improve housing affordability. In practice, they often have the opposite effect, inflating home prices and rents by encouraging over-investment in existing housing stock.

The tax benefits of 'negative gearing' are heavily skewed, providing ten and a half times the benefits to the top 20% of households (around \$3,800 a year) than they do to the lowest 20% (around \$364 a year).<sup>84</sup> More recently, analysis by the Grattan Institute using 2016 taxation data showed that the top 10% of income earners before rental deductions receive almost

---

<sup>83</sup> AHURI (2014), 'How might bond finance expand affordable housing in Australia?' Issue 173, June 2014.

<sup>84</sup> Yates, J. (2009), 'Tax expenditures and housing' AHURI, Melbourne.



50% of the tax benefits of negative gearing.<sup>85</sup> Moreover, over 90% of investment in negatively geared housing stock applies to existing properties, thereby inflating housing costs and fuelling speculative booms in the housing market. This tax concession also skews investment in housing towards individual investors (rather than institutions) and towards investments yielding capital gains (rather than a stable rental income stream).

Deductions for expenses relating to passive investment in housing, shares, collectables and similar assets purchased after 1 January 2018 should be quarantined to offset income received from those assets, including capital gains realised on their subsequent sale. This is a first step to improving housing market outcomes and reducing the fiscal and social cost of this tax break. The proposed policy change would have a gradual impact on housing investment, as it would not apply to assets purchased before budget night 2017.

As discussed in Chapter 2 which sets out ACOSS tax reform proposals, part of the revenue savings from this change should be used to introduce a more effective incentive for new investment in dwelling construction for rent. This investment incentive would be paid a lower rate (in proportion to construction costs) for any new construction of a rental dwelling up to a certain cost (to exclude luxury dwellings) and at a higher rate for new 'affordable' rental dwellings, defined as housing where rents are held at least 20% below market values for up to ten years. Both incentives would apply for up to ten years following construction. The lower investment allowance would be paid as an annual tax offset while the higher one could be paid either in that form or as a direct payment to the investor. Unlike 'negative gearing' concessions, these incentives would be available to institutional investors as well as individuals, noting that the form of the incentive would need to be tailored to meet the needs of institutional investors. They would apply regardless of the number of investment dwellings constructed in each year.

In this way, the purpose of rental investment incentives would shift decisively from assisting investors to avoid income tax by speculating in existing real property towards directly encouraging new investment in affordable rental housing.

## 5.6 Increase of financial assistance to low income renters

Commonwealth Rent Assistance (CRA) provides important assistance to low income residents of private housing but has failed to keep pace with steep rental inflation, leaving many struggling to cope with high private rental costs.

Recent data show that most (79%) of Rent Assistance recipients are entitled to receive the maximum rate of payment due to their rent levels, an increasing proportion of recipients due to average rents paid by recipients increasing faster than the Consumer Price Index against

---

<sup>85</sup> Grattan Institute (2016), 'Hot property: negative gearing and capital gains tax reform', April, p.15.



which Rent Assistance is indexed.<sup>86</sup> Data also show that Rent Assistance payments do not come close to achieving affordable rents for many households. For example, the latest published data from the Australian Institute of Health and Welfare (AIHW) show that in 2013, 58% of young people and 45% of single people remained in rental stress even after receiving CRA.<sup>87</sup>

A series of national inquiries have recommended significant reform to CRA, including the Henry Review, the McClure Review and the National Commission of Audit.

The Henry Review recommended that the maximum rate of Rent Assistance should be increased and the rent maximum indexed by movements in national rents, which could be measured by an index of rents paid by income support recipients. It also recommended changes to the targeting of assistance with eligibility based on rent paid and the income support means test within the income support system, rather than on eligibility for another payment (for example, Family Assistance).

The Reference Group on Welfare Reform recommended that the levels and indexation of CRA be reviewed to 'ensure it appropriately reflects the costs of rental housing to tenants'. A redesign of CRA should not be attempted in the budget policy process in the absence of an open and transparent review including meaningful engagement with key stakeholders. Such a review should be undertaken as a matter of high priority in 2017. In the meantime, the maximum rate of CRA should be increased by 30% to provide immediate relief to renters on low incomes.

The National Commission of Audit (NCOA) report and the Reference Group on Welfare Reform's final report both flagged potential reform of CRA to extend eligibility to public housing tenants and reform rent setting policies. The NCOA indicated support for the replacement of direct Commonwealth Government investment in housing (including via the NAHA and National Rental Affordability Scheme (NRAS)) with expanded eligibility for CRA. While consideration should be given to reform of CRA it should not be a substitute for Commonwealth investment in the growth of affordable housing stock, but as a complement to supply side investment. A key issue to resolve is the impact of such reform on the households affected, especially those in public housing whose disposable incomes would be reduced sharply if such reform was revenue neutral. We note that due to the targeting of access to public housing, public tenants are drawn from among the most deeply disadvantaged groups in the community.

In projecting future expenditure on CRA, the Commonwealth should also take account of the impacts of public housing transfers, with governments having agreed on a target of 35% of social housing to be controlled by community housing providers (CHPs). If this target is met in the next 4 years, it will increase the cost of CRA over the forward estimates by an

---

<sup>86</sup> See Department of Social Services (2016), 'Annual Report 2015-16':

[https://www.dss.gov.au/sites/default/files/documents/10\\_2016/dss\\_annual\\_report\\_2015-16.pdf](https://www.dss.gov.au/sites/default/files/documents/10_2016/dss_annual_report_2015-16.pdf)

<sup>87</sup> Australian Institute of Health and Welfare (2014), 'Housing assistance in Australia 2014'. Cat. no. HOU 275. Canberra: AIHW.



estimated \$500 million.<sup>88</sup> In addition to offering the high quality services for which CHPs are recognised, such transfers will enable them to raise private finance for both modernising retained social housing and, where appropriate, leveraging its land value and redevelopment potential to create additional supply.

## 5.7 Improve funding and policy response to homelessness services

Homelessness remains a serious social problem in Australia. Additional investment in homelessness services under the previous government achieved a reduction in the number of rough sleepers, but significant growth in the number of people living in overcrowded dwellings, saw an increase in the rate of homelessness between the 2006 and 2011 Census periods. The homelessness rate rose by 20% or more in New South Wales, Victoria, Tasmania and the ACT.<sup>89</sup>

Homelessness services in Australia are funded through the NAHA (as noted above, approximately \$250 million is allocated to homelessness services) and the National Partnership Agreement on Homelessness (NPAH). The NPAH was extended again in 2015 for a further 2 years to 2017 'while a comprehensive review is undertaken of Commonwealth-State responsibilities'.<sup>90</sup> As noted above, a further extension has just been announced to 2018. While this is welcome, questions remain about the future adequacy and security of funding. The rollover in 2014 reduced the quantum of funding by \$44 million, by discontinuing funding for capital and research. This reduction was carried over in the last rollover. Until the current funding extension, the reduced amount was not indexed.

A future funding agreement should include an emphasis on the prevention of homelessness, including through addressing early life trauma, and adequately fund effective supported housing models and the capital costs of service interventions. Stable, long term funding for research evaluation should also be secured in the negotiation of a future long term agreement to enable the collection of baseline data and ongoing monitoring of impacts.

---

<sup>88</sup> Calculation based on the transfer of a further 80,000 dwellings, using cost estimates in Pawson, H., Milligan, V., Wiesel, I. and Hulse, K. (2013), 'Public housing transfers: past, present and prospective', Final Report no. 215 AHURI Melbourne in Tables 7 and 8.

<sup>89</sup> Australian Bureau of Statistics (2012), 'Census of Population and Housing: Estimating homelessness, 2011', Catalogue No. 2049.0.

<sup>90</sup> The Hon Scott Morrison MP, Media Release – 'Coalition reverses Labor's funding cuts on homelessness with a \$230 million commitment prioritizing victims of domestic violence', 23 March 2015. Available: <http://www.formerministers.dss.gov.au/15931/coalition-reverses-labors-funding-cuts-on-homelessness-with-230-million-commitment-prioritising-victims-of-domestic-violence/>.



### **Recommendation 27: Establish a long term Affordable Housing Growth Fund**

An Affordable Housing Growth Fund should be established with a commitment of \$750 million in the first year, growing to \$10 billion over 10 years.

Costing: \$750 million (\$1,000 million in 2018-2019)

### **Recommendation 28: Establish a housing finance intermediary to underpin a future rental investment scheme**

The government should establish the financial architecture to attract institutional investment in affordable private rental stock at scale.

Costing: \$20 million (\$35 million in 2018-19)

### **Recommendation 29: Review Commonwealth Rent Assistance and increase the maximum rate of CRA**

CRA should be reviewed to ensure that it best meets the needs of people who are on low incomes. As a first step, the maximum rate of CRA should be increased from 1 June 2017 by 30% (approximately \$20 per week) for low income households currently receiving the highest rate of CRA.

Costing: \$775 million (\$800 million in 2018-19)<sup>91</sup>

---

<sup>91</sup> Calculated using Stinmod and indexed to growth in CRA expenditure (projected to be more than 3%), based on recent trends. See DSS, (2016): op.cit.



## 6 Improving access and affordability of essential human services

Access to universal health, early childhood education and care, schools, employment services (discussed above) and community services for people who are vulnerable, disadvantaged or most at risk in our community are the essential underpinnings of Australia's social fabric. The provision of essential universal and targeted human services is pivotal to the goals of inclusive growth and productivity, reducing inequality, and creating a future in which everyone can live with dignity and have access to the opportunities needed to lead a life they value.

Human services are currently inadequate and not meeting community needs. .

Recent Federal Budget have seen substantial cuts or exclusions to spending on essential services. These include:<sup>92</sup>

- Cuts of \$80 billion in allocations to the states and territories for health and schools funding over 10 years (2014-15 budget) with only \$4 billion to be restored in the four years from 2015-16 and no commitments to school funding beyond the forward estimates period.
- The 2016-17 budget froze the indexation of health Flexible Funds for a further two years and reduced uncommitted funds provided (a cut of \$182 million over 4 years).
- The 2016-17 budget also extended the pause on the indexation of the Medicare Rebate until June 2020 (a cut of \$302 million over 4 years). This affects all services provided by GPs, medical specialists, and allied and other health practitioners and is highly likely to reduce the affordability and accessibility of health services to those on low incomes and escalate demands on hospitals.
- The implementation of significant and welcome increases in childcare expenditure announced in the 2015-16 budget has been deferred due to the failure to pass the family payment cuts which were inappropriately linked to the bill. Tighter activity tests for parents will make quality early learning less accessible to children from low income or poor families who would derive the greatest benefits.
- The 2014-15 budget cut \$534 million from Indigenous programs under the Indigenous Advancement Strategy (IAS). A 2016 Senate Inquiry and a Performance Audit by the Australian National Audit Office (2017) were highly critical of the tendering process used in the IAS.
- The 2014-15 budget cut \$165 million over four years through pausing the indexation of 112 administered programmes for three years. These include critical community infrastructure such as Family Relationship Services, youth engagement strategies, NGO Drug and Alcohol Services, mental health supports and Local Solution grants.

---

<sup>92</sup> ACOSS (2016), 'Budget Analysis 2016-17' Available at: [http://www.acoss.org.au/wp-content/uploads/2016/05/ACOSS-Budget-Analysis-2016-17\\_FINAL\\_small.pdf](http://www.acoss.org.au/wp-content/uploads/2016/05/ACOSS-Budget-Analysis-2016-17_FINAL_small.pdf)



- The 2016-17 budget saw a 30% funding cut (\$34.8 million between 2017-18 and 2019-20) to not-for-profit community based legal services (CLCs) already struggling to meet the growing demand from vulnerable and disadvantaged people including those fleeing domestic and family violence. These cuts take effect on 1 July 2017.

The 2017-18 budget must establish an agenda for sustained investment in adequate and effective human services, including preventive health measures and quality early learning opportunities for our most vulnerable children. It must also provide the funding certainty and funding growth required so that essential employment and other community services can cater to human need as it presents.

## 6.1 Health

### Investment in prevention

Health is one of the largest areas of expenditure growth in the Commonwealth budget. Expenditure growth is largely due to the costs associated with preventable chronic diseases, population ageing and health technology and the consequential increased spending on health and other services, including aged care.<sup>93</sup> Access to health services is also one of the highest concerns in the community. The ANU Election Study 2016 ranked Health and Medicare as the most important 'non-economic' issue in Australia with 24% of participants ranking it as their highest priority compared to 19% in 2013.<sup>94</sup>

While public health spending fell in many OECD countries after 2009 in efforts to consolidate public budgets following the GFC, it has gradually been increasing in line with economic growth since 2013.<sup>95</sup> OECD projections anticipate an increase in average public health and long term care expenditures from 6.2% to at least 8% of GDP from 2010 to 2030.<sup>96</sup>

The problem is that too much of our public health spend is directed towards tertiary or hospital services, with inadequate investment in preventive health initiatives. We fail to prevent a whole range of conditions (namely chronic disease) that significantly inhibit people's health and wellbeing while also placing an unsustainable burden on our health system. Stronger investment in preventive health care and supporting people to adopt healthier lifestyles would save significant future health care costs.<sup>97</sup> For example, the

---

<sup>93</sup> PC (2013), 'Ageing Population Preparing for the Future'; AIHW (2014), 'Australia's Health 2014; Reform of the Federation Issues Paper Number 3 Roles and Responsibilities in Health'

<sup>94</sup> Cameron and McAllister (2016), 'Trends in Australian Political Opinion: Results from the Australian Election Study 1987– 2016', Australian National University.

<sup>95</sup> OECD (2016), 'Health Expenditure' Available: <http://www.oecd.org/els/health-systems/health-expenditure.htm>

<sup>96</sup> OECD (2013), 'What Future for Health Spending?', OECD Economics Department Policy Notes, No. 19 June 2013', available: <http://www.oecd.org/economy/health-spending.pdf>.

<sup>97</sup> For a strong rationale for preventive services, see for example Australian Government (2010) Taking preventative action: a response to 'Australia: the healthiest country by 2020', Commonwealth of Australia, Canberra.





Victorian government estimates that savings of over \$1 billion a year could be made by better managing chronic illness to avoid hospital visits.

No wealthy OECD country has found the 'magic bullet' to stop the public health share of GDP from rising. Federal Budget in health should be focused *not* on cutting expenditure, but on a far better distribution of that expenditure, to ensure it achieves value for money in pursuing strong health outcomes and in an effective, accessible and affordable health system.

## Redirection of existing expenditure

The Private Health Insurance rebate (PHI) continues to be a good example of where current expenditure does not achieve good public health outcomes. Despite being a significant component of health expenditure, the PHI rebate has failed in its promise to take pressure off public hospitals by increasing use of private health insurance. Abolition of the PHI rebate could save \$3.5 billion in expenditure, accounting for the \$6.7 billion in foregone tax revenue from the rebate currently and offsetting the predictable increase in demand for public hospital services should the rebate be abolished.<sup>98</sup> As the former Minister for Health the Hon. Sussan Ley MP has acknowledged, there is widespread public unhappiness with the value for money people receive from their current private health cover.<sup>99</sup> Savings from the abolition of the PHI rebate should be redirected into the public health system with full transparency as to how these savings are spent.

ACOSS remains concerned by the lack of attention being paid to rising out-of-pocket costs for healthcare consumers and the impact this has on access to services for people on low incomes who are more likely to experience poor health. An independent review of the Extended Medicare Safety Net (EMSN)<sup>100</sup> showed that less than 4 per cent of EMSN benefits go to the most socioeconomically disadvantaged 20 per cent of the population.<sup>101</sup> This is because they struggle to afford the gap fees that enable them to reach the EMSN thresholds. While EMSN benefit caps were set on all consultations as part of the 2012-13 budget, ACOSS is concerned by the lack of public data to assess whether this has reduced

---

<sup>98</sup> Grattan Institute (2013), 'Balancing Budgets: tough choices we need' Available:

<http://grattan.edu.au/report/balancing-budgets-tough-choices-we-need/>.

<sup>99</sup> Responding to over 40,000 responses to the Government's survey of community attitudes to private health insurance in December, '40,000 Australians have their say on private health', Media Release by the Hon. S. Ley, 5 December 2015. Available: <http://www.health.gov.au/internet/ministers/publishing.nsf/Content/health-mediarel-yr2015-ley151205.htm>.

<sup>100</sup> The EMSN provides an additional rebate for people who incur out-of-pocket costs for Medicare eligible out-of-hospital services. Once the relevant annual threshold of out-of-pocket costs has been met, Medicare will pay for 80% of any future out-of-pocket costs for out-of-hospital Medicare services for the remainder of the calendar year. From 1 January 2017 the annual EMSN thresholds are:  
\$656.30 for Commonwealth concession cardholders  
\$2,056.30 for all other singles and families [Department of Health (2016), Medicare Safety Net Arrangements, 1 January 2017, Australian Government].

<sup>101</sup> CHERE (2011), 'Extended Medicare Safety Net Review of Capping Arrangements', Centre for Health Economics Research and Evaluation, University of Technology Sydney.



the costs (or reduced growth in costs) of specialist and allied health services and led to a more equitable distribution of EMSN benefits across the income distribution.

More fundamental reform is needed including greater transparency for consumers on the outpatient fees charged by specialists and out-of-pocket costs to patients. Greater price transparency would place downward pressure on fees. There should also be improved information on, and access to, public outpatient services.<sup>102</sup> An option for reform of the EMSN is extending bulk-billing incentives currently applied to GPs to specialists. The GP incentives currently apply on the basis of age (children), geography (providing higher incentives in rural areas) and concession card status. However, there are many other criteria that could be used that could make patients and their providers (specialists, in this case) eligible for such an incentive. It could work on the basis of income, presence of chronic disease, or people who have reached a threshold in out-of-pocket costs (similar to the EMSN and the original safety net).

## Transparent and affordable healthcare

The Federal Government, in partnership with states and territories, has a fundamental responsibility to ensure that health services across the continuum are available to the people who need them and that particular at risk groups in the community are provided with the services they need to live healthy and productive lives. Universal healthcare is the most effective, efficient and equitable way to ensure the delivery of adequate health services to the Australian public. ACOSS continues to argue strongly for universal coverage of essential health services for the whole community and for measures to improve the accessibility of those services for people and communities that are currently poorly served. As well as being more effective in reducing the health burden of the country, this approach enables the health system to respond to the needs of the community and works to eliminate current health inequities. ACOSS believes that essential primary health care services should be delivered through Medicare.

Federal funding of health services, including partnerships with the states and territories should be:

- appropriate indexed;
- evidence-based and adequate; and
- focused on performance and improvement of health outcomes across the community.

Health funding should also be transparent and there should be accountability within agreements. This would help ensure communities are aware of the funding arrangements in place and that health funding is being spent efficiently and effectively. Government and taxpayer expenditure on health is significant and there needs to be an appropriate level of

---

<sup>102</sup> Associate Professor Lesley Russell (2015), Too high: specialist fees hit the sickest patients, Sydney Morning Herald, November 24. Available at: <http://www.smh.com.au/comment/too-high-specialist-fees-hit-the-sickest-patients-20151124-ql6ess.html>



accountability and transparency within the health system. Healthcare services should be respected as a community asset and vested interests should not be able to access public funds to provide healthcare services without adequate accountability back to government and the community.

## Affordable oral health

Alongside basic, effective, community based health services, ACOSS has advocated strongly for reform to ensure that low income households have access to affordable dental services.

ACOSS opposed the 2016 budget proposal to cut funding under the Child Dental Benefits Schedule (which was recently overturned). However, ACOSS is very concerned that federal funding for dental health care for people on low incomes is now at an unprecedented low of \$107 million, down from the \$391 million originally committed in the 2013/14 budget.<sup>103</sup> The National Oral Health Alliance estimates that this could see up to 338,000 people lose access to affordable dental care.<sup>104</sup>

The Australian Institute of Health and Welfare found that individuals already pay 60% of the total spend on dental care through out-of-pocket costs.<sup>105</sup> For people on low incomes, this is unaffordable and many go without much needed dental treatment. Former Minister Ley has acknowledged that 63,000 people are hospitalised each year for preventable and treatable oral health conditions.<sup>106</sup> The lack of public dental care not only incurs a cost in our broader health system; it impacts on the ability of people who cannot get treatment to live their lives, including eat well, work and be engaged in their communities.

### **Recommendation 30: Ongoing investment in effective preventive health mechanisms**

Investment in preventive health programs should be increased through savings derived from ineffective health expenditure, maintained on the basis of population growth and effectiveness of programs.

Costing: \$150 million (\$154 million in 2018-19)

---

<sup>103</sup> Treasury (2014), 'Budget Paper No. 3'. Available: [http://www.budget.gov.au/2013-14/content/bp3/html/bp3\\_03\\_part\\_2b.htm](http://www.budget.gov.au/2013-14/content/bp3/html/bp3_03_part_2b.htm)

<sup>104</sup> National Oral Health Alliance (2016), 'Two steps back and one step forward for dental care' Media Release, 16 December.

<sup>105</sup> AIHW: Chrisopoulos S, Harford JE & Ellershaw A (2016), 'Oral health and dental care in Australia: key facts and figures 2015' Cat. no. DEN 229. Canberra: AIHW. Available: <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129554609> p.vii

<sup>106</sup> Ley, Sussan (2016), 'Turnbull Government to double public dental investment' Media Release, 23 April. Available: <http://www.health.gov.au/internet/ministers/publishing.nsf/Content/health-mediarel-yr2016-ley23042016.htm>



### **Recommendation 31: Remove the Private Health Insurance rebate from 1 July 2017**

The rebate has not reduced pressure on public hospitals and should be removed, with half its savings redirected to public hospitals, community based health services, preventive health and public dental health services for people on low incomes.

Saving: \$3,400 million (\$3,500 million in 2018-19)<sup>107</sup>

### **Recommendation 32: Abolish the Extended Medicare Safety Net**

The Extended Medicare Safety Net should be abolished due to its role in inflating prices, with its savings redirected to public hospitals and community based services.

Saving: \$420 million (\$430 million in 2018-19)

### **Recommendation 33: Increase investment in affordable, accessible dental care for children and adults**

Ensure access to basic, preventive dental care through the public health system for children and adults, funded through the redirection of savings from the abolition of the Private Health Insurance rebate.

Costing: \$1,200 million (\$1,230 million in 2018-19)

### **Recommendation 34: Remove increased co-payments for PBS-subsidised medications**

The savings forecast by the government through the introduction of this budget measure in 2014 should be reversed.

Costing: \$450 million (\$540 million in 2018-19)

---

<sup>107</sup> Commonwealth of Australia (2016) 'Budget Paper 1' at 5-12. Available: <http://www.budget.gov.au/2016-17/content/bp1/download/bp1.pdf>

## 6.2 Early childhood education and care

Evidence shows that a well-educated population is the key to Australia's economic productivity and social wellbeing. Access to high quality early childhood education and care plays a critical role in children's educational outcomes throughout formal schooling, including in areas such as school attendance, completion rates, behavioural outcomes in class and interest and motivation.<sup>108</sup>

National and international research is compelling on the benefits of investing time, effort and resources in children's early years, when their brains are developing rapidly. Early developmental gains support the school readiness of children and their engagement with education and employment in the years beyond. That said, the Australian Early Development Census (2015) shows that in 2015, more than 1 in 5 children (22%) commencing school were developmentally vulnerable on one or more domains and the proportion of children developmentally vulnerable on two or more domains increased from 10.8 per cent in 2012 to 11.1 per cent in 2015. Of greatest concern to ACOSS is that over the period 2009 to 2015, the gap between the proportion of developmentally vulnerable children in the most disadvantaged areas, relative to the least disadvantaged areas, widened across all five developmental domains.<sup>109</sup> It is this data that makes investment in quality early opportunities for children growing up in disadvantaged communities so pivotal. These children have the most to gain from participation in quality early childhood education and care but will be denied these critical opportunities through tightening of parental activity tests.

Despite these benefits, significant numbers of children and young people, particularly from low income households and disadvantaged communities, are not currently accessing early childhood education services. In addition to providing an important educational foundation for children, access to affordable, flexible care for children strengthens women's workforce participation.

A package of early childhood education and care reforms formed a centrepiece of the 2015-16 budget. The package was further revised in November 2015. In the 2016-17 budget, the implementation of the package was deferred for one year to 2 July 2018. A revised bill, the Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016 was introduced in September 2016, and a further revised package was recently presented to Parliament as part of an Omnibus Bill.

The revised package will deliver additional investment of \$3 billion over the forward estimates. It includes the following elements:

---

<sup>108</sup> Berlinski, S., Galliani, S. and Gertler, P. (2009), 'The effect of pre-primary education on primary school performance'. *Journal of Public Economics*, 93(1-2), 219-234; Queensland Department of Education, Training and Employment (2013) 'Evaluation of the Early Years Centre initiative – Summary Report'.

<sup>109</sup> Department of Education and Training (2015), 'Australian Early Development Census – National Report 2015', Commonwealth of Australia. Available at: <http://www.aedc.gov.au/resources/detail/2015-aedc-national-report>



- A new streamlined child care subsidy which will replace the Child Care Benefit (CCB), Child Care Rebate (CCR) and JETCCFA from 1 July 2017 which will meet:
  - 85% of the benchmarked costs of care for families under \$65,700 per annum;
  - 50% of the benchmarked costs of care for families on incomes of between \$170,000 and \$250,000 tapering down to 20% of costs for families on more than \$340,000 per annum (with a fee cap of \$10,000 for those on incomes upwards of \$185,000);
- A new requirement that parents participate in at least 4 hours of recognised activity per week to be eligible for more than 12 hours per week of subsidy (down from current eligibility for 24 hours per week without activity requirements). Some exemptions apply (e.g. for grandparent carers);
- The creation of four activity tiers linked to parental activity, with those participating in less than 4 hours per week of approved activity only eligible for subsidised care if deemed to be low income, in which they are eligible for 12 hours of subsidy per week;
- The creation of three programs to provide additional assistance for disadvantaged or special needs children, replacing existing programs. This includes the Additional Child Care Subsidy, paid to families with children at risk of abuse or neglect, those in temporary financial hardship, those on income support transitioning to work and grandparent carers; and
- The replacement of the current Budget Based Funding program, which provides block funding to Aboriginal, mobile and other children's services with mainstream, user pays models, with limited transitional support for affected services.

ACOSS welcomes increased investment in early childhood education and care, and supports reform to simplify the child care payments system including moving to a single subsidy payment. However, we strongly oppose the linking of child care funding to proposed cuts to family payments and other social security payments targeted to people on low incomes. ACOSS recommends that funding for child care investment be secured from general revenue. For ACOSS's alternative proposals for reform of family payments, see Chapter 4.

We have been unable to model the budget impacts of these proposed changes, in part because of the very limited information released by the government about the distributional impacts of its policy package and the respective costs of various components of the policy. We note that, to date, modelling released by the government has been limited to cameos only, which have included the interaction with family payment cuts. We urge the government to release detailed modelling of the distributional impacts of its policy changes, including changes to the activity test and the budget impact of various components of the package.

Under the current system, families are entitled to a minimum of 24 hours per week of subsidised care and more than 24 hours if they are engaging in at least 15 hours per week of approved activities. Under the proposed new rules, as noted above, families engaging in fewer than 4 hours a week of approved activity will only be eligible for just 12 hours a week of subsidised care, halving their entitlement. This shift to impose more stringent activity



requirements is at odds with moves in comparative countries to increase access to free childcare for all children. For example, the UK government currently provides access to two days free childcare for children aged 3+ years regardless of parental activity, with both major parties pledging to increase access to at least 25 hours per week.

ACOSS recommends that all families should be able to access a minimum of two days of early childhood education and care, regardless of activity level to ensure children in families without paid work have access to sufficient quality care. Longer-term, we recommend that this form one of a number of community service guarantees as part of a broader tax and federation reform agenda.<sup>110</sup>

## Effectively targeted fee assistance

ACOSS broadly supported the Productivity Commission's model for structural reform of the child care system which recommended that families on low incomes receive a higher subsidy (85-90% of benchmarked costs for families under approximately \$60,000) with a linear taper down to a universal base subsidy of 20% -30% for higher income families (above \$250,000).<sup>111</sup> The government's revised child care package adopts an 85% subsidy rate for families on less than \$65,000 per year, but then adopts a two-step taper: to a 50% subsidy for families on incomes of \$170,000-\$250,000, then down to 20% for families on more than \$340,000 per annum. The government's package also increases the fee cap for high income families, from \$7,500 to \$10,000 per annum. The relative generosity at the higher end has increased the overall costs of the package, which the government is now seeking to pay for through cuts to family payments. This has also made for a more complex system.

ACOSS believes that, beyond a universal base payment, the level of childcare subsidy should be appropriately targeted to those who struggle with childcare costs. We recommend that the maximum subsidy of 85% for families on low and moderate incomes be maintained (under \$65,000, as per the government's proposal) but that the two-step taper be replaced by a linear taper to a base rate of 30% for families on \$250,000 per annum or above. We also recommend the subsidy cap for higher income families be maintained at its current level (\$7,500) and indexed,<sup>112</sup> rather than increasing it to \$10,000 as proposed in the government's package. Affected families should be able to adjust their subsidy rate to ensure they maintain access to subsidy all year if they are likely to hit the cap.

These changes would ensure that resources are available to address the gaps in the child care system for low income and developmentally vulnerable children.

---

<sup>110</sup> See The COSS Network (2015), 'Fit for purpose: a federation that guarantees the services people need'. Available: [http://acoss.wpengine.com/wp-content/uploads/2015/10/COSS-federation-framework\\_FINAL.pdf](http://acoss.wpengine.com/wp-content/uploads/2015/10/COSS-federation-framework_FINAL.pdf).

<sup>111</sup> The Productivity Commission's Final Report recommended 20% down from 30% in its Draft Report.

<sup>112</sup> Indexation of the cap was frozen in 2011 for 3 years. Indexation should be to movements in child care prices.





## Establishment of Aboriginal and Torres Strait Islander community based program

The existing Budget Based Funding program would be abolished under the proposed reforms. The program currently funds 303 services across Australia, most of which are Aboriginal and Torres Strait Islander focused. From 1 July 2017, these services will have to operate on the mainstream, fee-based, Childcare Subsidy. ACOSS is concerned about the viability of this funding model for Aboriginal and Torres Strait Islander services and families. We are also concerned that the reform package fails to deliver investment in the creation of additional Aboriginal and Torres Strait Islander child care services, despite the Productivity Commission report highlighting that an additional 15,000 early childhood education and care (EHC) places would be needed to close the gap in Aboriginal and Torres Strait Islander children's attendance.<sup>113</sup>

We support the Secretariat of National Aboriginal and Islander Child Care (SNAICC)'s recommendation to establish an Aboriginal and Torres Strait Islander community based program within the new Child Care Safety Net.

The government has been working with budget Based Program funded services, and has recently given an undertaking to ensure that the work of Budget Based Funded services continues, and to significantly change the way the Community Child Care Fund will operate, to ensure funds reach services currently part of the Budget Based Funded programs. We support measures that ensure that BBF services, including Aboriginal and Torres Strait Islander programs, will not be required to transition to rely only on Child Care Subsidy and Additional Child Care Subsidy funding. It is important that programs reaching children in regional and remote areas (including playgroups, mobile services and outside school hours care<sup>114</sup>) have a sustainable, stable and equitable funding model that reflects higher delivery costs; have an integrated funded formula that provides services with the flexibility to respond to child and family needs where a user pays model is insufficient; and provide top up funding for operational costs to redress services' income gap from the mainstream subsidy and fees based on 3-year applications.

## Ensure that low income families who are not in paid work are no worse off

Under the proposed new childcare package, additional fee assistance will be available for some parents on income support who are seeking to transition to work through the Additional Child Care Subsidy which will replace the existing JETCCFA program. The impact of this change on very low income families is difficult to determine. We repeat our call for the release of detailed modelling of the distributional impacts of the proposed policy changes and seek

---

<sup>113</sup> Productivity Commission, 'Childcare and Early Childhood Learning', Report No. 73, October 2014, p.525.

<sup>114</sup> Secretariat of National Aboriginal and Islander Child Care (2016), The Jobs for Families Child Care Package: Unintended consequences and policy alternatives for Aboriginal and Torres Strait Islander children, SNAICC, February.



assurances from government that affected low income families will not be worse off because of the proposed changes, including single parent families who are beneficiaries of the current scheme.

### **Recommendation 35: Redirect savings from tightening of income test and caps for higher income households to address improve access for children in low income families**

- 1) Replace the proposed three-tiered subsidy with a simpler and more sustainable two-tiered model (a linear taper), with a maximum subsidy of 85% for families on less than \$65,700 tapering to a base subsidy of 30% for households on more than \$250,000 per annum.<sup>115</sup>
- 2) Reduce the subsidy cap for higher income households from \$10,000 to \$7,500 per annum, and resume indexation.
- 3) Provide a minimum of two full days of subsidised early childhood education and care per week for all families, regardless of activity. Activity requirements should apply only to families seeking care for more than two days per week.<sup>116</sup>
- 4) Establish an Aboriginal and Torres Strait Islander community based program within the new Child Care Safety Net, which provides children with 22.5 hours or three sessions of ECEC per week and enables the provision of playgroups, mobile services and outside school hours care in regional and remote communities.<sup>117</sup>

Costing: Revenue neutral<sup>118</sup>

## 6.3 Community Services

Community services designed to support people who are vulnerable, disadvantaged or at risk demand adequate funding so that national social justice objectives including those to reduce domestic and family violence can be realised. The funding climate for essential and innovative community services since the 2014-15 budget has been one of chronic and prolonged uncertainty. The combination of cuts, followed by partial reversals or freezes or the 'repackaging' of funding allocations has wrought havoc in critical areas of social

---

<sup>115</sup> The Productivity Commission estimated the cost of tapering to a base rate of 30% (instead of 20%) at approximately \$185 million per annum, compared to its alternative model, but these costs would be offset by the removal of the proposed mid-tier 50% subsidy rate for families on \$170,000-\$250,000. See Productivity Commission, *Childcare and Early Childhood Learning, Inquiry Report Volume 2, No. 73, 2014* at Figure 16.15.

<sup>116</sup> The Productivity Commission estimated the cost of removing the activity test altogether as more than \$1 billion per year, while the cost of removing the test for those on Parenting Payment and increasing the minimum weekly entitlement to 20 hours per week was estimated at approximately \$250 million per annum. See Productivity Commission (2014), *Childcare and Early Childhood Learning, Inquiry Report Volume 2, No. 73, 2014* at Figure 16.15.

<sup>117</sup> Estimated cost of \$100 million per annum.

<sup>118</sup> The new system is due to start on 2 July 2018. It is proposed that any additional costs not met by the changes to income tests and subsidy rates would be covered through the redirection of savings committed through previous cuts to the package from the 2015 MYEFO as well as the 12-month delay in implementation of the scheme. Detailed modeling is required to assess the net impact of the changes.



infrastructure. Indexation has not been adequate to account for rises in wage costs. Providers cannot plan for quality delivery and clarify service models let alone innovate, when community sector workers are uncertain about their futures. While restoration of funding cuts for services and sector development cannot unpack the damage felt by people who have been unable to access essential services, staff who have lost their jobs or organisations with long-established relationships and trust in communities with pronounced needs, it can mark the beginning of a more certain future.

A broader suite of community services provides essential supports for people whose economic, social and cultural rights and rights to fair hearings and fair trials are being abrogated by poverty and budget cuts in the context of rising needs. This requires a new approach to sustainable funding for community services which provides greater certainty and responds to data on rising levels of demand. It also requires Australia to build a policy framework to support social innovation. This has been a stunning oversight in the Federal Government's 'innovation' agenda and is essential if we are to build more effective ways of working and to improve outcomes for those in greatest need.

The Federal Budget should make provision for, at a minimum, a restoration of the pre-existing funding levels for community services, commencing from 1 July 2018, in order to fund recommendations arising from a comprehensive and transparent mapping of service needs in 2017. ACOSS seeks collaboration between the community sector and Australian Government so that the sector can develop in a sustainable and inclusive way with funding levels responsive to key datasets on service demand and unmet needs including the annual ACOSS National Community Sector Survey, the annual Productivity Commission report on Government Services and biennial report on Overcoming Indigenous Disadvantage.

Mapping is critical to determine where needs lie and how best to meet them. It must give recognition to the value community sector providers deliver within a civil society spanning service delivery, policy, advocacy and representation by and of people experiencing poverty and inequality. Future service agreements and contracts should include provision for reasonable compensation to providers for the costs imposed by changes in government policy that affect the delivery of the contracted services. Common examples include changes to eligibility rules, the scope of the service being provided, or reporting requirements. This was recommended by the Productivity Commission in its Report on the contribution of the not-for-profit sector (rec 8.1).<sup>119</sup>

The Australian Government's National Innovation and Science agenda is squarely situated in a space that focuses on supporting businesses, industry and research partners to take risks and to commercialise promising discoveries. These are important national objectives but ignore the importance of fostering innovation in the delivery of social services despite the desperate need to generate more effective responses to increasingly complex and interdependent needs that do not fit neatly into single funding silos. They instead require a

---

<sup>119</sup> Productivity Commission (2010) Contribution of the not-for-profit sector. Available at: <http://www.pc.gov.au/inquiries/completed/not-for-profit>



more holistic approach to understanding problems and new ways of collaborating and approaching the 'co-design' challenge across people using services, service providers, funding bodies and the research community.

ACOSS seeks a budget allocation of \$3 million in 2017-18 so that these groups can work with government to develop a social innovation framework. A genuine and synergistic dialogue is required to:

- discuss new service models or ways of working that can drive improved outcomes for individuals, families and communities in need;
- develop a shared understanding of social and public value and the savings which can be generated through greater investment in effective early intervention and prevention;
- determine priority areas and additional expenditure required to support community service organisations of different sizes to engage in innovation, evaluation and monitoring;
- analyse what social innovations have been enabled by, or could be enabled by, investment from the Future Fund and social outcome funds developed internationally; and
- consider what alternative funding models might look like and how we build the capacity of the community sector and other stakeholders to drive the changes demanded by intractable social problems in a way that is more responsive to emerging needs and which creates new opportunities to build a more equal and sustainable future.

### **Recommendation 36: Restore community service funding levels, including through the Indigenous Advancement Strategy**

Provision for restored funding levels to pre-2014-15 Federal Budget Levels, commencing from 1 July 2018

Costing: \$0 (\$1,886 million in 2018-19)

### **Recommendation 37: Index community services funding to wage movements**

Ensure funding for the delivery of community services is tied to the 2016 MYEFO Wage Price Index.

Costing: \$379 million (\$391 million in 2018-19)



### **Recommendation 38: Direct representation of community services in mapping service needs and competition policy reform**

Ensure direct representation of non-profit community services in mapping service needs, estimating the value these organisations add to civil society, and in ongoing dialogue on competition policy reform including, but not limited to, the Productivity Commission Inquiry into Human Services

Costing: revenue neutral

### **Recommendation 39: Develop a social innovation framework and funding model**

Costing: \$3 million

## **6.4 Aboriginal and Torres Strait Islander Budget Measures**

For Aboriginal and Torres Strait Islander people, inequalities in key economic and social outcomes remain as consistent and they are profound. There have been important improvements between 2002 and 2014-15 in mortality rates for children and educational participation and employment relative to non-Indigenous Australians. Yet in the same period there was no progress on 'closing the gap' in rates of family and community violence. Outcomes have worsened in areas spanning hospitalisations for self-harm (a 56% increase in the decade to 2014-15) while the adult imprisonment rate increased 77 per cent between 2000 and 2015, and the juvenile detention rate for Aboriginal and Torres Strait Islander young people is 24 times the rate for non-Indigenous youth.<sup>120</sup>

ACOSS strongly supports the 2016 Redfern Statement and urges the Australian Government to work with Aboriginal and Torres Strait Islander national organisations and leadership to develop policy and budget measures. It is essential to support meaningful dialogue and transformative action by the 45th Parliament on the priorities identified by Aboriginal and Torres Strait Islander peak bodies in the Redfern Statement of June 2016. These issues span engagement, health, justice, violence prevention, disability, children and families.

This Submission has set out the following recommendations regarding programs and services that particularly affect Aboriginal and Torres Strait Islander communities: abolish compulsory income management and the cashless welfare card trials (Chapter 3);

- reform the Community Development Program via Indigenous leadership and co-design with communities with an emphasis on creating secure waged employment (Chapter 3);

---

<sup>120</sup> Productivity Commission (2016), 'Overcoming Indigenous Disadvantage: Key Indicators 2016'. Available at: <http://www.pc.gov.au/research/ongoing/overcoming-indigenous-disadvantage/2016>



- establish an Aboriginal and Torres Strait Islander community based program within the new Child Care Safety Net (Section 5.2) including playgroups, mobile services and outside school hours care in regional and remote communities; and
- conduct comprehensive mapping of need for community services for Aboriginal and Torres Strait Islander communities, funded under both the Indigenous Advancement Strategy and the Department of Social Services, and provision to restore the funding cut from these services in the Federal Budget 2014/15 (above)
- negotiations between the Commonwealth, States and the Northern Territory for adequate and sustainable funding arrangements extending beyond 2018 to address overcrowding and increase the supply of Aboriginal community controlled housing in remote, regional and urban areas (Chapter 6).

These measures are not comprehensive regarding addressing the social and economic inequalities experienced by Aboriginal and Torres Strait Islander people. However, they are important reforms identified by ACOSS in its priority policy areas. In addition, ACOSS argues for funding to support institutional capacity so that the voices of Aboriginal and Torres Strait Islander communities can be heard in policy processes and national decision-making. This is pivotal if a cardinal referendum on constitutional recognition for Aboriginal and Torres Strait Islander peoples is to occur in 2017.

#### **Recommendation 40: Core funding for institutional capacity of Aboriginal and Torres Strait Islander representation**

Provide core funding for the institutional capacity of Aboriginal and Torres Strait Islander representation in policy making and national decision-making

Costing: \$3.5 million (\$3.6 million in 2018-19)

