

# Budget Priorities Statement

2021-2022



## Who we are

ACOSS is the peak body of the community services and welfare sector and the national voice for the needs of people affected by poverty and inequality.

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.

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# 1. Executive Summary

Last year was extraordinary for the devastation wreaked on communities by bushfires, COVID-19 and the deepest recession in almost a century. Also extraordinary were the level of cooperation among our political leaders, community, business and unions to overcome these crises, and the fact that government policies in response to COVID-19 probably reduced poverty and income inequality despite the recession.

Along with the JobKeeper wage subsidy and eviction moratoria, the \$275 per week Coronavirus Supplement played a critical role in shielding those affected by the recession – including the 750,000 people already on unemployment payments – from destitution. The Centre for Social Research and Methods estimates that the number of people in poverty declined [from 3 million to 2.6 million people](#) between 2019 and June 2020, when without government intervention it would have increased to 5.8 million. Similarly, the Treasury estimated that without the JobKeeper payment, the unemployment rate would have peaked at 15% rather than 7.5%.

These policies are emblematic of the consensus across the community and political spectrum for strong collective action to protect our health, jobs and incomes in uncertain times. The increase in payments for people who are unemployed, studying or raising a child alone recognised the unacceptable gap between those payments and people's basic living costs, building on a consensus across business, community, unions and labour market and social policy experts that the payment was grossly inadequate.

There have been welcome reductions in COVID-19 infections and solid employment growth in recent months. However, the need for resolute government action to protect lives and livelihoods remains. The second wave of COVID-19 across the world in late 2020, ongoing domestic breakouts, lockdowns and border closures, and the fact that 40% of fulltime jobs lost in the recession have not yet been restored, are warnings to government to exercise caution in winding back economic stimulus.

Further, the crisis of 2020 highlighted glaring vulnerabilities in our social and economic protections; notably the grossly inadequate levels of JobSeeker and related social security for people affected by unemployment, and the inadequacy of a range of human service systems, include aged care and child-care. Now is the time to fix these protections for the safety, health and wellbeing of the community.

Australia is in a relatively strong position now because governments responded to the pandemic with bold policies including social distancing, widespread testing and tracing, JobSeeker and JobKeeper, and housing-related protections. In the absence of these policies, many more people would have died, and poverty as well as income and wealth inequality would have risen dramatically. That could still happen if income supports and economic stimulus are withdrawn now.

Just as it is not safe to remove all COVID-19 restrictions until we know whether vaccines are effective, it is not safe to rely exclusively on a surge of private investment or consumer spending driven by tax cuts for high income earners who can afford to save them, to deliver a quick and robust recovery.

The Federal Government should take a more active and ambitious approach to restoring employment. It should aim to bring unemployment back to at least 5% or less by the end of the next financial year (June 2022) rather than below 6% in four years as currently projected in the MYEFO last year.

The government should make the direct investments in income support, services, and public infrastructure that will be needed to get there.

All budget decisions should be the most effective, high value measures to deliver on our national priorities:

- Relieving financial and mental stress amongst people worst affected
- Restoring growth in jobs and incomes
- Reducing carbon emissions, ensure no-one is left behind the energy transition and prepare communities for more extreme weather events
- Guaranteeing high quality essential services
- Working with First Nations communities to acknowledge and redress the devastating impacts of European invasion and settlement
- Strengthening our public revenue base to meet current and future needs.

The same policy vigour and community consensus that have saved lives and jobs in the face of the pandemic should now be applied to these major challenges we still face.

## Six steps to recovery and renewal

In this Budget, the government should map six steps to achieve a sustainable recovery of employment and incomes, reduce carbon emissions and deal with the effects of climate change, guarantee essential services, and restore the public revenue base that makes these achievements possible.

First, take urgent action to **relieve financial and mental stress among those worst affected**:

- Permanently increase JobSeeker, Youth Allowance and other allowance payments to pension levels and properly index them, to protect the 1.4 million people on those payments from poverty;
- Extend and improve supplementary payments for additional living costs including private rents, and the costs of sole parenthood and disability;
- Remove unwarranted barriers to income support including cashless welfare cards, the liquid assets waiting period, excessive waiting periods for new migrants, and automated suspensions of unemployment payments (\$250 million);

Second, **restore growth in jobs and incomes**:

- Set a goal to reduce unemployment below to 5% by the end of next financial year (June 2022);
- Make the above improvements in income support for those on the lowest incomes, as the fastest and surest way to stimulate growth in incomes and employment;
- Invest \$7,800 million in care services (see below), a far more cost-effective way to boost employment, especially among women, at an average cost of \$70,000 per job (for aged care) compared with \$475,000 for 'Stage 2' tax cuts;<sup>1</sup>
- A three-year \$7 billion plan to construct 20,000-30,000 social housing dwellings to reduce homelessness and generate over 15,000 jobs a year;
- A \$1,400 million national low-income energy productivity program (NLEPP) to improve energy efficiency in the homes of people on low-incomes and create tens of thousands of jobs;

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<sup>1</sup> ACOSS analysis of data in Frydenberg & Cormann (2020), Budget Paper No1; Grudnoff M (2020), Tax cuts or spending: What is the most effective stimulus? Australia Institute.

- A jobs and training guarantee for the 700,000 people on unemployment payments for more than a year, so that those left behind in the labour market can take advantage of new job opportunities. JobMaker wage subsidies should extend to this group regardless of age;
- Structural reform of employment services to shift them from their benefit compliance focus to personalised help with barriers to employment, and forge local partnerships for jobs with local employers, community services and governments.

Third, **reduce carbon emissions, ensure no-one is left behind the energy transition and prepare communities for more extreme weather events:**

- Set emissions reduction targets of zero net emissions before 2050 and at least 45% by 2030 and transition the energy sector faster;
- Invest in improving the energy efficiency and productivity of low-income homes to slash energy bills, improve health outcomes, cut emissions and create thousands of jobs (\$580 million);
- Improve energy affordability for people experiencing disadvantage.
- Just transition for workers and communities (\$2 million);
- Empower communities to build their resilience to natural disasters including through establishing Local Council Committees and Community Resilience Hubs, (\$320 million);
- Better meet the needs of people impacted by natural disasters (budget impacts will be variable depending on need in a given year);
- Support community organisations to prepare for extreme weather events and to assist communities affected by them (\$360 million);
- Create more affordable, accessible insurance (\$2 million).

Fourth, **guarantee essential services** for all and ensure they are of good quality.

- Reduce the wait for Home Care Packages to no more than three months (\$1,700 million);
- Lift child care subsidies to 95% of costs and remove activity requirements to reduce the cost of child care for people with low and modest incomes (\$5,500 million);
- A phased transition to a universal dental care scheme (\$1,100 million);
- Extend the guarantee of ongoing funding for equal pay for workers in community services beyond DSS-funded programs (\$62 million);
- Undertake a comprehensive needs analysis and then boost funding for community services (\$10 million);
- Increase funding for community services by \$2,000 million to reverse cuts from 2014;

Fifth, work with First Nations communities to **acknowledge and redress the devastating impacts of European invasion and settlement.**

- Support the Uluru Statement from the Heart;
- Provide core funding for the institutional capacity of Aboriginal and Torres Strait Islander representation in policy making and national decision-making (\$10 million);
- Replace the Community Development Program with a Fair Work and Strong Communities scheme (\$250 million in 2022-23)



- Develop a new national Aboriginal and Torres Strait Islander housing strategy with a 10% boost to funding under the National Housing and Homelessness Agreement earmarked to build capacity for Indigenous Community Housing Organisations (ICHOs) in urban, rural, regional and remote areas (\$170 million).
- Ensure Aboriginal and Torres Strait Islander children get access to high quality early education that is culturally safe, delivered by appropriately skilled teachers (\$73 million).

Sixth, **strengthen the public revenue base** to meet current and future needs.

- Do not proceed with \$17 billion per annum in tax cuts for people with high incomes;
- Extend the 15% tax rate on super fund investment income to post retirement accounts to fund a guarantee of high-quality aged care services for all (\$2,500 million);
- Reduce tax breaks for capital gains and remove the tax advantages of negative gearing strategies - this would also help prevent another surge in house prices (\$2,100 million in 2022-23);
- Curb personal income tax avoidance through private trusts and companies (\$2,900 million in 2022-23);
- Curb tax avoidance by multinational companies (\$500 million in 2022-23).
- Phase out diesel fuel subsidies for off-road use (except agriculture) and divert expenditure into climate change transition and resilience strengthening measures.

## Budget impact of our proposals

The proposals in this submission would strengthen growth in incomes and employment, especially in 2021-22 when there is a risk that growth will flag.

We were not able to cost all recommendations, including a number of social security proposals, the proposed extension of the Jobkeeper wage subsidy, and a jobs and training guarantee for people unemployed long-term.

The costed recommendations invest \$13 billion in expenditures and raise \$4 billion in additional revenue. They would increase the Budget deficit by approximately \$9 billion in 2021-22, so this is a minimum value for the economic stimulus imparted in the first year.

In 2022-23, the costed expenditure proposals increase to \$23 billion but they are partly offset by \$20 billion in revenue-raising measures, which mostly commence in that year. The net budget impact in 2022-23 would be an increase of about \$3 billion in expenditures.

Given the very low interest rates on public borrowings, a substantial increase in the Budget deficit is not a problem from the standpoint of annual interest expenses over the forward estimates period. On top of the unprecedented fiscal stimulus in 2020, this would aid economic recovery.

Over time, the phasing out of some major expenditures such as the Jobkeeper wage subsidies, and the maturation of our revenue measures, would substantially reduce future budget deficits and public debt. This applies especially to the removal of \$17 billion in annual tax cuts scheduled from 2024-25. Future budgets will need to continue to pursue measures to strengthen our revenue base to ensure we can meet community needs.

## Summary of recommendations

	<b><i>Expenditure Measures</i></b>	<b>2021-22</b>	<b>2022-23</b>
<b><i>Number</i></b>		<b>Budget impact \$m</b>	<b>Budget impact \$m</b>
	<b>Social security</b>		
1.	Permanently increase JobSeeker, Youth Allowance, Parenting Payment and related income support	not available	not available
2.	Provide supplementary payments to meet specific need	not available	not available
3.	Abolish compulsory Cashless Debit Card and Income Management	0	0
4.	Extend income support to temporary visa holders, people seeking asylum and international students	not available	not available
5.	Abolish the Liquid Assets Waiting Period	-30	-31
6.	Reduce waiting periods for newly arrived migrants	-60	-61
7.	Improve access to income support	-160	-160
8.	Establish a social security commission	-4	-4
	<b>Employment</b>		
9.	Set a goal to reduce unemployment below 5% by June 2022	not available	not available
10.	Maintain Jobkeeper payments in a more targeted form	not available	not available
11.	Jobs and training guarantee	not available	not available
12.	Local partnerships for jobs	-50	-100
13.	Career guidance and training for those who need it	-200	-400
14.	Restructure employment services	not available	not available
15.	Remove harsh compliance arrangements	not available	not available
16.	Replace Community Development Program	0	250
	<b>Climate Change - just transition and community resilience</b>		

	<i><b>Expenditure Measures</b></i>	<b>2021-22</b>	<b>2022-23</b>
<i><b>Number</b></i>		<b>Budget impact \$m</b>	<b>Budget impact \$m</b>
17.	Set emissions reduction targets of zero net emissions before 2050 and at least 45% by 2030 and transition the energy sector faster	not available	not available
18.	Healthy, low-energy low-income homes	-580	-2,360
19.	Clean, affordable, dependable energy for Aboriginal and Torres Strait Islander communities	-500	-500
20.	COVID energy hardship payment	not available	not available
21.	Shift Small-scale renewable energy scheme to government budget	-1,540	-1,480
22.	Vulnerable consumer energy literacy grant scheme	-1	-1
23.	Just transition authority and worker re-deployment scheme	-2	-4
24.	Empower communities to build their resilience and lead disaster recovery efforts	-345	-375
25.	Better meet the needs of people impacted by natural disasters	not available	not available
26.	Strengthen the disaster resilience of community organisations	-540	-540
27.	Review on affordable and accessible insurance	-2	0
	<b>Housing</b>		
28.	Build 20,000-30,000 social housing dwellings	-1,000	-4,000
29.	Increase Rent Assistance to relieve rental stress for private tenants	0	-1,900
30.	Investment incentive for social and affordable rental housing	0	-600
31.	National Aboriginal and Torres Strait Islander housing strategy	-170	-190
32.	Inter-governmental remote housing agreement	-450	-480
	<b>Community services</b>		

	<b><i>Expenditure Measures</i></b>	<b>2021-22</b>	<b>2022-23</b>
<b><i>Number</i></b>		<b>Budget impact \$m</b>	<b>Budget impact \$m</b>
33.	Increase funding for community services	-10	-2,000
34.	Create a Continuity of Service Delivery Fund	-250	0
35.	Guarantee funding for equal pay	-62	-64
36.	Apply fair and uniform indexation to all community sector grants	-350	-358
37.	Reduce the waiting list for Home Care Packages to three months	-1,700	-1,800
38.	Improve access to preschool	-620	-980
39.	Improve the affordability of early childhood education and care	-5,500	-5,600
40.	Ensure equality for Aboriginal and Torres Strait Islander children in their early years	-73	-75
41.	Establish an Evaluator General	-5	-5
42.	Increase funding to peaks and advocacy organisations	-10	-10
	<b>Health</b>		
43.	Invest 5% of total Commonwealth Health spending in prevention	-2,700	-2,800
44.	Invest in community-led COVID health promotion	-50	0
45.	Transition to a universal dental health care scheme	-1,100	-1,200
46.	Abolish the Private Health Insurance Rebate	4,100	4,200
47.	Abolish the Extended Medicare Safety Net	500	511
	<b>Expenditure impacts</b>	<b>-13,439</b>	<b>-23,092</b>

	<b><i>Revenue Measures</i></b>	<b>2021-22</b>	<b>2022-23</b>
<b><i>Number</i></b>		<b>Budget impact \$m</b>	<b>Budget impact \$m</b>
	<b>Retirement incomes and services</b>		

	<i>Revenue Measures</i>	<b>2021-22</b>	<b>2022-23</b>
<i>Number</i>		<b>Budget impact \$m</b>	<b>Budget impact \$m</b>
48	Universal compulsory super contributions should remain universal, but not increase above 10% without major reform of tax breaks	not available	not available
49.	Fair and simple tax concessions for superannuation contributions	0	0
50.	Tax superannuation fund earnings after retirement to help pay for aged care services	0	2,500
51.	Reduce age-based tax concessions to help finance health and aged care services	0	700
52.	Prevent avoidance of the Medicare Levy	0	1,300
	<b>Taxation</b>		
53.	Do not proceed with scheduled income tax cuts <sup>2</sup>	3,800	2,900
54.	Reduce the Capital Gains Tax discount for individuals and trusts	600	1,200
55.	Remove inequitable small business Capital Gains Tax concessions	0	300
56.	Restrict deductions for personal investment expenses (negative gearing)	0	600
57.	Curb the use of private trusts to avoid personal income tax and conceal income	0	1,500
58.	Prevent the use of private companies to avoid personal income tax	0	1,400
59.	Curb international business tax avoidance	0	500
60.	Abolish fuel tax credits for off-road use	0	4,600
61.	Introduce a 'sugar tax' on sweetened drinks	0	500
62.	Tax drinks consistently on the basis of alcohol content	0	2,300
	<b>Revenue impacts</b>	<b>4,400</b>	<b>20,300</b>

<sup>2</sup> This saves \$15.9 billion altogether in 2024-25, since the 'stage 3' tax cuts would not proceed.

	<i>Revenue Measures</i>	2021-22	2022-23
<i>Number</i>		Budget impact \$m	Budget impact \$m
	<b>Overall Budget impacts</b>		
	<b>Budget expenditures</b>	-13,439	-23,092
	<b>Budget revenue</b>	4,400	20,300
	<b>Budget impact (net of un-costed measures)</b>	<b>-9,039</b>	<b>-2,792</b>

Not available: Either there are insufficient data available to estimate the costs or the costs will be variable depending on need in any given year, for example in case of natural disasters. Fiscal costs are expressed as negative values and savings or revenue increases as positive values. Negative figures are expenditure increases; positive figures in *italics* are savings measures. Estimates are rounded up or down to nearest whole number, and to nearest \$10 million where impact is over \$100 million

## 2. A permanent boost to the lowest incomes

### Summary

- More than 3 million people, including 1.1 million children rely on the lifeline income support payments that the government chose to temporarily double in response to the pandemic's economic shutdowns. Despite some improvement in economic conditions, the number of people receiving JobSeeker Payment remains at record highs. Despite this, people receiving these lifeline income support payments had their incomes further cut on 1 January, losing \$100 a fortnight. A single person on JobSeeker now receives just \$51 a day, which is around \$360 a week, or \$18,600 a year.
- These rates are insufficient to cover basic living costs. For example, median rents in all capital cities now exceed the entire JobSeeker Payment.<sup>3</sup> Anglicare Australia shows that there are just 13 affordable rentals for someone on the base rate of JobSeeker out of 77,000 surveyed.<sup>4</sup> If JobSeeker Payment is returned to \$40 a day at the end of March (as per current government policy) all but one capital cities' median rent will exceed the amount received via JobSeeker Payment (including Commonwealth Rent Assistance).
- The Australian Government alleviated poverty for millions of people last year when it doubled income support. Millions were able to put food on the table and keep a roof over their head. We urge the government to now permanently and adequately increase these lifeline payments to keep millions of people, including children, afloat.

### Introduction

ACOSS welcomed the Federal Government's COVID-19 response package that doubled JobSeeker and related payments. The increased income support had a profound effect in homes across the country. People were in a much better position to put and keep a roof over their heads. 93% said they could afford fresh fruit and vegetables thanks to the doubling of income support.<sup>5</sup> People spoke about how they could buy birthday presents for their kids, buy a new t-shirt, and a bag of oranges. Women told us that the doubling of income support allowed them to escape domestic violence.

This compares with 2019 data that showed more than 80% of people receiving the old brutal rate of Newstart had to regularly skip meals, with many often not eating at all.<sup>6</sup>

Despite the enormous benefits delivered by higher rates of income support, the government has gradually cut back the Coronavirus Supplement. More than 2 million

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<sup>3</sup> Australian Institute of Health and Welfare (2020) Housing Data – Housing Market: Australian Property Value, December, <https://www.housingdata.gov.au/>

<sup>4</sup> Anglicare Australia (2020) Rental Affordability Snapshot (Update) (August)

<https://www.anglicare.asn.au/docs/default-source/default-document-library/special-release-rental-affordability-update.pdf?sfvrsn=4>

<sup>5</sup> ACOSS (2020) 'I can finally eat fresh fruit and vegetables' Survey of 955 people receiving the new rate of JobSeeker and other allowances, <https://www.acoss.org.au/wp-content/uploads/2020/06/200624-I-Can-Finally-Eat-Fresh-Fruit-And-Vegetables-Results-Of-The-Coronaviru...pdf>

<sup>6</sup> ACOSS (2019) "'I regularly don't eat at all': Trying to get by on Newstart" <https://www.acoss.org.au/wp-content/uploads/2019/07/190729-Survey-of-people-on-Newstart-and-Youth-Allowance.pdf>

people had their incomes cut by \$50 a week on 1 January 2021, including parents of 1.1 million children.

The payment cuts over the last few months mean that single people on JobSeeker now receive just \$51 a day (\$360pw) down from \$80 a day in April 2020. For context, median rent for homes in all capital cities is between \$390 (Adelaide) and \$525 (ACT) per week.<sup>7</sup> This demonstrates that current rates of payment do not reflect costs faced. We also know that the proposed return to \$40 a day will massively increase poverty levels compared with before COVID-19, as there are more people relying on these lifeline payments.

Unless the government acts, JobSeeker Payment will return to its old brutal Newstart rate of \$40 a day at the end of March, with a record number of people relying on it. We cannot allow this to happen. There is a broad consensus that unemployment and related payments must be permanently increased.

As a matter of urgency, the government must permanently and adequately increase payments. Temporary assistance measures do not provide the certainty and security people need to cope with the health and economic crises we face. Temporary assistance means that people cannot plan their budgets, make decisions about renewing leases or determine whether they will have enough income for the start of the school year. The government must right the number one fairness fail in our community and deliver a permanent and adequate increase to unemployment and related payments so that everyone can cover the basics.

## Ensuring everyone has enough to cover the basics

ACOSS recommends the following payment reforms to take effect immediately:

1. Adequate and fair payment rates: Set a standard minimum income floor across the working age payments system at the current pension rate (including the Pension Supplement). This is currently \$472 per week for a single person.
2. Increase base rates of allowances to this income floor. This would require an increase of \$185pw to the single maximum rate of JobSeeker Payment and \$235 per week for single, maximum rate of Youth Allowance. This would simplify the income support system, while securing fairness. (Increases to the income floor would apply to all allowance payments, including Austudy and Abstudy, as well as parenting payment).
3. Roll universal payments like the Energy Supplement into base rates of income support to simplify the system, recognising that they are intended to assist with basic household expenses.
4. Index income support payments twice per year to wages as well as prices.
5. Income support payments must not be subject to mandatory cashless debit or income management.

For further detail about these recommendations and other key reforms ACOSS proposes for social security, please refer to [the Next Steps for Income Support briefing note](#).

**Recommendation 1: Permanently increase JobSeeker, Youth Allowance, Parenting Payment and related income support to the same level as the pension plus Pension Supplement, and index these payments to wages as well as prices.**

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<sup>7</sup> AIHW, above.



## Provide supplementary payments to meet specific need

In addition to the income floor described above, the following supplements should be provided so that specific financial needs are met:

1. **Housing Supplement:** Increase the maximum thresholds of Commonwealth Rent Assistance by 50% to more adequately subsidise private rental costs for low-income tenants. (See Chapter 5: Make access to housing affordable for people with low incomes)
2. **Disability and Illness Supplement:** Introduce a Cost of Disability and Illness Supplement that recognises the additional costs faced by people with disability. This Supplement should be at least \$50 per week.<sup>8</sup> This is in addition to ACOSS's long-standing call for broader access to the Disability Support Pension to avoid people with disability ending up on JobSeeker Payment.
3. **Single Parenting Supplement:** Introduce a Single Parent Supplement that recognises the added costs of single parenthood. The Single Parent Supplement should be at least \$200 per week (and must reflect number and age of children). This could be paid via Family Tax Benefit Part B.

As in other policy areas, we believe government should take the opportunity in its response to the pandemic and high unemployment rates, to reform social security to remove longstanding inequities, needless complexity, and inefficiency. For more information on our proposals for reform of working-age income support, see our brief [Next Steps for Income Support](#).

**Recommendation 2: Provide supplementary payments that reflect specific costs faced.**<sup>9</sup>

## Abolish compulsory Cashless Debit Card and Income Management

More than 30,000 people across the country have their social security payment quarantined because of where they live, the type of payment they receive and the length of time they have received their payment. This means they lack access to cash to meet regular expenses such as school lunches for children. There is no reliable evidence that this kind of intervention improves people's lives.

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<sup>8</sup> See NATSEM modelling of the cost of disability: Li, J., Brown, L., La. H.N., Miranti, R., and Vidyattama, Y. (2019). Inequalities in Standards of Living: Evidence for Improved Income Support for People with Disability. NATSEM, Institute for Governance and Policy Analysis, University of Canberra. Report commissioned by the Australia Federation of Disability Organisations. September 2019.

<sup>9</sup>ACOSS was unable to cost recommendations 1 & 2 in this submission because of a lack of sufficient publicly available data to model the policy.

The government must abolish mandatory income quarantining and genuinely engage with people affected about how to resolve issues affecting them and their communities.

**Recommendation 3: Compulsory income quarantining should cease. People should be given the option to continue cashless debit or income management on a voluntary basis or leave the schemes.**

**Budget impact: Revenue neutral: Savings to be re-invested into supporting community-led programs**

## Extend income support to temporary visa holders, people seeking asylum and international students

Australia continues to be affected by the pandemic, as are people who are in Australia without permanent residency. More than one million people at the start of the pandemic were in Australia either on a temporary or student visa, or were seeking asylum. The vast majority have not had access to income support (with the exception of New Zealand citizens and some people seeking asylum under the SSRS program).

ACOSS, along with many other organisations, call for income support to be granted to these groups providing they satisfy the means test. Considering the challenges in returning to country of origin (and for people seeking asylum, this is not an option), Australia has an obligation to ensure these groups have financial support should they be without paid work.

For further detail, please see the ['Who misses out on access to Australia's safety net under COVID-19'](#).

**Recommendation 4: Extend income support to temporary visa holders, people seeking asylum and international students**

## Abolish the Liquid Assets Waiting Period

The Australian Government did the right thing at the start of the pandemic suspending the Liquid Assets Waiting Period (LAWP). The LAWP requires people to wait much longer for their first income support payment if they have liquid assets exceeding \$5,500 (if single with no dependents) or \$11,000 otherwise. This forces people to draw down the savings they are likely to need later to deal with financial emergencies. It should be replaced with a comprehensive means test.

**Recommendation 5: The Liquid Assets Waiting Period should be abolished and replaced with a comprehensive means test for payments to which it applies.**

**Budget impact: -\$30 million (-\$31 million in 2022-23)**

## Reduce waiting periods for newly arrived migrants

ACOSS welcomed the government's suspension of the Newly Arrived Residents Waiting Period last year in response to the pandemic. However, the return of the waiting period for income support of up to four years for many newly arrived migrants, and a one-year wait for Family Tax Benefit will lead to people becoming destitute, especially when there is just one job for every nine people looking for one. Excessive waiting periods deny people in need support, which should not have a place in our income support system.

**Recommendation 6: Waiting periods for newly-arrived migrants should be reduced. There should be no waiting period for newly-arrived migrants to access Family Tax Benefit, Paid Parental Leave, Special Benefit or Carer Allowance.**

**Budget impact: *-\$60 million (-\$61 million in 2022-23)***

## Improve access to income support

ACOSS has long called for measures to improve access to income support payments, particularly for people in crisis. To better facilitate access to income support for people in need, ACOSS recommends the following:

- Removal of one-week waiting periods for Parenting Payment and Youth Allowance (Other)
- Improve access to Crisis Payment for domestic and family violence survivors, as recommended in our 2020 Budget Priorities Statement<sup>10</sup>
- Increase permanent staffing at Centrelink to meet need
- Align the means test for Special Benefit with JobSeeker Payment
- Ensure all receiving JobSeeker and related payments receive a Low-Income Health Card

For more detail on these measures, please see ACOSS's 2020 Budget Priorities Statement.<sup>11</sup>

**Recommendation 7: Improve access to income support by removing waiting periods, reforming Crisis Payment, aligning Special Benefit means test, and boosting Centrelink resources.**

**Budget impact: *-\$160 million (-\$162 million in 2022-23)***

## Establish a social security commission

The setting of social security payment rates has largely been a political process. An independent body to advise the parliament on the setting of payment rates and payment settings would enable a fairer approach to social security design, with rates set by

<sup>10</sup> ACOSS (2020) 'Budget Priorities Statement' <https://www.acoss.org.au/wp-content/uploads/2020/02/FINAL-Accessible-ACOSS-Budget-Priority-Statement.docx> p.41

<sup>11</sup> ACOSS (2020) 'Budget Priorities Statement' <https://www.acoss.org.au/wp-content/uploads/2020/02/FINAL-Accessible-ACOSS-Budget-Priority-Statement.docx>

reference to household need. This does not negate the need to immediately implement the above recommendations, including recommendations 1 and 2.

**Recommendation 8: Establish a social security commission to provide independent expert advice to the Parliament about the setting of social security payment rates (including family payments), covering adequacy, means test settings and indexation.**

**Budget impact: *-\$4 million (-\$4.1 million in 2022-23)***

# 3. Restoring jobs for people out of paid work

## Summary

- Although jobs are being restored after the deepest recession in almost a century, one third of full-time jobs lost have not yet been recovered, and there is an average of nine people who are unemployed or searching for more paid hours per vacancy.
- Around 40% of the 1.5 million people on unemployment payments is unemployed long-term, and many face barriers to employment such as disability or mature age.
- We should learn the lessons of past recessions and take the following steps to prevent high and prolonged unemployment from becoming entrenched:
  1. Set a goal to reduce unemployment below 5% by June 2022. This requires budget policies to boost demand for goods and services and direct investment in infrastructure and services like social housing and aged care;
  2. Sustain *JobKeeper payments as long as needed* to protect jobs in industries and regions directly and substantially affected by COVID-19 restrictions;
  3. Commit to a *jobs and training guarantee for people unemployed for over 12 months (6 months for young people)*, including wage subsidies and/or substantial vocational training as required;
  4. Offer *professional career guidance and training* to other people receiving unemployment payments who need this including young education leavers, parents and carers returning to paid work, and older people who need to renew their careers;
  5. *Replace jobactive with a personalised service for people who are unemployed long-term or disadvantaged in the labour market*, that treats people with respect, is properly resourced, and whose quality is assured by an independent statutory agency;
  6. *Embed employment services in local partnerships for jobs* with employers, councils and community organisations, with input from people using the service;
  7. *Shift the role of employment services from supervising compliance to positive support to find employment*, by removing harsh elements of the Targeted Compliance Framework and restoring the role of Services Australia in assuring compliance with activity requirements.

## Introduction

The deepest recession in almost a century, together with restrictions to prevent the spread of COVID-19, have transformed the labour market. After rising to an 'effective rate' of 15%, unemployment remains high at 6.8%.

While the overall number of jobs has been restored to its pre-COVID level, one third of fulltime positions lost have not been restored.<sup>12</sup>

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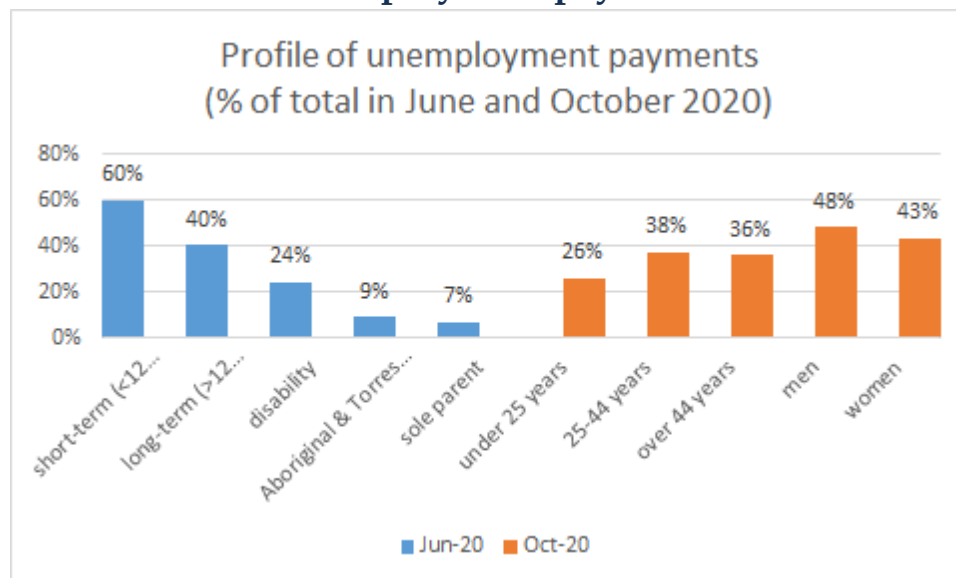
<sup>12</sup> ABS (2021), Labour Force December 2020; Frydenberg & Cormann (2020), Budget Paper No 1, Australian government.

Deeper changes already under way in the labour market – including sluggish wage growth, a lack of secure fulltime positions for young people, and a shift from face-to-face to digital services, have accelerated<sup>13</sup>

Labour market conditions are still tough for people searching for employment. There is an average of nine people who are unemployed or searching for more paid hours for every vacancy.<sup>14</sup> There are 1.5 million people on JobSeeker and Youth Allowance (unemployment payments), twice the number before COVID, and the number is likely to be boosted as more than 200,000 school leavers search for employment.<sup>15</sup>

Around 40% of those on unemployment payments (around 700,000 people) have received income support for over a year. Over one third are 45 years or older, one quarter have disability, 9% identify with Aboriginal and Torres Strait Islander communities and 7% are raising a child alone. Many belong to groups who would have received pension payments before 'welfare to work' policies diverted them to unemployment payments.<sup>16</sup> The number of long-term recipients will rise substantially from April 2021 – one year after the COVID recession hit.

**Figure 1: Who receives unemployment payments?**



Source: DSS Payment demographic data.

Once jobs lost during the lockdowns are restored, employment growth is unlikely to be strong enough to quickly reduce unemployment in the absence of the budget policies advocated in this submission.

Even if employment growth is sustained, there are many people who stand little chance of securing paid employment without major improvements in the employment services and training systems.

<sup>13</sup> ACOSS and Jobs Australia (2018): Faces of unemployment, ACOSS and Jobs Australia, Sydney. Available: [https://www.acoss.org.au/wp-content/uploads/2018/09/ACOSS\\_JA\\_Faces-of-Unemployment\\_14-September-2018\\_web.pdf](https://www.acoss.org.au/wp-content/uploads/2018/09/ACOSS_JA_Faces-of-Unemployment_14-September-2018_web.pdf)

<sup>14</sup> ABS (2021) Labour Force, September 2020; ABS (2020), Job Vacancies, November 2020.

<sup>15</sup> DSS (2020), JobSeeker and Youth Allowance recipients, monthly profile, December 2020.

<sup>16</sup> DSS (2020), DSS payment demographic data.

## Generate new jobs and protect existing ones

The MYEFO projects that unemployment will slowly decline from 7.25% in 2020-21 to 5.25% in 2023-24, though these projections may be pessimistic given stronger than expected employment growth in the last quarter of 2020. High unemployment is socially harmful and a waste of economic resources, and we can do better than this. The government should set a goal to reduce unemployment below 5% by the end of the next financial year (June 2022).

We outline policies elsewhere in this submission to speed growth in employment through improved income support (lifting demand for goods and services), infrastructure investment such as social housing, and improvements in care services. In addition, we propose that the JobKeeper wage subsidy be maintained for as long as it is needed.

ACOSS supports in principle a gradual transition from protecting existing jobs (through JobKeeper payments) towards wage subsidies to generate new ones (through Jobmaker payments), as COVID restrictions are eased.

However, JobKeeper payments should not end abruptly on 31 March because there is still a need to protect employment in industries and regions directly and substantially affected by COVID restrictions. That need is likely to remain until it is clear that vaccines have effectively prevented the spread of the virus.

### **Recommendation 9: Set a goal to reduce unemployment below 5% by the end of the next financial year**

**The government should set a policy goal, supported by public investments in infrastructure, income support and care services, to reduce unemployment below 5% by June 2022.**

### **Recommendation 10: Maintain JobKeeper payments in a more targeted form**

**(1) Maximum JobKeeper payments of \$750 per week for those employed for over 20 hours a week and \$375 for other employees should be available beyond 30 March to employers for workplaces in industries and regions directly and substantially affected by COVID-19 restrictions (including lockdowns, social distancing requirements, and international border restrictions), where the employer demonstrates it has experienced major income losses as a result.**

**(2) Extend these more targeted JobKeeper payments to 31 December 2021, subject to a public review in the second half of this year.**



## A jobs and training guarantee to reduce long-term unemployment

To secure employment, most people who are already long-term unemployed need much more than help with job search. Depending on circumstances they may also need:

- Paid work experience in regular jobs (building on the JobKeeper wage subsidies for young people and existing wage subsidy schemes for people who are unemployed);
- Vocational or foundational skills training;
- Connection with a local employer willing to give them a chance to fill a vacancy (demand-led approaches); and/or
- Support with other barriers to employment including connecting them with local health and community services.

We propose a jobs and training guarantee for people receiving unemployment payments for 12 months or more (six months if under 25 years old). This would comprise wage subsidies, training places and other more intensive supports typically lasting 6-12 months, to improve people's prospects of ongoing employment. The form of assistance provided would be decided between employment service participants and their providers.

Temporary wage subsidies for regular paid work are more effective in improving people's job prospects than unpaid work experience programs such as Work for the Dole.<sup>17</sup> Yet apart from the new Jobmaker wage subsidies for young people and the Youth Jobs Path wage subsidies, there are no specific budget allocations for wage subsidies for people unemployed long-term. Over the first eight months of 2019, only 13,000 people were placed in the various wage subsidy schemes for people who are unemployed.<sup>18</sup>

Many people unemployed long-term need further education and training to improve their skills and employment prospects. This should be based on their career aspirations and a realistic assessment of the employment opportunities available.

### **Recommendation 11: A jobs and training guarantee**

**(1) A jobs and training guarantee should be offered to people who are unemployed long-term, including young people unemployed for 6 months or more and people aged 25 years and older unemployed for 1-2 years or more.**

**(2) The guarantee would comprise subsidised paid work experience, and/or vocational and foundational education and training, and/or 'demand led' employment assistance that connects people to employers likely to take them on, and/or other support based on their needs and those of employers that:**

- **is offered in each year of (long-term) unemployment;**
- **is negotiated between program participants and skilled employment consultants who have the time and resources to properly assess their needs and assemble a suitable package of support;**

<sup>17</sup> Department of Employment (2014): Effectiveness of wage subsidies in Job Services Australia, Department of Employment, Canberra. Department of Jobs and Small Business (2015): Work for the Dole 2014-15 evaluation report, Department of Jobs and Small Business, Canberra. Available:

<https://docs.employment.gov.au/documents/work-dole-2014-15-evaluation-report>

<sup>18</sup> Our detailed proposals to extend Jobmaker subsidies to people unemployed long-term regardless of age are in [https://www.acoss.org.au/wp-content/uploads/2020/10/23102020\\_ACOSS-Submission\\_JobMaker-Wage-Subsidies\\_Final.pdf](https://www.acoss.org.au/wp-content/uploads/2020/10/23102020_ACOSS-Submission_JobMaker-Wage-Subsidies_Final.pdf)



- **builds on and improves national programs already in place, with guidance from local employment and skills partnerships;**
- **includes access to jobs generated through public procurement (by setting targets for employment of people unemployed long term in tenders for public investments in social housing and other infrastructure).**

**(3) To implement the guarantee, the following programs would be expanded, improved and consolidated:**

- **wage subsidies with private employers and community services for 6-12 month placements in regular employment, replacing the Work for the Dole and Youth Jobs Path programs;**
- **vocational training and further education including the Jobtrainer scheme; and**
- **annual credits to the Employment Fund in respect of people who fall within the jobs and training guarantee target groups.**

## Build, support and sustain local partnerships for jobs

To reduce high and entrenched levels of unemployment, employment service providers should work with local employers, education and training organisations, community organisations, and councils to draft and implement local employment and skills plans. Their purpose should be to generate more local jobs and improve the matching of jobs, skills, and unemployed people across a region or locality. The views of participants in employment programs should be represented.

While some regions already have well-established social and economic partnerships, they will only be widely established and sustained across the country if governments provide the infrastructure to make them work, including financial support and access to local data and expertise. However, partnerships led by government rather than local communities and services are unlikely to work effectively.<sup>19</sup>

We welcome the establishment of local employment skills partnerships and plans in 25 regions, under the new *Local Jobs Program* announced last year. Local collaboration should now be deepened, backed by a parallel partnership body at national level, and gradually extended across the country. The national body could be a new organisation or an adaptation of the recently-established Employment Services Advisory Group.

### **Recommendation 12: Local partnerships for jobs**

**The Local Jobs Program should be strengthened and extended by:**

**(1) establishing a standing national advisory body to the Minister for Employment and Skills comprising industry, unions, community organisations, local governments, the National Skills Institute, and employment education and training services to support the work of local employment and skills partnerships and feed back to government policy proposals and implications arising from their work;**

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<sup>19</sup> More detail on our proposals for local employment and skills partnerships is at: <https://www.acoss.org.au/wp-content/uploads/2020/08/200812-Local-employment-and-skills-development-partnerships-FINAL-2.pdf>

**(2) broadening the membership of Local Jobs and Skills Taskforces and appointing independent chairs drawn from the community;**

**(3) providing a funding stream to support the Taskforces administratively, alongside the Local Recovery Fund to support employment projects.**

**Budget impact: -\$50 million (-\$100 million in 2022-23)**

## 3.5 Career guidance and training to clear a path to decent jobs

In addition to people unemployed long-term, many people who are unemployed or preparing to enter the paid workforce would benefit from career guidance and training. This applies especially to new entrants to the workforce, parents and carers re-entering it after a number of years' absence, and older workers who need to renew their skills.

The National Skills Commission and Careers Institute are well placed to gather and share intelligence on workforce skills and demand for them. The Jobtrainer program offers vocational training to people who are leaving education or unemployed. The missing links in this chain of career information and support are:

- inadequate and uncertain funding for public and community education providers; and
- a lack of robust local networks of professional career advisors.

While there are good-quality VET and further education courses, especially in TAFEs and not-for-profit community education providers, the VET system is under-resourced, fragmented, and not attuned to the needs of people seeking jobs or employers. Further, many people who are unemployed lack foundational skills.<sup>20</sup>

In addition, per capita public funding for universities has been progressively cut, leaving them to rely heavily on fees paid by overseas students. The closure of international borders has triggered a financial crisis for many universities. This should be resolved by funding them properly for their research and teaching.

Good quality courses relevant to the needs of local labour markets and people who are unemployed must be scaled up urgently. We welcome the *Jobtrainer* program, and propose that people who are currently unemployed be given priority in the allocation of training places.

Career guidance services for people who are unemployed are fragmented according to the age and family status of participants, and are of uneven quality. More substantial support is available for young people through the *Transition to Work* program and for older people through the *Career Transition Assistance* scheme, but there is gap in career advice and support for people in middle-age.

Professional career guidance and training are not widely available through jobactive because providers are not resourced to offer it, and have limited financial incentives to place people in training.

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<sup>20</sup> 44% of adults lack the literacy skills required in everyday life and a substantial share of those who have lost jobs recently do not have English as a first language (OECD 2019, Skills Matter: Additional Results from the Survey of Adult Skills) at <https://www.oecd.org/skills/piaac/>

Some career guidance and training services are offered to sole parents through the *Parents Next* program, but it has major flaws including paternalistic assumptions that sole parents and their children are at risk of 'welfare dependency' and need help with parenting skills, and requirements to participate in the program when the youngest child is just six months old.<sup>21</sup>

**Recommendation 13: Career guidance and training for those who need it**

**(1) Professional career guidance and support services, linked to education and training places through Jobtrainer and other programs, should be expanded for people who are unemployed or entering/re-entering paid employment.**

**(2) Priority should be given to the following groups receiving income support, and inequities in the support available for different groups removed:**

- **Education to Work Transition Service for young people with Year 12 qualifications or less, at risk in the transition from education to employment, building on the Transition to Work program;**
- **career guidance and support services for parents and carers returning to paid work, replacing the ParentsNext program (voluntary for those whose youngest child is below school age);**
- **career guidance and support services for older workers who need to adjust their careers, building on the Career Transition Assistance program; and**
- **a career guidance component of jobactive services for people recently retrenched from their employment.**

**(3) Funds should be attached to these programs to purchase further education and training, as agreed between career counsellors and participants.**

**(4) The majority of places in the JobTrainer program should be allocated to people who are unemployed or who otherwise fall within the four target groups identified above.**

**(5) Local Employment and Skills Partnerships should assist employment and education and training providers to map local skills requirements and training resources, and connect people to the right courses.**

**Budget impact: *-\$200 million (-\$400 million in 2022-23)***

## 3.6 Put the 'service' back in employment services

In 2018 the Employment Services Expert Panel recommended that a new employment services system be established in 2022, with a 'digital services' stream for people less disadvantaged in the labour market and an 'enhanced services' stream for people unemployed long-term and those assessed as more disadvantaged.<sup>22</sup>

Savings from the implementation of digital services were to be re-allocated to enhanced services to reduce caseloads and offer more scope for providers to invest in training, work experience and other personalised support.

<sup>21</sup> ACOSS (2019): The future of ParentsNext: Submission to Senate Community Affairs Committee, ACOSS, Sydney. Available: [https://www.acoss.org.au/wp-content/uploads/2019/02/ACOSS-submission-into-Parents-Next\\_FINAL.pdf](https://www.acoss.org.au/wp-content/uploads/2019/02/ACOSS-submission-into-Parents-Next_FINAL.pdf)

<sup>22</sup> Employment Service Expert Panel (2019), I want to work. Australian government.

It is clear that the present employment services system is not fit for purpose to deal with the new challenge of mass unemployment and elevated levels of long-term unemployment. In 2019, the average expenditure per place in the *jobactive* program for people unemployed long-term was \$2,200 to \$3,000 and the average caseload was 140 people per consultant. Inadequate investment in employment services and an excessive focus on compliance meant that most people receive a standardised, low-level service.

In response to the rapid rise in unemployment, some of the Panel's proposals have been implemented early. Around half of the 1,400,000 people receiving employment assistance are now assisted online, and the remainder by *jobactive* providers. Payments to providers have been brought forward so that roughly half of their funding is 'up-front' and the other half for outcomes achieved.

These reforms should go further. For employment service providers to play their crucial case management and coordinating role, savings from digital servicing must be reallocated to reduce provider caseloads, not returned to the Treasury. Incentives in the payment model should be recalibrated to encourage patient investment in program participants and closer relationships with employers, rather than simply compliance with activity and contract requirements.

When the new employment services model is introduced, it should be underpinned by a robust licensing system administered by an independent statutory body. Biases in the system towards larger, for-profit providers should be removed to facilitate the entry of specialist and local community agencies into the new program.<sup>23</sup>

#### **Recommendation 14: Restructure employment services**

**In consultation with service providers and users, peak bodies and experts, the next model of employment services should be designed on the foundations laid by the Employment Service Expert Panel, including:**

- (1) Two streams of service, a digital service (with personal support as required from employment specialists in Services Australia) for people less disadvantaged in the labour market, and a more intensive face-to-face service for people unemployed for a year or more (six months in the case of people under 25 years) and those at risk;**
- (2) Minimum and higher-level service standards (including qualifications of front-line staff and responsiveness to the needs of service users) monitored by an independent statutory licensing body that determines whether providers can enter the employment services system, and (where minimum standards are breached) whether they must leave;**
- (3) A commissioning system that offers a fixed number of contracts and 'business shares' in each Employment Service Area, subject to provider performance, that facilitates the entry of specialist and locally-based providers;**
- (4) A fee structure that provides more funding in advance, greatly reduces consultant caseloads, and assists people with direct costs of job search and barriers to employment through an enhanced Employment Fund (as proposed**

<sup>23</sup> Our more detailed proposals for the licensing system, commissioning arrangements and fee structure of future employment services are at:

<https://www.acoss.org.au/wp-content/uploads/2020/11/acoss-submission-employment-service-licensing.pdf> and <https://www.acoss.org.au/wp-content/uploads/2021/01/201208-ACOSS-submission-new-employment-service-payment-model.pdf>

in Recommendation 11).

## 3.7 Remove harsh elements and automation from the unemployment payment compliance system

People using jobactive services should be supported to take control of their own job search, rather than simply follow instructions. At a time when many people are distressed by the combination of COVID-19, social isolation, and unemployment, activity requirements and penalties should be redesigned to offer positive support instead of adding to the pressures people already face.

Activity requirements that keep people engaged with the labour market can speed transitions to paid employment.<sup>24</sup> However, onerous requirements and penalties cause distress, add little or no value to employment assistance, and detract from people's efforts to find employment that is more suitable and stable.<sup>25</sup>

Activity requirements for unemployed people in Australia are among the strictest in the OECD.<sup>26</sup> Prior to COVID-19, they typically had to agree to a job plan, attend regular appointments with jobactive, apply for 20 jobs each month, and for three to six months of each year of unemployment participate in Work for the Dole (working for their benefits for 15 to 25 hours a week) or other 'annual activities'.

Under the *Targeted Compliance Framework* (TCF), people who do not attend a jobactive provider appointment or undertake an activity have their next payment suspended automatically.

Employment service providers lack discretion not to impose 'demerit points' that can lead to loss of payments for up to four weeks, and Services Australia lacks discretion not to apply financial penalties. Non-government providers and algorithms in effect supplant the role of Services Australia in the compliance system.

During the recession, a number of positive changes were made to activity requirements and the compliance system.

They included reduced job search requirements when job vacancies were scarce, the removal of requirements to participate in face-to-face appointments and activities, and the introduction of a two-day grace period before payment suspensions are applied.

As COVID restrictions are eased, we should not return to the previous, harsh compliance system. Activity requirements should be modified to take account of people's fear of infection and diminished employment opportunities, especially in regions with few vacancies. Automated suspension of payments for non-compliance and other harsh elements of the Targeted Compliance Framework should be removed.

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<sup>24</sup> Martin, J (2015): 'Activation and active labour market policies in OECD countries: Stylised facts and evidence on their effectiveness', IZA Journal of Labor Policy, 4:4, 2015, Springer Open, New York. Available: doi:10.1186/s40173-015-0032-y

<sup>25</sup> Taulbot et al. (2018): 'JobSeeker's Allowance benefit sanctions and labour market outcomes in Britain 2001-14', Cambridge Journal of Economics, 42:5, 2018, Oxford Academic, Oxford, at: <https://doi.org/10.1093/cje/bex088>.

<sup>26</sup> Langenbucher, K (2015): How demanding are eligibility criteria for unemployment benefits? Quantitative indicators for OECD and EU countries, OECD Social, Employment and Migration Working Paper No. 166, Paris, at: <https://doi.org/10.1787/1815199X>

**Recommendation 15: Replace harsh compliance arrangements with a strengths-based approach.**

The employment services system should be re-oriented away from compliance with activity requirements towards positive help and agency for unemployed people, through:

- (1) A simple 'points-based' system of activity requirements with lower default job search requirements (especially in regions with few vacancies and for principal carers, people with partial work capacity, and older people) and more flexibility to combine job search with other activities such as training;
- (2) Removing requirements to work for benefits (Work for the Dole), and social requirements attached to benefits (including children's attendance at playgroups or school, and drug treatment);
- (3) Restoring default hours for compulsory annual activity requirements (mutual obligation) to 15 hours a week instead of the current 25 hours;
- (4) Restoring the role of Services Australia in assessing compliance with activity requirements, including the first 5 'demerits';
- (5) Restoring discretion for employment services to excuse (not report) participation 'failures', and Services Australia to waive penalties;
- (6) Removing automated payment suspensions.

## 3.8 Replace the Community Development Program with a fairer, more effective scheme.

The Community Development Program (CDP) is failing to improve the employment prospects in remote communities and it is harming participants. In just two years, 350,000 financial penalties were imposed in a program assisting 33,000 people.

Unlike the former Community Development Employment Program (CDEP), it does not provide waged work and therefore does not address the key reason for unemployment in these areas: a lack of local employment opportunities.

Over \$200 million a year is being spent on a scheme that is unlikely to improve people's employment prospects and diverts the resources of local employment services to administration of social security compliance, and providing unpaid 'work for the sake of it' instead of properly paid jobs and assistance to prepare or search for employment.

We endorse the proposal from the Aboriginal Peak Organisations Northern Territory and others to replace CDP with a 'Fair Work Strong Communities' program, as a workable alternative that would empower local communities and generate jobs.<sup>27</sup>

**Recommendation 16: Replace the Community Development Program with a Fair Work and Strong Communities scheme**

<sup>27</sup> Aboriginal Peak Organisations Northern Territory (2017): Fair work and strong communities: Proposal for a remote development and employment scheme, APONT, Darwin. Available: [http://www.amsant.org.au/apont/wp-content/uploads/2017/07/RDES-Report\\_Online.pdf](http://www.amsant.org.au/apont/wp-content/uploads/2017/07/RDES-Report_Online.pdf); Fair Work and Strong Communities Alliance (2019): Fair work and strong communities alliance website, [www.fairworkstrongcommunities.org](http://www.fairworkstrongcommunities.org), accessed 16 December 2019

**The Community Development Program should be replaced by a new, community-led employment services scheme for people in remote Aboriginal and Torres Strait Islander communities along the lines of the Remote Development and Employment Scheme proposed by the Fair Work Strong Communities Alliance, with the following features:**

- (1) Entitlements to social security payments are maintained;**
- (2) Activity requirements are no stricter than those applying to unemployed people generally;**
- (3) At least 12,000 new paid jobs in remote communities are wholly, or predominantly, created in Aboriginal and Torres Strait Islander organisations;**
- (4) Governance arrangements are independent, legislatively-based and Aboriginal-led;**
- (5) Flexibility for local people to set objectives within the long-term goals of the scheme and to adapt program settings to local conditions;**
- (6) No direct or indirect discrimination against Aboriginal and Torres Strait Islander people.**

**Budget impact: \$0 (-\$250 million in 2022-23)**



## 4. Accelerate a just climate transition and strengthen community climate resilience

### Summary

- Climate change and an inequitable transition to a clean economy, threatens people's health and wellbeing, quality of life, employment, livelihoods, homes and life itself. People living on low-incomes or experiencing disadvantage are the first and most impacted. Climate change has a significant social and economic burden, especially for future generations.
- The impacts are occurring now and accelerating. In the summer of 2019/20 unprecedented bushfires fueled by climate change, contributed to the deaths of more than 500 people, destroyed 3,000 homes, and affected livelihoods of thousands. Recovery will take years for most, and some people may never fully recover.
- To limit the impacts of dangerous climate change, Australia and the rest of the world needs to rapidly reduce its emissions. Australia should set emissions reduction targets of zero net emissions before 2050 and at least 45% by 2030.
- The energy sector should transition first and fastest while improving access to affordable, clean and dependable energy for all.
- We can simultaneously reduce emissions and improve energy affordability and climate resilience for people on low incomes by targeting investment in energy efficiency, solar and batteries for low-income households; remove solar subsidies from electricity bills and improve access to energy literacy.
- We should also be planning now for a just transition for workers and communities being impacted as a result of the shift from fossil fuels to clean energy.
- Even if we rapidly reduce emissions, the world has already locked in significant levels of pollution. Policies are needed to build resilience of community sector organisations and people experiencing poverty and disadvantage.
- Measures are needed to support and empower people and communities to build their resilience and lead recovery efforts on their terms. Genuine community partnership, including with Aboriginal and Torres Strait Islander people, communities and organisations, is essential to improve the nation's future preparedness, responsiveness and recovery efforts.

### Introduction

Climate change and a slow, poorly managed transition to net zero emissions are major threats to ending poverty in all its forms; creating economies that are fair, sustainable and resilient; and building communities that are just, peaceful and inclusive.

Climate change is causing immediate and accelerated damage, including through more severe and frequent heat waves, bushfires, droughts, floods and sea level rise. It is not only damaging our environment, it is damaging people's homes, livelihoods, health, quality of life, employment, and is increasing the cost of living, as well as risks and burdens for future generations.

People on low incomes are usually hit first, hardest and longest by climate change impacts and often lack choice and control to prepare, respond and recover.



Climate change impacts not only entrench poverty but can drive people into poverty. Recovery can take years.

Analysis by Deloitte Access Economics finds a lack of climate action over the *next 50* years will cost our economy \$3.4 trillion and 880,000 jobs.<sup>28</sup> Their earlier research found the social costs of more severe weather events made worse by climate change is equal to, and probably greater than, the economic costs. The longer we delay and avoid emissions reductions the greater the cost.

Yet taking action would deliver profound economic, social and environmental benefits, including saving lives and creating jobs. Deloitte has found that if action is taken in line with a target of net zero emissions by 2050, 250,000 jobs will be created and \$680 billion added to the economy. Our economic opportunities lie not just within the bounds of Australia; we also have potential to grow major new export markets.

However, we must ensure the transition to a net zero economy is managed in an inclusive and equitable way, so people experiencing poverty and disadvantage are not worse off and, ideally, are better off. This is particularly the case for the energy transition, given the essential nature of energy in supporting health, social and economic outcomes. In a recent ACOSS report on the Health of the National Energy Market<sup>29</sup> we noted that “energy debt, deprivation and disconnection remains persistent, with events of 2020 shining a light on the failures of the system to protect people experiencing vulnerability. What’s more, failure to address issues relating to the energy transition such as access to energy measures and technologies that can reduce energy bills, and a lack of planning around the gas transition, mean people on low incomes or experiencing disadvantage are at risk of being left behind and facing worsening energy poverty”. With the right policies and types of investment we can simultaneously tackle climate change and inequality.

Through actions to reduce emissions we can reduce the severity of impacts, but we will still need to deal with the significant climate impacts already locked in. The unprecedented 2019/20 bushfires should serve as a wakeup call on the challenges we will increasingly face. The fires contributed to the deaths of more than 500 people, 3,000 homes were destroyed, and livelihoods of thousands impacted. Recovery will take years for most, and some people may never fully recover. For some communities this was their second or third major extreme weather event in a relative short period of time. Scientists tells us we can expect more frequent and severe extreme weather events in the future, which will present significant challenges for many communities.

During, and in the weeks and months after the bushfires, we heard the needs of people impacted by the bushfires were not being meet in terms of types of support needed, quantum of support, timeliness, and ease of access.

We need policies and measures to better meet need and strengthen the resilience of people and communities, and the community sector organisations that provide vital services.

**Recommendation 17. Australia should set emissions reduction targets of zero net emissions before 2050 and at least 45% by 2030 (on 2005 levels).**

<sup>28</sup> <https://www2.deloitte.com/au/en/pages/economics/articles/new-choice-climate-growth.html>

<sup>29</sup> <https://www.acoss.org.au/wp-content/uploads/2020/12/ACOSS-Health-of-the-NEM-report-2020.pdf>

## Healthy, low-energy, low-income homes

ACOSS advocates a national low-income energy productivity program (NLEPP), that installs energy efficiency and solar in the homes of people on low-incomes. This would quickly create thousands of jobs (training, auditing, installation, manufacturing, and retail), reduce energy bills and increase household disposable income to spend on essential needs further stimulating the economy, and improving people's health, wellbeing and economic opportunities. Measures would include energy audits, and selection from efficient cooling/heating, heat pump hot water, LED lighting, thermal shell insulation, and solar PV.

People on low-incomes are more likely to live in inefficient homes that are too hot in summer and too cold in winter. They typically cannot afford (or are unable in the case of renters) to improve the efficiency.

Federal, State and Territory Governments through the [Trajectory for Low Energy Buildings - existing buildings](#), have committed to develop a national plan that sets a goal to achieve zero energy (and carbon) ready existing homes, including developing a national framework for mandatory energy efficiency standards for rental properties. However specific measures are needed to support implementation in low-income homes.

An investment in low-income homes would also deliver on other government priorities including cuts in carbon emissions, reduced load on the electricity grid, and strengthening resilience to extreme weather such as heat waves.

The recommendation below has four components:

1. **Public housing** – The Federal Government provide matching funds with state/territory governments to invest in energy efficiency upgrades and solar PV installations for public and Indigenous housing dwellings. Proposal is to invest up to \$5,000 per dwelling, plus \$250 for energy audit. There are 305,191 State owned Public Housing and 14,662 State owned and managed Indigenous Housing dwellings. Total budget to complete over 4 years would be \$1.51 billion (Federal component would be \$755 million over 4 years).
2. **Community housing** – The Federal Government provide matching funds with state/territory governments to invest in energy efficiency upgrades and solar PV installations for Community Housing. Proposal is to invest up to \$10,000 per dwelling (matching funds would be required to access second \$5,000). There are roughly 100,205 Community Housing and 17,660 Indigenous Community Housing dwellings. Total budget to complete over 4 years would be \$923.7 million (Federal component would be \$461.8 million over 4 years).
3. **Low-income home owners** – Federal Government to provide funds over the next four years to implement energy efficiency upgrades and solar PV installations worth up to \$5,000 on the properties of low-income homeowners. The program would be managed by a third party to reduce risks, improve efficiency and quality. There are approximately 1.1 million households on lowest 20% of income that are owner occupiers (many will be retirees). The total budget over 4 years would be \$4.87 billion.
4. **Inefficient rental properties** – Federal Government to provide funds over the next four years to be managed by third party to:
  - a. provide free energy audits for rental properties built before 5-star ratings were introduced (this may vary in each state/territory); and
  - b. fund up to \$5,000 per dwelling to increase the energy performance of the poorest performing rental properties, prioritising properties with low-income tenants.

There are 2.1 million private rental properties. With a targeted strategy, we assume 20% (420,000) take up energy audits and 315,000 would be eligible for

the \$5,000 upgrade. The total budget over 4 years would be \$1.8 billion. The program could be viewed as an incentive mechanism for early movers before mandatory standards are put in place.

In addition to the recommendations below, all states and territories should immediately commit to **implement** mandatory energy efficiency standards in rental properties by 2023/24 and, if necessary, the Federal Government provide financial support to landlords to support upgrades.

**Recommendation 18: Invest in improving the energy productivity of existing homes for people on low-incomes (NLEPP), including providing:**

**(1) Matching funds with state/territory governments to invest in energy efficiency upgrades and solar PV installations for public and Indigenous housing dwellings (-\$151 million; -\$226 million in 2022-23).**

**(2) Matching funds with state/territory governments to invest in energy efficiency upgrades and solar PV installations for Community Housing (-\$92.5 million; -\$138.5 million in 2022-23).**

**(3) Funds over the next four years to implement energy efficiency upgrades and solar PV installations worth up to \$5,000 on the properties of low-income homeowners (-\$243 million; -\$1,460 million in 2022-23).**

**(4) Funds over the next four years to be managed by third party to, provide free energy audits for rental properties built before 5-star ratings were introduced and up to \$5,000 per dwelling to increase the energy performance of the poorest performing rental properties, prioritising properties with low-income tenants (-\$90 million; -\$540 million in 2022-23).**

**Budget impact: -\$580 million (-\$2,360 million in 2022-23)**

## Clean, affordable, dependable energy for Indigenous communities

Remote Aboriginal and Torres Strait Islander communities often have to rely on expensive carbon-intensive diesel to provide power for local people. The Federal Government has jointly funded a \$55 million program with the Northern Territory Government to provide 10 megawatts of solar and battery to 28 different remote communities and to reduce diesel-use by 15%. This program needs to be scaled up and reach more communities.

Investment in firm renewable energy and energy efficiency in remote communities would not only reduce carbon emissions, but would reduce energy bills, create jobs, and improve health and wellbeing, contributing to a number of metrics to 'close the gap'.

**Recommendation 19: Establish an Aboriginal and Torres Strait Islander Communities Clean Energy Fund to invest in clean energy and energy efficiency for remote communities.**

**Budget impact: -\$500 million (-\$500 million in 2022-23)**

## Improving energy affordability for people experiencing disadvantage

Energy is critical to the health, wellbeing, economic participation and social inclusion of people. However, people on low incomes spend disproportionately more of their income on energy bills - 6.4% compared with people on high incomes who spend 1.5%. People on low incomes also lack choice and control over reducing their bills and avoiding debt, deprivation and disconnection.

During COVID-19, multiple retailers initially saw an increase in the rate of people meeting hardship payment plans that were in place prior to COVID-19, most likely due to the Coronavirus Supplement that initially doubled the rate of JobSeeker. However, overall debt grew in the second half of 2020 and is likely to continue to grow when the Coronavirus Supplement is cut.

Short-term emergency financial support will be needed. The mechanism for delivery should be developed in consultation with consumer groups, states and territories, to ensure it is well targeted to those in need, complementary to State and Territory schemes, transparent and benefits the customer. As this will also relieve debt on the books of retailers, retailers must implement a range of measures including putting customers on a payment plan, no disconnections, making the best offer going forward, and providing energy efficiency advice. This payment does not negate the need to permanently increase the rate of JobSeeker.

COVID-19 has shone a light on the failures of the energy rules, regulations and policies, to protect people experiencing vulnerability, and has shown that more needs to be done to reduce energy bills.

In addition to investing in energy efficiency and distributed energy technologies for low-income households, there are a number of other budgetary measures the Government can take to reduce energy bills for people on low-incomes, particularly for people who experience barriers to accessing information and supports:

- **Shifting the Small-Scale Renewable Energy Scheme (SRES) off consumer energy bills on to the Federal Government budget will reduce energy bills.** The SRES, which is in place until 2030, subsidises the costs of small scale renewable energy sources such as rooftop solar and hot water heat pumps. It is currently recouped through business and household energy bills, with GST being charged on top of this. The ACCC was critical of the equity impacts of the SRES and recommended the scheme be abolished by 2021.<sup>30</sup> ACOSS is advocating for the SRES to instead be funded by the Federal Government as part of the Climate Solutions Fund, and for it to be transitioned to support only people on low incomes to access rooftop solar and hot water heat pumps.
- As per ACCC recommendation 38 of the Retail Electricity Pricing Inquiry,<sup>31</sup> the Federal Government should contribute to a **grant scheme for community sector organisations to provide targeted support for vulnerable consumers to improve their energy literacy and efficiency.**

<sup>30</sup> Australian Consumer and Competition Commission (2018)  
[https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%e2%80%94Final%20Report%20June%202018\\_Exec%20summary.pdf](https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%e2%80%94Final%20Report%20June%202018_Exec%20summary.pdf) recommendation 24.

Other reforms are outlined in ACOSS report on the Health of the NEM.<sup>32</sup>

**Recommendation 20:** Provide additional short-term (up to 12 months) financial support (in recognition of additional hardship bought on by COVID-19), via an emergency payment allowance to customers in hardship arrangements.

**Recommendation 21:** The Federal Government should shift the SRES, off consumer bills and onto the Federal Government budget.

**Budget impact:** *-\$1,535 million (-\$1,481 million in 2022-23)*<sup>33</sup>

**Recommendation 22:** Contribute to a grant scheme for community sector organisations to provide targeted support for vulnerable consumers to improve their energy literacy and efficiency.

**Budget impact:** *-\$1 million (-\$1 million in 2022-23)*

## Just transition for workers and communities

Some workers and communities will experience negative effects from our response to climate change, such as those depending heavily on burning or extracting fossil fuels. Successful transition plans must be place-based to support worker transition and skilled development and develop new economic opportunities for affected communities.

**Recommendation 23:** Support a just transition for workers and communities, including establishing:

(1) A statutory authority responsible for managing the effects of the energy transition including managing coal closures, overseeing worker support, and coordinating plans for regional economic diversity.

(2) An industry-wide, multi-employer pooling and redeployment scheme that provides retrenched workers with the opportunity to transfer to roles with renewable or low emission generators as well as remaining fossil fuel generators.

**Budget impact:** *-\$2 million (-\$4 million in 2022-23)*<sup>34</sup>

## Empower Communities to build their resilience and lead disaster recovery efforts

The unprecedented 2019/20 bushfires had significant economic, health and social impacts on thousands of people. Recovery will take years for most and some people may never fully recover. For some communities this was their second or third major extreme weather event in a relative short period of time. Scientists tells us we can expect more

<sup>32</sup> ACOSS (2020) Health of the NEM 2020: Current and Emerging affordability issues for people on low incomes. <https://www.acoss.org.au/wp-content/uploads/2020/12/ACOSS-Health-of-the-NEM-report-2020.pdf>

<sup>33</sup> Calculations based on small-scale technology certificate (STC) forecast modelling produced for the Clean Energy Regulator by Jacobs <http://www.cleanenergyregulator.gov.au/DocumentAssets/Documents/STC%20modelling%20report%20by%20Jacobs%20-%20January%202020.pdf>. The number of forecasts certificates were multiplied by STC spot price of \$37.25 (the 2020 STC spot price ranged from \$37.25 to \$37.95)

<sup>34</sup> Based on analysis of budget proposals of ALP and Greens, ACOSS proposes \$15 million over 4 years, assuming less costs in first year of establishing the Just Transition Authority and programs.

frequent and severe extreme weather events in the future, which will present significant challenges for many communities. Going forward the needs and strengths of communities must be at the heart of extreme weather preparedness, response and recovery. All government initiatives must support and empower communities to build their resilience and recovery efforts on their terms.

Genuine community partnership, including with Aboriginal and Torres Strait Islander people, communities and organisations, is essential to improve the nation's future preparedness, responsiveness and recovery efforts.

**Recommendation 24: Support and empower communities to build their resilience and lead disaster recovery efforts, including by:**

**(1) Establishing a formal disaster management mechanism that has a whole-of-community approach to, and responsibility for, planning, resilience, response and recovery. The mechanism should include Commonwealth, state and local governments, Aboriginal and Torres Strait Islander Land Management Councils and community leaders, businesses, community sector organisations, and members of the community.**

**(2) Funding local councils to form local community resilience committees to support development and implementation of resilience plans to promote collaboration and joint planning between government, community organisations, community groups and local businesses. These committees could be subcommittees of relevant Commonwealth and state emergency management committees. Propose Federal Government co-fund with states and territories (-\$53 million; -\$55 million in 2022-23).<sup>35</sup>**

**(3) Creating and funding local Community Resilience Hubs that are community-led, engage in building community resilience and assist the community in planning, response and recovery (-\$270 million; -\$295 million in 2022-23)<sup>36</sup>**

**(4) Supporting the development of an online tool that includes a social vulnerability index (such as the Australian Natural Disaster Resilience Index) and online mapping feature to help identify where communities may need additional support to build resilience, prepare, respond and recover from disasters (-\$1 million; -\$2 million in 2022-23).**

**(5) Providing funding to support Aboriginal and Torres Strait Islander peoples and communities to participate in whole-of community response to building climate resilience and to better prepare for, respond and recover from natural disasters that build on traditional and local knowledge Support (-\$25 million; -\$25 million in 2022-23)**

**Budget impact: -\$345 million (-\$375 million in 2022-23)**

<sup>35</sup> ACOSS has estimated costings based on there being 537 local councils and federal Government contribute a minimum \$100,000 to each council.

<sup>36</sup> ACOSS has estimated costings based on an initial investment of \$1 million outlay per community hub in yr 1 and \$1.1 million in yr 2, to staff, accommodate and resource the hub. There are approximately 537 local councils. Bringing total cost to \$537 million in 2021/22 and 590 million in 22/23. The federal Government contribute half the costs, matched by States.



## Better meet the needs of people impacted by natural disasters

Feedback from community sector organisations on the ground during the 2019/2020 bushfires, suggested the needs of people impacted by the bushfires were not being met in terms of types of support needed, quantum of support, timeliness, and ease of access. Scientists tell us we can expect more frequent and severe extreme weather events in the future, which will present significant challenges for more and more people and communities. It's important we have adequate support measures and processes in place to reduce trauma and facilitate a speedy recovery, including:

- **Increase to the disaster recovery payment:** While ACOSS welcomed the Government's announcement on 15 January 2020 to increase the Disaster Recovery Payment for children, the Disaster Recovery Payment for adults remains seriously inadequate, particularly for people with low incomes and few resources from which to draw. We recommend an urgent increase to this payment, which has remained unchanged since 2006. We also recommend that these payments be indexed in line with wage growth annually.
- **Increase the amount and duration of the Disaster Recovery Allowance:** ACOSS welcomed the Prime Minister's announcement in early January 2020 that the Disaster Recovery Allowance will not be taxable. However, the allowance, paid at the Newstart level (or Youth Allowance for young people), is inadequate to cover basic living costs and should be increased as per recommendation 1 outlined in chapter 2. Many people who have lost their paid work will need more than 13 weeks of assistance, and we recommend the time frame be increased.
- **Commonwealth Rent Assistance** should be made available for people eligible for the Disaster Recovery Allowance who are renting privately for the period of recovery.<sup>37</sup>
- **Food relief** is critical for individuals, families and communities affected by bushfires. ACOSS recommends allocating additional funding to food relief community sector organisations to respond to the surge during natural disasters. For example, ACOSS called for an additional \$30 million during the 2019/2020 summer bushfires.
- It is important that people can **access payments and supports** without unnecessary bureaucracy. Centrelink and Services Australia should exercise leniency and flexibility in the administration of recovery and crisis payments to ensure people in need receive them, including where they cannot readily provide documentation because they have lost their home or do not have access to their home.
- Governments and community leaders should work together to **streamline provision of financial assistance** as part of the recovery. This should include collaboration to remove the need for people to lodge separate applications with the same information to different levels of government, with adequate privacy protections. Local coordination will be essential to increase accuracy of the range of supports, financial and other assistance available, as will coordination at all levels of government to create a 'no wrong door' approach. A person should be able to access all relevant levels of government and other assistance regardless of which level of government they contact in the first instance.

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<sup>37</sup> Disaster Recovery Allowance recipients are currently ineligible to receive Commonwealth Rent Assistance

- **Mobile recovery centres and outreach clinics** that operate after hours should be expanded in regional and rural areas to ensure that individuals from smaller communities can access the support they need. This outreach should include representation from the relevant Commonwealth and state agencies, with the support of community service organisations.
- Many families and communities face the terrible loss of a loved one as a result of natural disasters. Given that these families are likely to be placed in a very difficult financial situation (e.g., many may have lost property, income, etc.) we propose that the Federal Government include **funeral costs** (which average over \$7,000) as part of its response to natural disasters. This support should be provided to complement other assistance provided by NGOs.
- Governments should establish a **searchable register of local, state and federal government land or properties suitable for short to medium-term housing** to enable families to remain within their community as they recover.
- Natural disasters can impact on health and wellbeing and can lead to an increase in domestic violence, substance use disorders, and mental health concerns. The health and wellbeing impacts can occur during the natural disaster or take months to emerge. Demand for social service supports significantly increase, however there are often inadequate funds made available to meet the surge in demand. To address these gaps we recommend that **additional funding to meet demand for social support services** post disaster. In doing so, governments should:
  - ensure that funding and resources are provided to meet an expected increased demand for legal and social support services;
  - ensure that adequate mental health support is available to disaster affected communities in the short, medium and long term;
  - increase funding for specialist domestic and family violence services, particularly in the short to long-term recovery period after a disaster; and
  - ensure additional support is tailored and responsive to community needs, particularly in regional and rural areas.
- **Resource community service organisations to build resilience of their clients** including delivering the emergency RediPlan (personal emergency plan) to community sector clients<sup>38</sup> and to implement plans to ensure vulnerable people are protected during emergencies.

**Recommendation 25: Better meet the needs of people impacted by natural disasters by:**

**(1) Increasing the Australian Government Disaster Recovery Payment from \$1,000 to \$3,000, and from \$800 per child to \$1,000 per child.**

**(2) Increase the amount and duration of Disaster Recovery Allowance.**

**(3) Providing Rent Assistance to people on Disaster Recovery.**

**(4) Increasing funding for food relief.**

**(5) Conducting a review to streamline Government payment processes so that help gets to people on the ground quickly (-\$.8 million).**

**(6) Conducting a review to streamline coordination of governments and community disaster recovery assistance (-\$1.2 million).**

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<sup>38</sup> Australian Red Cross (2019): [Create an emergency plan website](#), accessed 16 December 2019



(7) Expanding mobile recovery centres and outreach clinics.

(8) Covering funeral costs for people who have lost their lives in a natural disaster.

(9) Assisting to identify short-term accommodation (*-\$1 million; -\$1 million in 2022-23*).

(10) Additional funding to meet demand for social support services post disaster.

(11) Resourcing community service organisations to build resilience of their clients. (*-\$175 million; -\$180 million in 2022-23*)<sup>39</sup>

## Strengthen resilience of community sector organisations

Community sector organisations (CSOs) play a critical role in disaster preparedness, response and recovery, especially in supporting the needs of vulnerable people. But CSOs are themselves highly vulnerable to disasters.

CSOs are embedded within their communities, deliver key services across local communities, have in-depth knowledge of local people, history, risks and vulnerabilities and are best placed to understand and identify their support needs. The services they provide are a critical feature of Australian society, complementing the income support system as well as health and education systems. As such, community service organisations comprise an essential component of the social infrastructure.

Indeed, for many people experiencing poverty, disadvantage and social exclusion, these organisations are often the primary source of connection to the broader community and form the basis of their resilience to everyday adversity as well as in times of crisis.

Community organisations must be supported to improve organisational resilience so they can continue to provide critical support to people and communities better prepare, respond and recover from natural disasters.

The Federal Government should provide resources to support community sector organisations to adapt to climate change, be better prepared for emergencies and disasters, and ensure continuity of care for vulnerable people, including:

- Supporting community sector organisations to undertake **sector specific risk assessments and implement disaster management and service continuity plans**. This should include financial support for social sector peaks to strengthen the community sector specific disaster management tool, establish a community of practice and provide training to community sector organisations to implement.<sup>40</sup>

<sup>39</sup> ACOSS has estimated costings utilising an estimation of 14,000 community service organisations under DSS service provision. ACOSS has allowed for up to 25% of community sector organisations to access the fund a year at an average cost to deliver RediPlan for clients and other relevant plans of up to \$50,000 per organisation

<sup>40</sup> ACOSS has developed a Resilient Community Organisations Toolkit specifically designed for community sector organisations, but there is a need to deliver training and build a community of practice to community service organisations to implement the toolkit and develop disaster management. See ACOSS (2015): [Resilient community organisations website](#), accessed 16 December 2019.

- Creating an **ongoing Disaster Management Grants Scheme** for CSOs. The grants scheme would support CSOs participation in local, state and territory and national processes, as appropriate, to be better prepared for emergencies and disasters, to ensure continuity of care for people who face vulnerabilities, and to adapt to the effects of extreme weather events and the climate crisis. The proposed Disaster Management Grants Scheme for CSOs would offer rolling grants for the following purposes:
  - to participate in planning, response and recovery at appropriate levels;
  - to undertake extreme weather preparedness and response training for staff, volunteers, and local communities;
  - to undertake sector specific risk assessments and implement disaster management and service continuity plans; and
  - to undertake adaptation and preparedness benchmarking specific to community service provisions that enable organisations, their funding agencies and insurers to plot progress towards risk reduction, resilience and adaptive capacity.
- Providing a **contingency fund and ensure contracts for service delivery provide greater flexibility** to CSOs and enable them to participate effectively in disaster response and recovery efforts. Specifically, they should include provisions and additional funding that:
  - enable CSOs to manage surge capacity to meet the increased demand for services placed upon community sector organisations following an emergency;
  - ensure timely compensation for their contributions to response and recovery efforts; and
  - ensure they are not penalised for failing to meet contractual obligations due to their participation in disaster response and recovery;

**Recommendation 26: Strengthen resilience of community sector organisations by:**

**(1) Supporting community sector organisations to undertake sector specific risk assessments and implement disaster management and service continuity plans. This should include financial support for social sector peaks to strengthen the community sector specific disaster management tool, establish a community of practice and provide training to community sector organisations to implement (-\$1 million; -\$1 million in 2022-23).**

**(2) Creating an ongoing Disaster Management Grants Scheme for Community Sector Organisations (-\$220 million; -\$220 million in 2022-23)<sup>41</sup>**

**(3) Providing a contingency fund and ensure contracts for service delivery provide greater flexibility to community service organisations and enable them to participate effectively in disaster response and recovery efforts (-\$140 million; -\$140 million in 2022-23)<sup>42</sup>**

**Budget impact: -\$540 million (-\$540 million in 2022-23)**

<sup>41</sup> ACOSS has estimated costings utilising an estimation of 14,000 community service organisations under DSS service provision. ACOSS has assumed up to 50% of these organisations would be required to participate in local disaster management at an average cost of \$30,000 per organisation.

<sup>42</sup> ACOSS has estimated costings utilising an estimation of 14,000 community service organisations under DSS service provision. ACOSS has assumed up to 20% a year may be affected by extreme weather events and estimate an average of up to \$50,000 per organisation would be required to manage surge capacity, compensation for additional service provision, and enable community sector organisations to adapt and recover.

## Affordable, accessible insurance

As extreme weather and natural disaster events increase in Australia, insurance premiums are escalating and too many people, particularly people on low incomes, find themselves under-insured or not insured.

**Recommendation 27: To support affordable and accessible insurance:**

**(1) Establish a review on insurance affordability in Australia, with regard to worsening impacts of climate change and rising levels of financial difficulties; and options for ensuring insurance coverage for people on low incomes. (-\$1.5 million)**

**(2) Support expanding access to low-cost insurance for home contents and motor vehicles for people on low incomes.**

**Budget impact: -\$1.5 million (-\$0 million in 2022-23)**

## Phase out fossil fuel subsidies

In Chapter 10 (A fairer tax system that supports economic development) we advocate for the removal of fuel tax credits for off-road use except agriculture (see Recommendation 60). These tax credits subsidise the production of carbon pollution – the very thing governments are spending public funds in other parts of the economy to prevent. The subsidy also distorts the need for energy efficiency, fuel switching, or investment in other forms of renewable energy or transport.

Revenue raised from removing fossil fuel subsidies could fund ACOSS proposals to provide a just transition for workers and communities, assist low-income households to access affordable clean energy, and support climate resilience and adaptation measures for vulnerable people.

## 5. Make access to housing affordable for people with low incomes

### Summary

- For every dollar invested, direct public investment in social housing is estimated to boost GDP by \$1.30. Importantly, housing construction can be undertaken more quickly than major road or rail projects.
- A 20,000 dwelling, \$7 billion social housing package should be rolled out over the next 3 years to reduce homelessness and kick-start housing constructions and growth in jobs and incomes.
- Rent Assistance for private tenants with low incomes should be substantially increased to ease housing stress.
- Beyond this short-term social housing boost, the government should develop a national affordable housing strategy in dialogue with other governments and stakeholders, and create a new incentive to encourage private investment in affordable rental housing.
- Funding for remote housing and the Indigenous Community Housing sector nationally should be substantially increased.

### Build 20,000-30,000 social housing dwellings to reduce homelessness and generate over 15,000 jobs a year

The rise in homelessness is unacceptable in a nation as wealthy as Australia. Research indicates there is a national shortage of just over 400,000 homes that are affordable for people who are homeless or living on the lowest incomes (the lowest 20% by household income). Financially vulnerable people in social housing are less than half as likely to become homeless as a similar group renting privately. Over one-third of new tenants in social housing were previously homeless.<sup>43</sup>

Direct public investment in social housing is also a cost-effective way to boost growth in jobs and incomes. For every dollar invested, it is estimated to boost GDP by \$1.30.<sup>44</sup> Importantly, housing construction can be undertaken more quickly than major road or rail projects.

ACOSS advocates a \$7 billion direct Commonwealth investment, in partnership with States and Territories and community housing providers, to construct 20,000-30,000 social housing dwellings. Alternately, the Social Housing Acceleration and Renovation

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<sup>43</sup> ACOSS (2019), How to reduce homelessness and boost incomes and jobs: Social housing as infrastructure. <https://www.acoss.org.au/wp-content/uploads/2019/08/ACOSS-Brief-Social-Housing-Investment-as-Infrastructure.pdf>

<sup>44</sup> KPMG (2012), Social Housing Initiative Review – Report to Housing Ministers’ Advisory Committee.

Program (SHARP) proposal from the Community Housing Industry Association could be implemented.<sup>45</sup> This is expected to generate over 15,000 additional jobs each year.

**Recommendation 28: Build 20,000-30,000 social housing dwellings to reduce homelessness and generate over 15,000 jobs a year**

**(1) Capital funding of \$7 billion over three years should be provided to State and Territory governments to facilitate construction of 20,000-30,000 social housing dwellings that meet accessibility and energy efficiency standards, with most construction occurring in the first two years.**

**(2) Alternately, the Social Housing Acceleration and Renovation Program (SHARP) proposal from the Community Housing Industry Association could be implemented to construct 30,000 community housing dwellings.**

**Budget impact: *-\$1,000 million (-\$4,000 million in 2022-23)***

## Reform Rent Assistance to relieve rental stress for tenants in the private market

Commonwealth Rent Assistance (CRA) provides crucial assistance to tenants with low incomes in private housing, but it has failed to keep pace with steep increases in rents.

We propose a 50% increase in the maximum rent thresholds which attract the Rent Assistance subsidy. This brings those thresholds close to the lowest rents for properties advertised in our largest capital cities (Sydney, Melbourne and Brisbane), though the new maximum rent thresholds would apply nationally. For a single person without children, this increase would see the maximum rate of CRA rise by \$59 a week from \$70 to \$129. This will not cover 100% of the lowest rents in those capital cities (since CRA only subsidises a proportion of rent paid) but it would greatly improve housing affordability for people on the lowest incomes.

While this would secure a more adequate payment rate, future reforms are needed to improve the effectiveness and adequacy of Rent Assistance, including changes to eligibility and indexation.

This is one of the supplementary payments we believe must be increased so that people on social security payments can meet their basic expenditure needs (see Chapter 2: A permanent boost to the lowest incomes), though CRA extends to many low-income families who are not on income support.

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<sup>45</sup> <https://www.communityhousing.com.au/wp-content/uploads/2020/05/SHARP-Full-Report-1.pdf?x73896>

**Table 1: Proposed increases in Commonwealth Rent Assistance (CRA)**

Household size	Dwelling size	(1) Weekly rents <sup>1</sup>	(2) CRA max. rents <sup>2</sup>	(1)/(2)	Proposed increase in CRA max. rents	Proposed increase in max. weekly CRA (\$pw) <sup>3</sup>
Single	1brm unit	\$232	\$155	1.49	1.5	\$59
Couple no children, family 1 child	2 brm unit	\$309	\$189	1.64	1.5	\$73
Family 2 children	3 brm house	\$354	\$230	1.34	1.5	\$88

Notes:

1. Lowest quartile rents, averages for outer Sydney/Melbourne/Brisbane (Source: Saunders P et al (2017) Healthy living budgets for unemployed and low paid workers, Social Policy Research Centre UNSW Sydney, indexed to 2020 values).
2. Current maximum rent thresholds for which CRA is paid. Threshold for a sole parent with one child is \$191pw.
3. Note that the maximum rate of CRA is not the same as the maximum rent threshold on which that payment is based.

**Recommendation 29: Increase maximum rent levels attracting Commonwealth Rent Assistance by 50% to relieve rental stress for people with low incomes renting privately.**

**Budget impact: -\$1,900 million in 2022-23**

## Introduce an investment incentive for affordable rental housing

A new rental investment incentive scheme is needed to replace the discontinued National Rental Affordability Scheme, and to complement the National Housing Finance Investment Corporation, Bond Aggregator and Housing Infrastructure Facility. Its purpose should be to bridge the finance gap for potential investors in housing for rent below market rates for people with low incomes (eligible for social housing assistance) or modest incomes (eligible for 'affordable housing' assistance).

The scheme should be funded by reducing the concessional tax treatment of 'negatively geared' property investments (see Chapter 10: A fairer tax system that supports economic development)

**Recommendation 30: Introduce a two-tier investment incentive for construction of new rental housing for people with low or modest incomes, which is:**

- (1) set at two rates based on a proportion of construction costs up to a cap;
- (2) with a higher rate for dwellings for community housing providers to house people with low incomes (with rent tied to incomes);

- (3) and a lower rate for 'affordable housing' dwellings for people with modest incomes (with rents set at a 20% discount from market rents for at least ten years after construction);
- (4) financed through restrictions on deductions for costs associated with property investments ('negative gearing').

**Budget impact:** **-\$600 million in 2022-23**

## Develop a new national Aboriginal and Torres Strait Islander housing strategy

Since 2009, there has been no dedicated Commonwealth funding for Aboriginal and Torres Strait Islander housing supply outside of remote areas and services have increasingly been mainstreamed, in a context of little or no overall growth. This is despite the benefits of culturally appropriate housing for Aboriginal people around the country and the large Aboriginal populations in urban centres.

Dedicated funding is needed to improve the viability of Indigenous Community Housing Organisations (ICHOs) as an alternative to mainstream providers, and support their capacity to take advantage of new financing options such as the Bond Aggregator.

**Recommendation 31:** **Develop a new national Aboriginal and Torres Strait Islander housing strategy with a 10% boost to funding under the National Housing and Homelessness Agreement earmarked to build capacity for Indigenous Community Housing Organisations (ICHOs) in urban, rural, regional and remote areas.**

**Budget impact:** **-\$170 million (-\$190 million in 2022-23)**

## Develop a new inter-governmental remote housing agreement

The National Partnership on Remote Indigenous Housing expired in June 2018, and has not been replaced leaving an urgent funding gap affecting Australia's most disadvantaged communities.

**Recommendation 32:** **Develop a new inter-governmental remote housing agreement negotiated between the Commonwealth and state and territory governments, with funding shared equally between the parties.**

**Budget impact:** **-\$450 million (-\$480 million in 2022-23)**



## 6. Improve access and affordability of essential community services

### Summary

- There are currently a number of yawning gaps in the delivery of human services in Australia that this budget should fill. As a first step, \$2 billion should be invested in community services in order to reverse the cuts seen since the 2014 Budget, and respond to growth in population and increases in the cost of delivering services.
- Waiting lists for many essential services are too long, including in aged care, where older people can wait for months or even years for access to a home care package that meets their needs.
- We also need to boost investment in children in the early years, particularly for Aboriginal and Torres Strait Islander children. Quality early childhood education has a significant positive impact on a child's development and future learning outcomes.
- A key issue for the community sector is the impending expiration of the Social and Community Services Pay Equity Special Account Act 2012 ('ERO'), with several agencies yet to make budget allocations for equal pay going forward.
- At the same time, the Commonwealth fails to index many of the grants it provides to community organisations, or provides inadequate indexation. As the cost of delivering services rises, the funding does not, and community organisations are forced to squeeze more out of already stretched budgets.

### Introduction

Australia's community sector is a vital part of society and the economy, working to alleviate poverty and disadvantage, reduce social and economic inequality, create opportunity and build a fairer country. The services, advocacy and support that our sector delivers make Australia a better place.

Our sector faces considerable funding and regulatory challenges that make it harder to achieve positive outcomes for the people and communities that we work with. Many of these challenges have accumulated over years, and now present a series of unnecessary roadblocks to achieving the change we want to see for people experiencing poverty and disadvantage. Removing them would make a real difference to our sector's capacity to do our important work.

In addition, in the last seven years the funding climate for essential and innovative community services has been one of chronic uncertainty. The combination of cuts, followed by partial reversals or freezes or the 'repackaging' of funding allocations have wrought havoc in critical areas of social infrastructure. Indexation has not been adequate to account for higher wage costs. Providers cannot plan for quality service delivery let alone innovate, when community sector workers are uncertain about their futures.



## Increase funding for community services to restore income lost to budget cuts and meet increased demand for assistance

Commonwealth funding for community services has for the last seven years been marked by uncertainty, under-resourcing and cuts. Since 2013, we have seen billions of dollars cut from the programs and services that people in the greatest need rely on, cuts which have occurred in the context of growth in population and demand for services, and increases in the cost of service delivery. The impact of this under-resourcing is being felt across the country and through the life course. It is especially marked for those on the lowest incomes, experiencing financial crisis or family breakdown, children at risk, vulnerable young people, people facing eviction and homelessness, carers in need of respite, those struggling with drug and alcohol addictions, and people with mental health problems or other serious health concerns.

**Recommendation 33: Commonwealth funding for community services should be increased by \$2 billion per annum in order to reverse the cuts seen since the 2014 Budget.**

1. Funding should also respond to growth in population and increases in the cost of delivering services, and meet more of the demand for services with a focus on the following:
  - Indigenous Advancement Strategy initiatives;
  - Community Legal Centres;
  - Family and Relationship Support Programs;
  - Playgroup Programs;
  - Domestic and Family Violence programs;
  - Financial Counselling;
  - Emergency Relief and Food Relief;
  - Community Development, Diversity and Social Cohesion;
  - Programs for migrants, refugees and asylum seekers;
  - Homelessness programs;
  - Volunteer grants;
  - Programs for older people;
  - Representation of and advocacy for people with disability;
  - Support for Carers; and
  - Community Mental Health Programs.
2. Allocation of the funding should be made following a comprehensive service needs analysis and demand mapping exercise, conducted in partnership with the community sector and communities across Australia.

**Budget impact: *-\$10 million (-\$2,000 million in 2022-23)***

## Create a Community Sector Continuity of Service Enabling Fund

ACOSS welcomed the announcement of additional funding during the health and economic crises to meet demand in domestic violence, mental health and emergency and food relief.

However, there is further demand that has grown and will continue to increase in a number of areas as a result of the health and economic crises, and which cannot be funded by donations or met with volunteers.

At the same time, some organisations have faced reductions in revenue as a result of challenges with fundraising, reductions in investment income and a drop in demand for some individualised services. In the COSS Network's report on the Australian Community Sector Survey – COVID-19 edition, more than half of respondents (57%) had experienced loss of investment income, a quarter (26%) reported a loss of income from individualised funding (NDIS and home care packages), and half (50%) had lost income from other client-based fees or charges. Almost half (48%) had lost income from other commercial sources (e.g. retail)<sup>46</sup>. Income from donations is expected to fall even further, with JBWere predicting that total giving to fall by 7.1% in 2020 and a further 11.9% in 2021.<sup>47</sup>

**Recommendation 34: Create a Community Sector Continuity of Service Enabling Fund to ensure continuity of service delivery, adaptation, secure jobs, prevent loss of jobs or income, and guarantee paid special leave for all workers. This Fund should be distinguished from funds designated for new or additional service delivery. It should be targeted at community organisations that see increases in demand not met by new and existing funding, and/or who can demonstrate that their income has declined as a result of COVID-19.**

**Budget impact: *-\$250 million (-\$0 in 2022-23)***

## Prevent cuts to existing community services by maintaining proper funding to pay fair wages

In 2012 the Fair Work Commission made a landmark decision that addresses the gendered undervaluation of work performed in much of the community services sector (The Equal Remuneration Order).

As a result, wages increased by up to 45% over 8 years, and most governments across Australia, including the Federal Government, provided additional funding to ensure that community sector organisations could pay equitable wages, and maintain essential services to the community.

While the 2020 budget and previous budgetary decisions provided for this funding for the majority of organisations funded by the Commonwealth, there are a number of Commonwealth agencies that have yet to commit to funding for equal pay. These include the Department of Home Affairs, the Department of Health, the National Indigenous Australians Agency and the Department of Veterans Affairs and the organisations that are jointly funded by Commonwealth and the states/territories under the National Housing and Homelessness Agreement. The continuation of this

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<sup>46</sup> Cortis, N & Blaxland, M (2020): Australia's community sector and COVID-19: Supporting communities through the crisis. Sydney: ACOSS [https://www.acoss.org.au/wp-content/uploads/2020/09/Australias-community-sector-and-Covid-19\\_FINAL.pdf](https://www.acoss.org.au/wp-content/uploads/2020/09/Australias-community-sector-and-Covid-19_FINAL.pdf)

<sup>47</sup> McLeod, J. 2020, Where to from here? The outlook for philanthropy during COVID-19. JBWere

supplementation must be secured in the 2021-2022 Budget through incorporation into the base rate of community sector grants.

**Recommendation 35: The base rate of grants for community sector organisations currently receiving ERO supplementation should be increased to incorporate that supplementation so as to prevent cuts across the community sector.**

**Budget impact: -\$62 million (-\$64 million in 2022-23)**

## Apply fair and uniform indexation to all grants and contracts for community sector organisations

The Commonwealth does not have a consistent or adequate approach to indexation of funding to community organisations. As a result, many community sector organisations have seen real cuts to the value of their funding. Unfunded shortfalls seriously impact on the sector's capacity to offer services to local communities. In real terms, the indexation arrangements amount to a gradual reduction of Commonwealth funding against projected cost increases, which mainly comprise wages.

**Recommendation 36: Indexation for community sector funding should be improved:**

- (1) Establish the Wage Price Index (when greater than the Consumer Price Index for the same period) as the primary index for annual funding adjustments, and publish the indexation rate in the Budget Papers; and**
- (2) Exempt community sector funding from the Efficiency Dividend.**

**Budget impact: -\$350 million (-\$358 million in 2022-23)**

## Reduce the waiting list for Home Care Packages to no more than three months

Too many older people spend too long on waiting lists for Home Care Packages. As at September 2020 there were 99,268 people who have been assessed as needing care, and many of those people have been waiting more than a year for a package that meets their needs. As a result, people are entering residential aged care when, with the right support, they could remain at home. Some people are dying waiting for a package. We must invest more so that older people can remain at home and get the support that they need to do so.

**Recommendation 37: Commonwealth funding for Home Care Packages should be increased by \$1,700 million in order to reduce the wait list to no more than three months and ensure older people can remain in their homes as they age.**

**Budget impact: -\$1,700 million (-\$1,800 million in 2022-23)**

## Improve access to preschool

Quality early childhood education has a significant positive impact on a child's development and future learning outcomes. Children who attend early childhood education for at least a year before starting school are half as likely to have developmental vulnerabilities when they start school as children who have not received early learning services. Despite significant strides in lifting enrolments of children in preschool programs in the year before school (four year olds), Australia lags in enrolment of three-year-olds, and is in the bottom third of countries ranked by the OECD (at 69%).

**Recommendation 38: Current early childhood education and care policy settings should be reformed so that:**

**(1) Children have access to high-quality early education two years before school (with the national rollout of this reform to prioritise children experiencing educational disadvantage, specifically Aboriginal and Torres Strait Islander, children in rural and remote areas, children from non-English speaking backgrounds).**

**(2) Funding commitments are long-term to provide security for parents and early learning centres, in line with the recommendations of the Universal Access National Partnership COAG Review.<sup>48</sup>**

**Budget impact: -\$620 million (-\$980 million in 2022-23)**

## Improve the affordability of early childhood education and care

The economic impacts of the COVID-19 pandemic have been felt significantly by women, particularly those with children. Female dominated industries have seen massive job losses and women have borne the brunt of the additional care and education of children resulting from lockdowns. In the absence of effective government policy action, there is a risk that the gains in female employment participation that have been made in recent decades will be lost. This is a setback that neither the women of Australia, nor the economy, can afford.

The Government took action to deliver time-limited child care fee relief to families during the height of the pandemic. That relief has now ended.

While it was widely welcomed by families, it created challenges for providers, with access to JobKeeper insufficient for many providers to maintain services and staff, noting high levels of casualisation in the sector.

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<sup>48</sup> Nous, 2020, *UNAP Review – COAG Education Council*, Nous, <http://www.educationcouncil.edu.au/site/DefaultSite/filesystem/documents/Reports%20and%20publications/UNAP%20Review%20Report.pdf>

As we now look to the next phase of the health and economic crisis, navigating potential further lockdowns and then charting a path to economy recovery, policy settings should support job search and employment participation of parents, minimise out of pocket costs for families under financial pressure and also deliver continuity in quality education and care for children.

An adjustment to the current Child Care Subsidy and Additional Child Care Subsidy as proposed by the Grattan Institute could achieve these outcomes, by lifting the level of subsidy for low and middle incomes families from 85% to 95% (with higher subsidies available to very low income or disadvantaged families through the ACSS), easing the taper rate and making access to a base subsidy (30%) universal.<sup>49</sup> Adjustments to eligibility for the child care subsidy should also be made to reduce barriers to access and extend the duration of support.

**Recommendation 39: Affordability of early childhood care and education should be improved by:**

- (1) Lifting the Child Care Subsidy for low income families from 85% to 95% (for households on incomes of up to \$68,163 per annum).**
- (2) Flattening and simplifying the taper rate, so the subsidy reduces to 30% for households on higher incomes (\$400,000 per annum or more).**
- (3) Removing activity tests to access the Child Care Subsidy to support continuity of access to high quality early education and care for children, especially for low income families.**
- (4) Extending access to the Additional Child Care Subsidy (Temporary Financial Hardship subsidy) beyond the current 13-week period.**

**Budget impact: -\$5,500 million (-\$5,600 million in 2022-23)**

## Ensure equality for Aboriginal and Torres Strait Islander children in their early years

Aboriginal and Torres Strait Islander children are supported by their families, their communities and their culture. Despite this support, Aboriginal and Torres Strait Islander children continue to face challenges arising from colonisation and its effects. Achieving equality means we need to dismantle the systems that perpetuate the ongoing trauma experienced by Aboriginal and Torres Strait Islander children.

**Recommendation 40: To improve access to early childhood services by Aboriginal and Torres Strait Islander children, the following steps should be taken in line with the SNAICC and Early Childhood Australia position paper – Working Together to ensure Equality for Aboriginal and Torres Strait Islander Children:**

- (1) Ensure Aboriginal and Torres Strait Islander three and four year olds have a minimum of three days per week of high-quality preschool with a bachelor-qualified teacher.**

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<sup>49</sup> Grattan Institute, Cheaper Childcare: A practical plan to boost female workforce participation, 2020: <https://grattan.edu.au/wp-content/uploads/2020/08/Cheaper-Childcare-Grattan-Institute-Report.pdf>

(2) Provide a minimum entitlement of 30 hours of 95% subsidised care per week for all Aboriginal and Torres Strait Islander children as an ongoing measure to Close the Gap in early education and care attendance and Australian Early Development Census (AEDC) outcomes.

(3) Invest to increase the coverage and capacity of Aboriginal and Torres Strait Islander community-controlled integrated early years services through a new specific funding model and program designed to meet the needs of Aboriginal and Torres Strait Islander children and families.

(4) Fund a targeted program to support evidence informed, culturally safe, and well integrated early childhood and family-focussed programs, across the nurturing care spectrum in early education and care services that work with high numbers of Aboriginal and Torres Strait Islander children.

**Budget impact:** *-\$73 million (-\$75 million in 2022-23)*

## Establish an Evaluator-General to oversee the evaluation and monitoring of policy, programs and initiatives

Ensuring that programs and initiatives delivered by government are effective is vital so that public money is invested well. Evaluations of programs undertaken by departments and agencies are of inconsistent quality; reports and data are not always promptly released; and there is a lack of coordination of effort to make use of data across government, and learn from evaluations in other portfolios. Rather than centralising all data and evaluations, the first step to improving this situation is to establish a central oversight agency to improve consistency and coordination in the evaluation of programs.

**Recommendation 41:** A high-level independent body should be established to oversee rigorous evaluation (quantitative and qualitative) of the impact of public policies, programs and initiatives with maximum input from people who use social services, and evaluations and data should be promptly released (subject to privacy rules).

**Budget impact:** *-\$5 million (-\$5 million in 2022-23)*

## Increase funding to peaks and advocacy organisations to ensure marginalised voices are heard in public and policy debates

Public debate in Australia is heavily influenced by well-resourced interests. These powerful voices often dominate, and communities and groups affected by poverty, disadvantage and marginalisation can sometimes struggle to be heard. One of the most significant factors that affect a community or people's capacity to engage in effective advocacy is the resources available to it. Yet over the past seven years we have seen significant funding cuts and defunding of organisations that represent or are focused on

Aboriginal and Torres Strait Islander peoples, LGBTI people, young people, refugees and migrants, people experiencing homelessness or struggling in the housing market and other disadvantaged people and communities.

**Recommendation 42:** In order to ensure that everyone's voice is heard in our public debate, peak bodies and advocacy organisations representing people facing disadvantage should be adequately funded.

**Budget impact:** *-\$10 million (-\$10 million in 2022-23)*



## 7. Strengthen preventive health care and public health services

### Summary

- On present policy settings, the cost of health, disability services and aged care will rise by \$21 billion a year by 2024.
- In order to address this growth, we need to see a shift in focus and investment toward preventive health, by lifting expenditure on preventive health to 5% of the Commonwealth health budget, so that we improve people's health and wellbeing and reduce the burden on the health system.
- We also need to reduce wasteful spending in health like the Private Health Insurance Rebate and the Extended Medicare Safety Net, to reduce costs and health price inflation.
- During the COVID-19 pandemic, we need to invest in community-led health promotion to ensure that the vaccine rollout, along with ongoing prevention efforts, are successful.
- A key priority should also be to address one of the key gaps in our health system – the lack of a universal dental health scheme.

### Introduction

Although Australia's health system is based on a model of universal healthcare, people on low incomes or who live in disadvantaged or isolated communities experience particular problems accessing services that are readily available to other people in Australia. These include the capacity to access and pay for general medical and oral health care, as well as specialist care. In addition, people on low incomes often find it difficult to balance the costs of prescriptions, medical appointments and health maintenance, with other household expenses.

The Parliamentary Budget Office estimates that, *on present policy settings*, the cost of health, disability services and aged care will rise by \$21 billion a year by 2024.<sup>50</sup> This is before accounting for unmet needs in areas such as dental health, mental health, and aged care.

Therefore, budget policies in health should focus not on cutting expenditure, but on a shift in priorities towards primary and preventive care, and a far better distribution of health expenditure so that it achieves value for money in an effective, accessible and affordable health care system.

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<sup>50</sup> Parliamentary Budget Office (2018): *2018-19 Medium-term fiscal projections*, Parliamentary Budget Office, Canberra. Available: [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/Publications/Research\\_reports/Medium-term\\_budget\\_projections](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Research_reports/Medium-term_budget_projections)



The first step in health reform should be to reduce the worst gaps in health services. We propose a transition to a universal public dental scheme, and in the revenue section of this statement we advocate policies to strengthen the revenue base for health, aged care and disability services.

To ensure our health care system is sustainable, poorly targeted and ineffective subsidies that inflate the cost of care, including the Private Health Insurance Rebate and Extended Medicare Safety Net, should be abolished and the savings redirected to more effective health care programs.

## Invest in health promotion and prevention programs

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, but also preventable communicable diseases) 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>51</sup>

**Recommendation 43: Increase investment in health promotion and prevention (including nutrition, obesity, tobacco and alcohol use, mental health, diabetes and cancer prevention, and communicable diseases prevention) to 5% of total Commonwealth health spending**

**Budget impact: -\$2,700 million (-\$2,800 million in 2022-23)**

## Invest in community-led health promotion for COVID-19

During the COVID-19 pandemic in Australia, the Aboriginal Community Controlled sector has played a leadership role in planning protective strategies and communicating health messages about prevention, risk and health restrictions to Aboriginal and Torres Strait Islander peoples and communities. Aboriginal and Torres Strait peoples have turned to their ACCHOs for health promotion and education messages and guidance during this pandemic, as the trusted actors on health issues for their community.

This trusted community leadership has been critical for getting strategies right and communicating the right messages out about the risks and impacts of COVID19 on Aboriginal and Torres Strait Islander people and communities.<sup>52</sup>

<sup>51</sup> For a strong rationale for preventive services, see for example Preventative Health Task Force (2010): *Taking preventative action – a response to Australia: The healthiest country by 2020*, Preventative Health Task Force, Canberra. Available: <https://apo.org.au/node/21989>

<sup>52</sup> Crooks K, Casuarina NT, Casey D, City C, Territory AC, Ward JS. 'First Nations people leading the way in COVID-19 pandemic planning, response and management'. *Medical Journal of Australia*. 2020 April 29

Other non-Aboriginal community-controlled organisations, including in CALD communities, LGBTIQ communities and communities of people with disability have also worked hard to plan and communicate health promotion and education messages to their communities. All of this work has occurred in the absence of a coordinated national strategy for working in close collaboration with higher risk groups, and without funding for community-controlled organisations to deliver it.

Community leaders are particularly important in both building trust for sustained ongoing response and recovery planning, and for providing rapid feedback to government and health decision-makers about how to improve protective action both from the health and associated economic and social risks playing out in specific communities.

While national and state-wide health promotion and health education is important, it is also important that these efforts are complemented by a strategy to reach specific at-risk and hard to reach populations with messages about vaccination, prevention, testing and isolation. This strategy must be backed up by funding for targeted health promotion and education led by community organisations representing hard to reach and at-risk populations.

**Recommendation 44:** In order to ensure that health promotion and education messages about COVID-19 prevention, testing, vaccination and isolation are reaching hard to reach and at-risk populations, we recommend the following:

**(1) Develop formal health promotion and education strategies for specific hard to reach and at-risk populations that are informed by the data and evidence and developed in partnership with the relevant communities and the organisations that represent them.**

**(2) Develop a partnership approach between government and community organisations delivering health promotion and education, where decision making on health promotion and education activities is led by community organisations and relevant epidemiology data is shared.**

**(3) Provide targeted funding for community organisations representing key population groups to deliver peer-led health promotion and education to their own communities.**

**Budget impact:** *-\$50 million (-\$0 million in 2022-23)*

## Transition to a universal dental health care scheme

One of the most significant gaps in our public health system is the provision of affordable, accessible dental care for all. While seeing a GP usually results in Medicare bearing all or most of the cost, seeing a dentist often results in significant out-of-pocket costs, even for those with private health insurance. This makes dental care unaffordable for many people on low incomes, and many go without the treatment they need. This creates costs in our broader health system, but also impacts on people's ability to live their lives, including to eat well, work and be engaged in their communities. Australia should transition dental care to a universal scheme, funded by the Federal Government.

**Recommendation 45:** Create a universal, federally funded dental care scheme. As a first step in the transition to a full scheme, public dental services investment should increase by \$1.1 billion.

**Budget impact: -\$1,100 million (-\$1,200 million in 2022-23)**

## Abolish the Private Health Insurance Rebate

Despite being a significant component of health expenditure, the Private Health Insurance Rebate (PHIR) has failed in its promise to take pressure off public hospitals by increasing use of private health insurance. Total savings of \$6.3 billion from abolishing the rebate would be offset by a modest increase in demand for public hospital services.<sup>53</sup>

**Recommendation 46: Abolish the Private Health Insurance Rebate which costs \$6.4 billion per annum, and reinvest \$2.3 billion in public hospitals.**

**Budget impact: \$4,100 million (\$4,200 million in 2022-23)**

## Abolish the Extended Medicare Safety Net

Poorly designed consumer subsidies such as the Extended Medicare Safety Net (EMSN) exacerbate inflation in health costs. An independent review of that program found that less than 4 per cent of EMSN benefits go to the most socioeconomically disadvantaged 20 per cent of the population. This is because they struggle to afford the gap fees that enable them to reach the EMSN thresholds.<sup>54</sup>

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 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.

**Recommendation 47: Abolish the Extended Medicare Safety Net, which costs \$500 million a year and is driving up medical costs.**

**Budget impact: \$500 million (\$511 million in 2022-23)**

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<sup>53</sup> Grattan Institute (2013): *Balancing budgets: Tough choices we need*, Grattan Institute, Melbourne. Available: <https://grattan.edu.au/report/balancing-budgets-tough-choices-we-need/>

<sup>54</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 2021 the annual EMSN thresholds are: \$697 for Commonwealth concession cardholders and Family Tax Benefit part A, and \$2,184.30 for all other singles and families. See Department of Health (2020): *Medicare safety net arrangements - 1 January 2019*, Department of Health, Canberra. Available: [http://www.mbsonline.gov.au/internet/mbsonline/publishing.nsf/Content/Factsheet-MSN\\_1Jan2021](http://www.mbsonline.gov.au/internet/mbsonline/publishing.nsf/Content/Factsheet-MSN_1Jan2021)  
Centre for Health Economics Research and Evaluation (2011): *Extended Medicare Safety Net: Review of capping arrangements report 2011*, CHERE, University of Technology, Sydney, Sydney. Available: [https://www1.health.gov.au/internet/main/publishing.nsf/Content/2011\\_Review\\_Extended\\_Medicare\\_Safety\\_Net/\\$File/Final%20Report%20-%20Review%20of%20EMSN%20benefit%20capping%20June%202011.pdf](https://www1.health.gov.au/internet/main/publishing.nsf/Content/2011_Review_Extended_Medicare_Safety_Net/$File/Final%20Report%20-%20Review%20of%20EMSN%20benefit%20capping%20June%202011.pdf)

## Reducing harms from overuse of alcohol and sugary drinks

Excessive sugar consumption is a major reason that almost two-thirds of Australian residents are overweight or obese; one of the highest rates in the OECD. Sharp increases in the incidence of overweight and obesity (especially among children) over the last few decades are associated with growth in chronic illness such as diabetes.<sup>55</sup> It is also very harmful to teeth, especially for children.

In Chapter 10, we recommend that a 'sugar tax' be introduced on certain sweetened drinks to address social, health and economic costs of over-consumption of sugar. This should be part of a wider strategy including regulatory reform (to restrict advertising targeting children, improve the transparency of labelling of food and beverages, and restrict the financing of sporting and similar activities by producers), and health promotion campaigns.<sup>56</sup>

Overall alcohol consumption has fallen in Australia.

However, there has been persistent growth in consumption of wine, and growing concern about the impact of excessive consumption of cheap wines on drinkers, their families and communities, especially its contribution to family violence.

In the same chapter we recommend that alcohol taxes be reformed to reduce the incidence of binge drinking and associated social harms.

While such taxes on consumption are generally regressive, the above reforms would improve the health and wellbeing of low-income families and children.

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<sup>55</sup> Combined rates of overweight and obesity were 63% in 2014, up from 56% in 1995 and 61% in 2007-8. See Australian Institute of Health and Welfare (2018): *Healthy communities: Overweight and obesity rates across Australia, 2014-15*, AIHW, Canberra. Available: <https://www.aihw.gov.au/getmedia/762dea8d-07fb-47c7-8f40-83a3933f66c7/aihw-mhc-hpf-27-Overweight-Obesity-December-2016.pdf.aspx?inline=true>

<sup>56</sup> Obesity Policy Coalition (2018): *A comprehensive policy program to reduce consumption of sugar-sweetened beverages in Australia*, Obesity Policy Coalition, Melbourne. Available: <https://www.opc.org.au/downloads/policy-briefs/reduce-sugary-drinks-in-australia.pdf>; Obesity Policy Coalition (2018): *The case for a health levy on sugar-sweetened beverages*, Obesity Policy Coalition, Melbourne. Available: <https://www.opc.org.au/downloads/policy-briefs/the-case-for-australian-tax-sugar-sweetened-beverages.pdf>

# 8. Aboriginal and Torres Strait Islander communities

## Summary

- If governments are serious about improving outcomes for Aboriginal and Torres Strait Islander people, they must support local, community driven solutions. The recommendations in this submission are designed to support community-led reform.
- ACOSS strongly supports the 'Uluru Statement from the Heart' to give Aboriginal and Torres Strait Islander people a say in the decisions that affect their lives. This will help ensure that we do things differently and more productively, and allow Aboriginal and Torres Strait Islander people to claim their rightful place in the nation.

## Introduction

Governments must support local, community driven solutions if they are serious about improving outcomes for Aboriginal and Torres Strait Islander people. Building capacity in communities is critical to improve the quality of life and wellbeing. ACOSS strongly supports the 'Uluru Statement from the Heart' and rejects the government's refusal to engage with Aboriginal and Torres Strait Islander people in their united plea to have a voice to Parliament. Giving Aboriginal and Torres Strait Islander people a say in the decisions that affect their lives will help ensure that we do things differently and more productively, and allow Aboriginal and Torres Strait Islander people to claim their rightful place in the nation.

The following recommendations (which are featured elsewhere in the submission) are priorities for reform with respect to policies, programs and services that affect Aboriginal and Torres Strait Islander people:

- Provide core funding for the institutional capacity of Aboriginal and Torres Strait Islander representation in policy making and national decision-making (see Chapter 6 Improving access and affordability of essential community services).
- Ensure Aboriginal and Torres Strait Islander children get access to high quality early education that is culturally safe, delivered by appropriately skilled teachers (see Chapter 6 Improving access and affordability of essential community services).
- Abolish compulsory income management and the cashless debit card in all states and territories, putting in place both transition arrangements for individuals and communities wishing to retain voluntary income management and cashless card schemes; and opt-in schemes which have been co-designed with communities and to include supports and services as elected by communities, which could include financial counselling, drug and alcohol services, mental health and social support services (see Chapter 2 A permanent boost to the lowest incomes).
- Replace the Community Development Program with a new employment services scheme for people in remote Aboriginal and Torres Strait Islander communities along the lines of the Remote Development and Employment Scheme proposed by APO NT, ensuring the new scheme maintains entitlements to social security payments and does not discriminate against participants (see Chapter 3: Restoring jobs for people out of paid work).

- Develop a new national Aboriginal and Torres Strait Islander housing strategy for urban, rural, regional and remote areas, and a new remote housing agreement (see Chapter 5: Make access to housing affordable for people with low incomes).
- Establish an Aboriginal and Torres Strait Islander Communities Clean Energy Fund to invest in clean energy and energy efficiency for remote communities, including solar and other subsidies for Aboriginal and Torres Strait Islander householders (see Chapter 4: Accelerate a just climate transition and strengthen community climate resilience).
- Support Aboriginal and Torres Strait Islander peoples and communities to participate in whole-of community response to building climate resilience and to better prepare for, respond and recover from natural disasters that build on traditional and local knowledge Support (see Chapter 4: Accelerate a just climate transition and strengthen community climate resilience).
- Fund a fresh food transport subsidy for remote communities from the revenue raised via a sugar tax (see Chapter 10: A fairer tax system that supports economic development).

## 9. Decent retirement incomes and services

### Summary

- In its response to the Retirement Income Review, the government should give the highest priority to reducing the most severe poverty among older people, which is experienced by people renting privately and those relying on JobSeeker Payment (which should be increased for people of all ages – see Chapter 2: A permanent boost to the lowest incomes).
- Pensions should continue to be targeted towards people at risk of poverty and any easing of income or assets tests should as far as possible be cost-neutral.
- Compulsory super should remain universal, at a uniform contribution rate.
- The Super Guarantee should increase to 10% as scheduled.
- Increases above 10% should only proceed if this would demonstrably benefit people with low and modest incomes.
- Tax concessions for contributions should first be reformed so that they receive at least the same subsidy, per dollar contributed, as people with higher incomes.
- This could be achieved at no extra fiscal cost by replacing existing tax breaks for contributions with a uniform annual rebate up to a (lower) annual cap.
- Tax concessions for superannuation cost \$42 billion a year, almost the same as the Age Pension, and disproportionately benefit high income-earners.
- Only 16% of people over 64 years pays income tax, though many have the capacity to do so. In addition, once their super fund pays them a pension it pays no tax on its investment income.
- This is not sustainable if future governments are to guarantee decent health and aged care services for an ageing population.
- Superannuation fund earnings post-retirement should be taxed at the same 15% rate as they are in the accumulation phase, with the revenue earmarked to guarantee affordable access to quality aged care services.
- Additional sources of revenue to meet the growing fiscal cost of quality health, aged care and disability services include curbs on avoidance of the Medicare Levy and reductions in age-based tax concessions.

### Introduction

Our retirement income system rests on three pillars:

- age pensions and other social security payments,
- compulsory superannuation, and
- tax concessions for superannuation.<sup>57</sup>

The purpose of the *social security pillar* should be to prevent poverty. Since it was increased substantially in 2009, the Age Pension is well-designed to achieve this goal

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<sup>57</sup> More detail is provided in our submission to the Retirement Incomes Review, at: <https://www.acoss.org.au/wp-content/uploads/2020/02/200202-Retirement-Incomes-Review-ACOSS-submission.pdf>



though the payment is still frugal and in general terms recipients only avoid poverty if they own their homes outright.

Pensions should continue to be targeted to people at risk of poverty. Any easing of income or assets tests should as far as possible be cost-neutral.

The Retirement Incomes Report shows that, overwhelmingly those older people most at risk of poverty are renting their homes, or relying on JobSeeker Payment because they do not yet qualify for a pension.<sup>58</sup> As argued in Chapter 2 (A permanent boost to the lowest incomes) and Chapter 5 (Make access to housing affordable for people with low incomes), lifting allowance payments and Rent Assistance should be top priorities for social security reform.

The purpose of *compulsory retirement saving* should be to help people smooth their incomes throughout life, and to top up modest pension payments. A sensible principles-based benchmark for compulsory retirement saving would ensure that a worker on a median wage and their partner can come within reach of their average living standard during working life after they retire (taking account of pension entitlements).

Since compulsory super is forced saving, the system should take account of greater financial pressures people (especially those with low incomes) face during working life, including higher housing costs, raising children, and the financial risks of unemployment and unstable employment, marital separation and illness.

*Tax concessions* should support compulsory and voluntary saving through superannuation to reach up to an 'average' living standard in retirement, but no greater than this since tax concessions are ultimately subsidised by other taxpayers.

Tax support for retirement saving should not support wealth accumulation for other purposes such as bequests (apart from transfers to dependents).

The Retirement Income Review Report convincingly shows that superannuation tax concessions are highly inequitable, skewing lifetime public support for retirement incomes towards those in the highest 20% of income-earners (Figure 2).

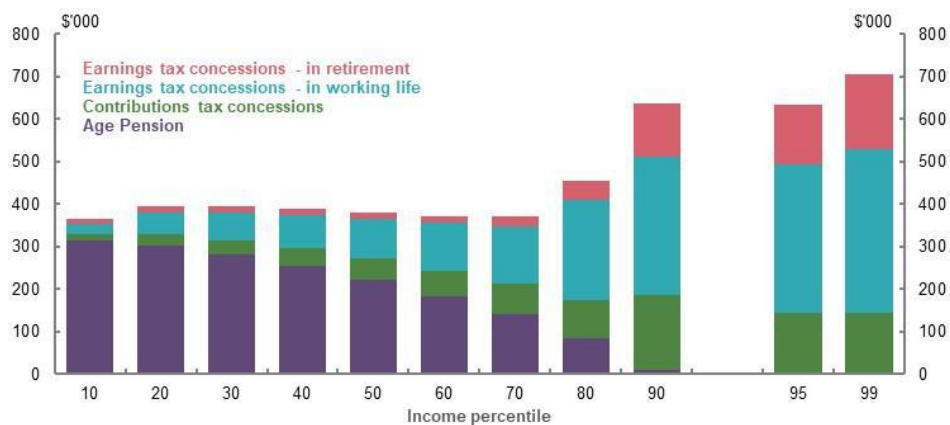
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<sup>58</sup> Retirement Income Review (2020), Report. Australian Government, at: <https://treasury.gov.au/sites/default/files/2020-11/p2020-100554-complete-report.pdf>

Saunders, P and Wong, M (2008): Deprivation and other indicators of the living standards of older Australians, Social Policy Research Centre, UNSW, Sydney.



**Figure 2: Lifetime income support from the retirement income system**



Source: Retirement Income Review Report (2020), op cit.

*A decent life in retirement depends on more than income alone.* Older people need assurance that good-quality aged care and health services are available as needed, and that they don't face steep out-of-pocket costs. They need secure, affordable housing.

The ageing of the population is projected to increase the cost of pensions and health and aged care under existing policy settings by \$16 billion a year within a decade's time.<sup>59</sup> Covering these costs, and improving the quality of health and aged care services, requires a robust stream of future public revenue. Yet only 16% of older people pays income tax (even though many more could afford to contribute as the superannuation system matures and the wealth of many older people increases).<sup>60</sup> This is not sustainable.

## A compulsory super system that's fit for purpose and taxed fairly

Compulsory superannuation has improved retirement incomes and living standards for many people who would otherwise rely on the Age Pension alone. It should continue as a universal system since universal systems benefit all, including those with the least resources. ACOSS does not support 'carve outs' for people with low incomes, or making any contributions at 10% or below voluntary.

The Superannuation Guarantee (SG) is legislated to increase from 9.5% currently to 12% by 2026.

ACOSS has consistently raised concerns that contributions at this level or higher may force people with low lifetime incomes to save when they are under the greatest

<sup>59</sup> About half of this is the increased cost of pensions and the other half health and care services; Parliamentary Budget Office (2019), Medium-term fiscal projections, at: [https://www.apb.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/Publications/Research\\_reports/Medium-term\\_budget\\_projections](https://www.apb.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Research_reports/Medium-term_budget_projections)

<sup>60</sup> Coates B & Nolan J (2019), Balancing act: managing the trade-offs in retirement incomes policy. Grattan Institute, at: <https://grattan.edu.au/wp-content/uploads/2020/03/Grattan-Institute-sub-balancing-act-retirement-income-review.pdf> .

financial pressure to fund a living standard in retirement that is higher than that which they had through working life.

The next increase in the SG from 9.5% to 10% of wages in July 2021 should proceed, since collective pay agreements may have already taken this increase into account when setting wages.

Before the SG is lifted above 10%, the benefits of higher compulsory contributions for the median wage-earner and those with lower incomes should be demonstrated, and tax concessions for contributions should be reformed.

To the extent that SG contributions are in effect compulsory saving (rather than extra payments from employers), the SG should be set at a level which enables people on low and modest incomes to attain a retirement living standard that is commensurate with that obtained during working life.<sup>61</sup>

Research by the Retirement Income Review indicates that most wage earners will achieve this goal through a combination of the Age Pension and superannuation contributions of 9.5% of earnings through typical working lives.<sup>62</sup>

In any event, tax concessions for superannuation contributions should be restructured to make them fair before the SG increases above 10%. People on low and modest incomes presently receive little or no support from \$25 billion a year in foregone public revenue. A worker earning \$20,000 (more likely to be a woman) receives no tax support for employer contributions while another worker on \$200,000 (more likely to be a man) saves 32 cents in tax per dollar contributed. This is due to the way their marginal tax rates interact with the inequitable flat 15% tax on employer contributions.

The system particularly disadvantages women, who have lower earnings and marginal tax rates than men. In 2017, 11% of female taxpayers earned less than \$30,000 compared with 9% of men. At those income levels, people generally receive no tax benefit from super contributions since the Low Income Superannuation Tax Offset merely offsets the 15% tax deducted from their employer contributions.

This flat superannuation tax should be replaced with a rebate (for example, 20% of contributions from all sources) that provides the same or greater support for each dollar of contributions for people with low incomes as that provided to middle and high income-earners. This would be paid for by reducing tax breaks for people with high incomes. In addition, to make super worthwhile for people with very low incomes, a higher rebate (for example 100%) could be paid for (say) the first \$500 a year contributed to super accounts.

Tax breaks on contributions to be capped at a lower level than the present \$25,000 a year (for example, \$15,000) so that average wage earners are not subsidising luxurious retirement living standards.

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<sup>61</sup> The evidence in the Retirement Incomes Report, along with research by the Grattan Institute, indicates that increases in compulsory employer super contributions mainly come from lower wage increases. This assessment is supported by the Reserve Bank and most economists. The issue here is not whether wage increases are high or low, but whether they are lower than they would have been without increases in compulsory super contributions. For evidence see:

<https://treasury.gov.au/sites/default/files/2020-11/p2020-100554-complete-report.pdf>

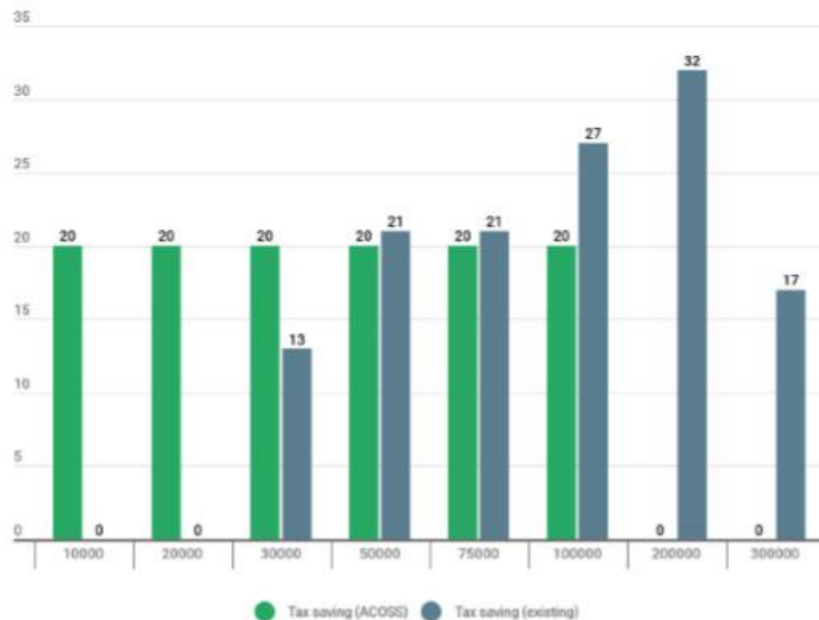
<https://grattan.edu.au/wp-content/uploads/2020/02/No-free-lunch-Higher-superannuation-means-lower-wages.pdf>

<https://www.afr.com/policy/economy/super-rise-to-12pc-puts-cart-before-the-horse-20200210-p53zdf>

<sup>62</sup> Retirement Income Review (2020), op cit.

The impact of this reform on the marginal tax rate applied to contributions just above the Superannuation Guarantee Is illustrated in (Figure 3).

**Figure 3 Tax saved, in cents per dollar contributed about the Super Guarantee, at different income levels (existing system and ACOSS rebate)**



**Figure 3: Tax saved, in cents per dollar contributed about the Super Guarantee, at different income levels (existing system and ACOSS rebate)**

Note: Marginal tax rate of additional employer contributions above the superannuation guarantee. The existing 15% tax is offset by a rebate for those below the tax-free threshold, so that the tax concession in those cases is effectively zero.

The proposed rebate is more generous for SG contributions for middle income earners than the present 15% tax rate, so most middle income-earners would be financially better off.

**Recommendation 48: Universal compulsory super contributions should remain at 10% unless it is demonstrated that higher contributions would benefit people on low and modest incomes**

**(1) Compulsory superannuation should remain universal, with the same compulsory saving requirements and conditions applying as far as practicable to all employees.**

**(2) The Superannuation Guarantee should increase to 10% as scheduled.**

**(3) It should only increase above 10% where:**

- **The tax treatment of superannuation contributions is reformed in a revenue neutral way so that low income-earners receive at least the same benefit per dollar contributed as high income-earners;**
- **Higher compulsory contributions are of demonstrated benefit to people with low and modest incomes during working life, taking account of their typical living standards before and after retirement and the impact of higher contributions on wage increases.**

### **Recommendation 49: Fair and simple tax concessions for 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 an annual two-tier refundable rebate paid into the fund, capped at a contribution level sufficient to support (along with the Age Pension) an acceptable retirement income for a typical worker.**

**(2) The rebate for concessional contributions would be structured as follows:**

- **100 cents per dollar contributed from any source up to \$500 per year (not income-tested, indexed to movements in average full-time 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 to \$15,000 (indexed to movements in average full-time earnings), with no higher cap for 'catch-up' contributions;**
- **For this purpose, contributions would be calculated as net contributions, that is all contributions made to a person's superannuation accounts in a given year minus any benefits paid, in order to curb tax avoidance through 're-contribution strategies.**

**(3) The annual non-concessional contributions cap should be reduced to three times the new concessional cap (\$45,000), and the ability to contribute up to three years' contributions within the cap in a single year should be removed.**

**(4) The exception to the general prohibition on direct borrowing by super funds for limited recourse borrowing arrangements by self-managed funds should be removed.**

**Budget impact: \$0**

## Reform the taxation of superannuation post-retirement to help pay for aged care

It will not be possible for future governments to properly fund aged care and health services for an ageing population as long as only 16% of older people pays income tax.<sup>63</sup>

We need to choose between over-generous tax breaks for retirement, decent services, or a steep rise in out-of-pocket costs for health and aged care. Older people are rightly concerned about the deficiencies in aged care revealed in the recent Royal Commission, and increases in out-of-pocket costs for those services, including large up-front deposits for residential care.

These concerns have led many people to avoid drawing down their retirement savings, reducing their current income and enjoyment of retirement while they are still healthy, in case they need the money for health and aged care services later in life. The outcome is larger bequests instead of improved living standards in retirement.

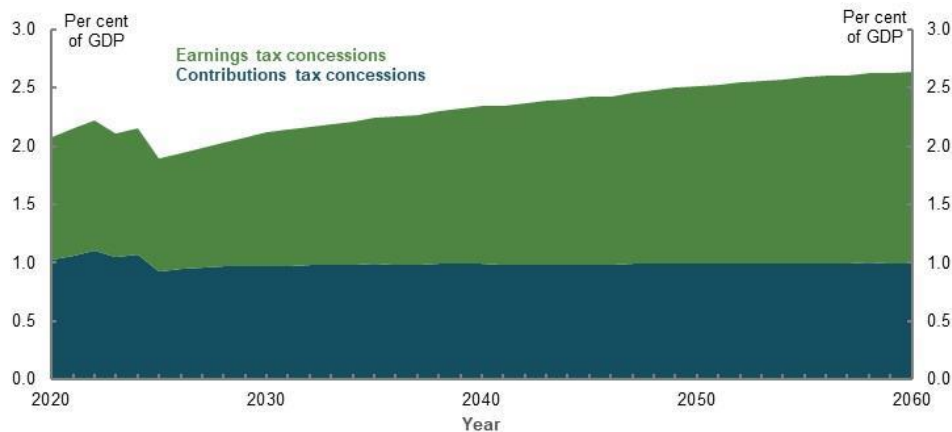
The fiscal cost of tax concessions for superannuation, especially post-retirement tax concessions, will rise substantially on current policy settings as the population ages and

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<sup>63</sup> Coates B (2018), The entitlement of age, Grattan Institute.

the superannuation system matures. Figure 4 shows that the cost of superannuation tax concessions is projected to rise from 2.1% of GDP in 2020 to 2.6% in 2060, over a period when budget expenditures on health and aged care are expected to rise substantially. Most of the increase in fiscal costs comes from superannuation fund earnings tax concessions.

**Figure 4: Projected cost of superannuation tax concessions (% of GDP)**



Source: Retirement Income Review (2020), op cit.

Despite welcome reforms in 2016, the tax treatment of superannuation after retirement remains extraordinarily generous, especially for people with substantial wealth. It is not widely understood that in addition to the exemption from income tax of superannuation benefits, the investment income of a superannuation fund is no longer taxed once it pays a pension to a fund member. In contrast, during the so-called 'accumulation phase' interest, dividends and capital gains off super funds are taxed at 15% (10% in the case of capital gains).

Re-contribution strategies (where a fund member who receives a superannuation pension makes fresh contributions to super in the same year, churning their income through super) have blurred the artificial distinction between accumulation and pension phases of superannuation. As the Henry Report recommended in 2009, this distinction should be removed and the same tax rate should apply to super fund earnings before and after retirement.<sup>64</sup>

As well as undermining public revenue, the non-taxation of fund earnings in the so-called pension phase opens up tax avoidance opportunities that have little to do with saving for retirement. People can avoid paying tax on capital gains accrued through working life by transferring or retaining 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. Small business owners can transfer assets into their super fund tax free, taking advantage of the CGT rollover for small business assets used for retirement.

Further, the 17% tax on superannuation assets transferred to a deceased estate can be avoided by shifting savings from concessional to non-concessional accounts. This facilitates the use of superannuation for estate management purposes.

<sup>64</sup> Henry K et al. (2009): Australia's future tax system review final report, The Treasury, Canberra, at: <https://treasury.gov.au/review/the-australias-future-tax-system-review/final-report>. Tax avoidance through re-contribution strategies was addressed in part by the government's decision in 2016 to apply the 15% tax rate to the investment income of Transition to Retirement accounts.

The tax treatment of superannuation post-retirement should be reformed to help finance good-quality aged care services, and the link between these two pillars of a decent retirement should be made explicit.

In return for higher income tax revenues from those retired people who can afford to pay, the government should guarantee that older people will receive decent, affordable aged care when needed, with minimal out-of-pocket costs for care services.

**Recommendation 50: Tax superannuation fund earnings after retirement to help pay for aged care services**

**(1) The 15% tax on fund earnings in the 'accumulation' phase should be progressively extended to the 'pension' phase over a three-year period from July 2021 (with a 5% increase each year).**

**(2) This should be offset by a 15% rebate (minus any imputation credits) for taxpayers over the preservation age whose income (including Age Pension, earnings, superannuation and other investment income) falls below the taxpayer's tax-free threshold. The rebate would be calculated each year by the ATO and deposited in a superannuation fund chosen by the taxpayer.**

**(3) Opportunities for taxpayers to avoid or reduce tax on capital gains accrued during working life by holding assets in a self-managed super fund should be removed.**

**(4) Transfers from superannuation accounts to the estates of deceased fund members (apart from spouses and dependent children) should be taxed at the statutory rate of 17%.**

**(5) Revenue collected from these measures (which would rise substantially in later years) should be earmarked for public expenditure on aged care services.**

**Budget impact: \$0 (\$2,500 million in 2022-23)**

## Reduce age-based tax concessions to help fund health and aged care

We propose two further reforms to strengthen the personal income tax base and finance essential health, aged care and disability services.

First, age-based tax concessions should be replaced by rebates based on people's incomes.

The Seniors and Pensioners Tax Offset (SAPTO) is a tax rebate for people of pension age. In its first iteration, its purpose was to exempt individuals receiving the maximum rate of pension (with private income below the 'free area') from income tax. Over time, it was extended to retired people who were too wealthy to receive a pension and increased to the extent that single people over the pension age (64 years) with income up to \$32,000 and couples with income up to \$58,000 (in addition to tax-free superannuation payments) pay no income tax.

These age-based tax-free thresholds are 50% higher than those for people of working age, an inequity that cannot be justified.

We propose to return the SAPTO to its original purpose, to exempt from tax pension recipients of all ages with incomes below the income test free area.

Secondly, the Medicare Levy exemption threshold for seniors should be reduced to the same level that applies to people of working age. In 2018-19, single older Australians did not pay the full Medicare Levy until their taxable income exceeded \$45,000 compared with \$28,500 for single people of working age.<sup>65</sup>

**Recommendation 51: Reduce age-based tax concessions to help finance health and aged care services**

**(1) From 1 July 2022, the Seniors and Pensioners Tax Offset should be restricted to pension recipients and redesigned so that it exempts the pension plus private income within the pension 'free area' from income tax.**

**(2) From 1 July 2022, the Medicare Levy exemption threshold for people over 64 years should also be equal to the relevant pension plus the 'free area'.**

**(3) Revenue collected from these measures should be earmarked for public expenditure on aged care, health and disability services.**

**Budget impact: \$0 (\$700 million in 2022-23)**

## Prevent avoidance of the Medicare Levy to fund health care for an ageing population

The income base for the Medicare Levy is taxable income, which opens up opportunities for taxpayers to avoid paying it by taking advantage of negative gearing arrangements, salary sacrifice, or the use of private trusts. On the other hand, the income definition for the high-income Medicare Levy Surcharge ('MLS income') restricts these tax avoidance opportunities. This broader definition should extend to the Medicare Levy itself.

**Recommendation 52: Prevent avoidance of the Medicare Levy**

**(1) From 1 July 2022, the income definition for the Medicare Levy should be broadened from 'taxable income' to 'Medicare Levy Surcharge income' to prevent people from avoiding the Levy by using tax shelters such as private trusts, negative gearing or salary sacrifice arrangements.**

**(2) Revenue raised from this change should be earmarked for public expenditure on essential health and disability services.**

**Budget impact: \$0 (\$1,300 million in 2022-23)**

<sup>65</sup> Retirement Income Review (2020), op cit.



# 10. A fairer tax system that supports economic development

## Summary

- While there is no urgency to reduce the budget deficit, the government should begin work to shore up the revenue base that will be needed in future years to finance essential services and income support.
- If the share of public revenue in the economy continues to fall, there is a risk that COVID-related income supports for households and businesses will be withdrawn too early, entrenching higher levels of poverty and unemployment.
- This is not the time for the income tax cuts for high income-earners the government has legislated. In the short-term, these tax cuts will mostly be saved, rather than spent to speed economic recovery.
- In the medium term, the tax cuts will remove \$17 billion a year from public revenues from 2024. Once the economy has recovered, this will close off the choices available to future governments to reduce the budget deficit. Future governments would face pressure cut social security and essential services even further than the austerity policies inflicted on them from 2014 to 2019.
- Instead of cutting taxes, the government should restructure them so that the public revenue we need can be raised more fairly and efficiently. A well-designed reform package would bolster economic recovery and make it more sustainable.
- High priority should be given to reforms that remove incentives to speculate in asset values, especially property and shares. When interest rates are low for a prolonged period, there is a risk that asset prices will streak ahead of growth in the 'real economy', increasing inequality of income and wealth, making housing even less affordable, and wasting capital that could be used more productively.
- There are already signs of a break-out of inflation in house prices.
- Tax rates for personal capital gains beyond owner-occupied housing should be increased, and 'negative gearing' should be curbed.
- The use of private companies and trusts to avoid tax should be curtailed and the veil of secrecy surrounding their true ownership and control should be removed.
- Progress has been made in curbing tax avoidance by multi-national companies, but more needs to be done, especially to curb profit shifting to tax havens.
- As part of wider efforts to reduce carbon emissions, the government should remove tax subsidies for fossil fuels, notably the rebate for diesel fuel used in mining.
- To improve public health and raise revenue for preventive health programs, a tax should be introduced on sweetened drinks and alcoholic beverages should be taxed at a uniform rate based on the volume of alcohol they contain.

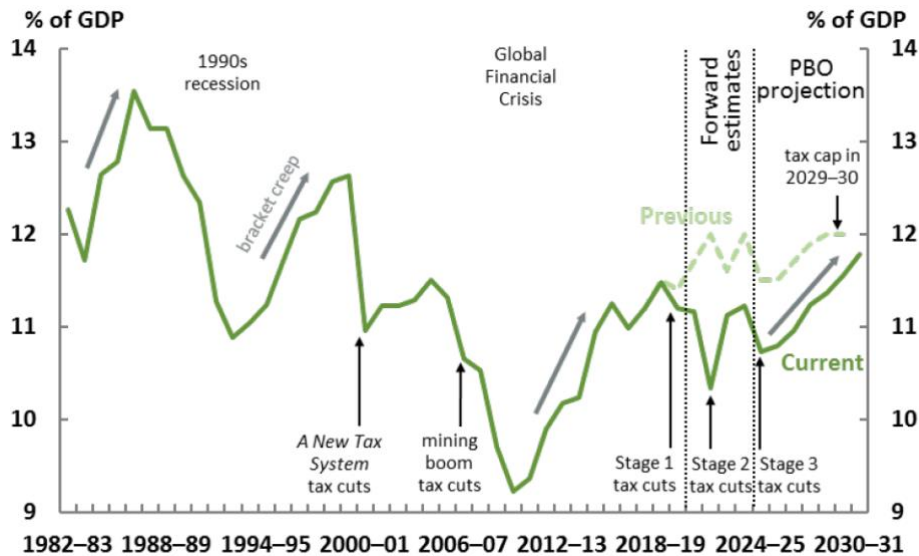
## Introduction

The Parliamentary Budget Office (PBO) projects that the pandemic recession will permanently carve around \$100 billion a year from Commonwealth revenues, due mainly to a reduction in the size of the economy.

As a share of GDP, revenues are projected to be lower (at 24.5%) in 2030-31 than they were before the recession in 2018-19.<sup>66</sup>

Unless reversed, the legislated tax cuts for high income-earners, which build to \$17 billion a year in 2024-25 (% of GDP), will exacerbate this revenue deficiency (Figure 5). Our warnings about the risk of legislating large tax cuts five years in advance have been vindicated.

**Figure 5: Personal income tax revenue as a % of GDP**



Source: Parliamentary Budget Office (2020), Medium-term fiscal projections.

Note: 'previous' refers to last year's projections, and also includes the tax cuts.

With interest rates at all-time lows, there is no need to rush to reduce the Budget deficit, and doing so now would jeopardise economic recovery. Instead, our main concern is that as the economy recovers, governments will be prevented from alleviating the social impacts of the pandemic and recession (such as the levels of JobSeeker payment and long-term unemployment) and making long-overdue investments in essential services (such as social housing and aged care).

If the PBO projections ring true, a future government seeking to reduce public debt would have to choose between restoring revenue and a harsher austerity program of cuts to services and income support like those pursued before the pandemic.

The scheduled tax cuts should not proceed in their present form, given their high cost and bias towards taxpayers with high incomes. Any tax cuts during the forward estimates period should mainly be paid for by reducing tax concessions and closing off tax shelters.

The fairest and least economically disruptive way to restore public revenues and pay for improvements in payments and services is to close gaps in the income tax base so that different forms of income are taxed more consistently. This would strengthen growth in jobs and incomes in the long-term by removing biases in the tax system such as those favouring investment in property (discussed below).

<sup>66</sup> Parliamentary Budget Office (2020), Medium-term fiscal projections, at: [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/Publications/Research\\_reports/Medium-term\\_budget\\_projections](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Research_reports/Medium-term_budget_projections)

**Recommendation 53: Do not proceed with scheduled income tax cuts for high income-earners**

**The 'Stage 2' personal income tax cuts introduced last year for people earning over \$90,000 should be reversed and 'Stage 3' tax cuts legislated to begin in 2024 should be withdrawn.**

**Budget impact: \$3,800 million (\$17,000 million in 2024-25)**

## Tax investment income more fairly and consistently

One of the most economically harmful investment distortions in the tax system is the 50% discount on tax rates for capital gains (CGT) received by individuals and trusts, together with the delay in taxing capital gains until assets are sold. The privileging of speculative investments in assets (such as housing) that yield capital gains over other more productive investments inflates asset prices and detracts from economic development. It exacerbates boom and bust cycles in the economy, especially when (as now) interest rates are held at very low levels for a sustained period.

The 50% CGT discount overwhelmingly benefits the top 10% of taxpayers, who receive two-thirds of all capital gains.<sup>67</sup> We propose that this concession be halved, so that three-quarters of capital gains are taxed. Rather than grandfathering this change (which would lead people to lock in their investments), we propose that the transition to the new rules be managed by progressively lifting the tax rate on capital gains from 50% of the marginal tax rate to 75% over a three-year period. Existing investors should have the funds to pay the higher rate of CGT, as it only levied once an asset is sold.

In addition, avoidance of CGT would be curbed by our recommendation to tighten the tax treatment of superannuation fund earnings post-retirement (see Chapter 9: Decent retirement incomes and services).

The sale of small business assets such as land and buildings 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 business owners with substantial personal wealth can avoid paying Capital Gains Tax (CGT) altogether, or at a very low rate. This is inequitable and discourages business owners from saving for retirement in other, less risky ways such as superannuation.

Ideally, the delay in taxing capital gains would be eliminated by taxing them annually as they accrue. This is impractical as it would require annual valuations, and many long-term investors would not have the cashflow to pay annually. Instead, the government should ensure that the tax treatment of investment expenses (including interest payments on borrowings to purchase an asset) is consistent with the (delayed) tax treatment of capital gains.

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<sup>67</sup> Daley, J and Wood, D (2016): Hot property: Negative gearing and capital gains tax, Grattan Institute, Melbourne. Available: <https://grattan.edu.au/report/hot-property/>

Investors should not be able to claim deductions on those expenses until the investment yields a positive return (often through sale of the asset years later).<sup>68</sup> They could still claim deductions, but those would be better matched with investment income. Assets acquired before that date would be grandfathered so that deductions can still be claimed under the present rules.<sup>69</sup>

The revenue saved from this measure would be devoted to the affordable rental housing investment incentive proposed in Chapter 5: Make access to housing affordable for people with low incomes.

**Recommendation 54: Reduce the general Capital Gains Tax discount for individuals and trusts**

**The exemption of 50% of personal capital gains from Capital Gains Tax should be reduced from 50% to 25%, phased in over five years (reduced by 5% per year) commencing 1 July 2021.**

**Budget impact: \$600 million (\$1,200 million in 2022-23)**

**Recommendation 55: Remove inequitable small business Capital Gains Tax concessions**

**The following tax concessions for capital gains from the disposal of small business assets should be phased out over five years from 1 July 2022:**

- 1. The additional 50% discount for these capital gains;**
- 2. The exemption for gains on assets held for over 15 years; and**
- 3. The exemption for gains used for retirement purposes.**

**Budget impact: \$0 (\$300 million in 2022-23)**

**Recommendation 56: Restrict deductions for personal investment expenses (negative gearing)**

**(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 asset classes, including capital gains realised on subsequent sale. This should apply to all new investments of this type entered into after 1 January 2022.**

**(2) The revenue saved from this measure should be used to introduce an affordable rental housing investment incentive which rebates a proportion of the construction costs of new 'affordable rental' dwellings annually over a ten-year period, during which rents are held at least 20% below median market levels.**

**Budget impact: \$0 (\$0 in 2022-23)**

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<sup>68</sup> A more detailed explanation of this reform, including our responses to claims that it would mainly affect people on low or modest incomes, is in ACOSS (2016): Fuel on the fire: Negative gearing, capital gains tax & housing affordability, ACOSS, Sydney, at: [https://www.acoss.org.au/wp-content/uploads/2016/04/Fuel\\_on\\_the\\_fire\\_ACOSS.pdf](https://www.acoss.org.au/wp-content/uploads/2016/04/Fuel_on_the_fire_ACOSS.pdf)

<sup>69</sup> Unlike the above change to CGT, grandfathering is appropriate in this case because otherwise some existing investors would lack the cashflow to pay the additional tax.

## Curb personal tax avoidance using private trusts and companies

Private (closely-held) trusts, especially discretionary trusts, are 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 policy intention 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.

Private trusts and companies are also used to (illegally) evade tax and launder money by shifting funds through complex chains of entities or to 'tax havens' such as Panama, Bermuda, or Switzerland.

One way to close off these tax avoidance opportunities is to tax private trusts as companies as recommended in 2000 by the Review of Business Taxation (Ralph Review).<sup>70</sup> This would also improve consistency in the tax treatment of trusts and companies, especially the treatment of tax-preferred income (tax concessions), which would no longer 'pass through' to the beneficiaries of private trusts. On the other hand, it would enable high-income-earners to exploit the gap between the company tax rate and higher personal tax rates by retaining income in the trust, so that weakness in the tax treatment of private companies should also be overcome as proposed below.

An alternative way to curb tax avoidance through discretionary trusts is to apply CGT to untaxed or concessionally-taxed income (for example, where taxable income is reduced by building works deductions) of private discretionary trusts when it is distributed to beneficiaries. Currently, these distributions do not attract CGT, including where capital gains are realised through asset revaluations within the trust. This would bring the tax treatment of discretionary trusts into alignment with that of fixed trusts, and curb avoidance of CGT.

The new rules applying to private trusts would apply to private express trusts (both fixed and discretionary trusts), with exemptions similar to those recommended in the Ralph Review including complying superannuation funds and disability trusts.

A related policy challenge is the widespread use of private companies and trusts to (unlawfully) evade tax and launder money through secrecy jurisdictions or 'tax havens', as revealed by revelations from 'Operation Wickenby' (Switzerland), 'Panama Papers' (Panama) and the 'Paradise Papers' (Bermuda).

Australia was a prominent supporter of the G20 initiative to curb these practices by improving the *transparency of beneficial ownership of companies and trusts*. Australian governments have also participated in the OECD's Base Erosion and Profit Shifting (BEPS) initiative to stem multinational tax avoidance.<sup>71</sup>

Despite this, government action to establish registers of the beneficial ownership and control of private companies and trusts has been tardy.

<sup>70</sup> Review of Business Taxation (1999): A tax system redesigned: More certain, equitable and durable, Treasury, Canberra.

<sup>71</sup> Group of 20 (2014): High-level principles on beneficial ownership transparency, G20, Brisbane, at: [https://star.worldbank.org/sites/star/files/g20\\_high-level\\_principles\\_beneficial\\_ownership\\_transparency.pdf](https://star.worldbank.org/sites/star/files/g20_high-level_principles_beneficial_ownership_transparency.pdf); OECD (2017): Global forum on transparency and exchange of information for tax purposes: Australia 2017 (second round): Peer review report on the exchange of information on request, Global Forum on Transparency and Exchange of Information for Tax Purposes, OECD Publishing, Paris, at: <https://doi.org/10.1787/9789264280069-en>

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 higher threshold for private companies, and the absence of public data on large private trusts is a glaring gap in our tax transparency regime.

To encourage tax compliance and curb money laundering, basic information on private trusts should be published by the ATO on a public register, akin to the register for companies. The privacy of beneficiaries of family trusts registered as such (apart from related entities such as trusts and companies) could be exempted from the requirement to publicly list the beneficiaries.<sup>72</sup>

Private companies are also widely used to avoid tax, often in conjunction with discretionary trusts. These arrangements take advantage of the gap between the top marginal rate of personal income tax and the company tax rate.

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

This reform has become more urgent now that the company tax rate has fallen to 27.5% for companies with annual turnover below \$50 million. This change provided windfall gains to high-income-earners using companies as business vehicles.<sup>73</sup>

**Recommendation 57: Curb the use of private trusts to avoid personal income tax and conceal income**

**(1) From 1 July 2022, closely-held express trusts (both discretionary and fixed) should be taxed as companies. This would not apply to certain categories of trusts including collective investment vehicles, complying superannuation funds, disability trusts, and trusts established pursuant to court orders.**

**(2) Alternately, Capital Gains Tax should apply to untaxed and preferentially-taxed distributions to the beneficiaries of closely-held discretionary trusts, including distributions arising from asset revaluations.**

**(3) From July 2022, the scope of the corporate tax transparency regime should be extended so that the ATO publishes basic accounting and tax information on all business and investment entities (including companies, trusts and partnerships) with annual turnover over \$100 million.**

**(4) A public register should be established by the ATO by July 2022 to hold the following information in regard to trusts that are required to lodge tax returns: the names and tax file numbers of the trustee, controller, beneficial owner, any beneficiaries that are not natural persons (for example other trusts or companies), and (where the trust is not a family trust) all other beneficiaries.**

<sup>72</sup> With a family trust election, the transfer of income or losses beyond beneficiaries who belong to the family that owns the trust is discouraged by a penalty tax. Private companies exempted from disclosure requirements by previous grandfathering arrangements should be included.

<sup>73</sup> The lower company tax rate is restricted to active businesses, as distinct from passive investment vehicles. Nevertheless, incorporated active business entities with turnover of up to \$50 million include many owned by high income-earners (for example, professional practices). Business owners with low to modest incomes are less likely to incorporate.



**Budget impact:** \$0 (\$1,500 million in 2022-23)

**Recommendation 58:** Prevent the use of private companies to avoid personal income tax

From 1 July 2022, income retained in private companies, apart from a reinvestment allowance for companies engaged in active business (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.

**Budget impact:** \$0 (\$1,400 million in 2022-23)

## Curb international business tax avoidance

The government has implemented welcome reforms to tackle corporate tax base erosion and to prevent the shifting of profits offshore, including the introduction of a Diverted Profits Tax and a Multinational Anti-Avoidance Law (MAAL). More needs to be done. Too many corporations operating profitably in Australia pay little or no tax. Improving the financial transparency of multinational companies operating in Australia would help change this behaviour. Further, the 'thin capitalisation' rules designed to prevent the shifting of debt to Australia to avoid tax should be strengthened and the use of secrecy jurisdictions for this purpose should be discouraged.

**Recommendation 59:** Curb international business tax avoidance

**Base Erosion and Profit Shifting by companies operating internationally should be curbed by making the following changes from July 2022:**

(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;

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

**Budget impact:** \$0 (\$500 million in 2022-23)

## Remove fossil fuel subsidies

The fuel tax offset for off-road use disproportionately benefits the mining industry. There is no public policy justification for favouring mining over other economic activity that contributes to economic growth and employment opportunities. The original rationale



was that the purpose of fuel excise was exclusively to fund publicly-used roads. This is questionable. Fuel taxation is a mechanism for generating general government revenue and reducing our reliance on environmentally harmful fossil fuels.

In Chapter 4: Accelerate a just climate transition and strengthen community climate resilience, we argue that fuel tax credits for off-road use increases carbon emissions and dampens incentives to improve energy efficiency and switch fuels.

**Recommendation 60: Abolish fuel tax credits for off-road use.**

**Fuel tax credits for off-road use, except agriculture, should be abolished from July 2021.**

**Budget impact: \$4,500 million (\$4,600 million in 2022-23)**

## Use the tax system to encourage healthy practices and fund preventive health care

As discussed in Chapter 7: Strengthen preventive health care and public health services, excessive sugar consumption is a major reason that almost two-thirds of residents in Australia are overweight or obese; one of the highest rates in the OECD. Excessive sugar consumption also leads to tooth decay, especially in children.

We propose a *tax on water-based drinks with added sugar* as a first step towards reducing excessive sugar consumption since these often have a very high sugar content and have no nutritional value. This would be a volume-based tax on water-based drinks with added sugar (not including unsweetened fruit juices) along the lines of the British tax on sugary drinks.<sup>74</sup>

Revenue from this tax 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.<sup>75</sup>

Overall alcohol consumption has fallen in Australia. However, there has been persistent growth in consumption of wine, and growing concern about the impact of excessive consumption of cheap wines on drinkers, their families and communities, especially its contribution to family violence.

A contributing factor is the inconsistent tax treatment of different forms of alcohol, with wines and ciders taxed at relatively lower rates.

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<sup>74</sup> That tax applies to drinks with sugar content above 5g/100ml and at a higher rate for drinks with over 8g/100ml. Soft drink manufacturers quickly reduced the sugar content of their products to bring them under the thresholds for higher taxation.

<sup>75</sup> This could be modelled on a Canadian program, 'Nutrition North America', which 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 Wine Equalisation Tax (WET) and WET Rebate should be abolished and wine and ciders should be taxed at two uniform rates according to alcohol volumes, lying between the tax rates for brewed full-strength beer and spirits.<sup>76</sup>

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

**Recommendation 61: Introduce a 'sugar tax' on sweetened drinks**

**(1) As part of a comprehensive strategy to reduce sugar consumption where this is harmful to health, and to better incorporate related health and social costs into its price; from 1 July 2022 a two-tier volumetric 'sugar tax' should be introduced for water-based drinks with added sugar (excluding unsweetened 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) 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 a fresh food transport subsidy for remote areas.**

**Budget impact: \$0 million (\$500 million in 2022-23)**

**Recommendation 62: Tax drinks consistently on the basis of alcohol content**

**(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 1 July 2022 the WET and WET Rebate should be abolished and wine should be taxed at a uniform rate of \$56 per litre of alcohol content 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.**

**Budget impact: \$0 (\$2,300 million in 2022-23)**

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<sup>76</sup> ACIL Allen Consulting (2015): Alcohol tax reform: Economic modelling, ACIL Allen Consulting, Sydney for FARE. Available: [https://www.acilallen.com.au/uploads/files/projects/177/ACILAllen\\_AlcoholTax\\_2015.pdf](https://www.acilallen.com.au/uploads/files/projects/177/ACILAllen_AlcoholTax_2015.pdf) 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 \$2.3 billion 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. See Henry et al (2009): op. cit.