Budget Priorities Statement

2023-24

Submission to the Treasurer

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

Current challenges and context

The May 2023 Federal Budget will be the first major budget to be delivered by the Albanese Government. ACOSS has strongly welcomed the government commitment to developing a Wellbeing Framework for budget and fiscal policy. To pursue wellbeing, this budget should be squarely focused on relieving financial stress for those on the lowest incomes, securing full employment, addressing the real drivers of inflation directly, building the capacity of the care and support services sector and advancing effective climate action which also improves living standards for those in poverty.

ACOSS also warmly welcomed the establishment of the Economic Inclusion Advisory Committee (EIAC), which will provide an independent source of advice to government on income support policy, including rates and relativities. This is an important reform and will support more robust, rational, and evidence-based income support policy decisions into the future. The Federal Government has committed to considering the **adequacy of JobSeeker** and other Allowance payments every budget, and the EIAC provides a formal mechanism to do that. The case for lifting JobSeeker is compelling. The level of financial stress experienced by people relying on Allowance payments is severe and is causing unnecessary harm. A budget focus on wellbeing must finally include a substantial increase to the JobSeeker Payment to lift people out of poverty, improve wellbeing and support people to participate in employment and society.

Australia is close to achieving **full employment**, but we are not there yet. Sustained full employment has the potential to greatly improve wellbeing and overall living standards, lift the incomes of people lacking paid work and those on low wages, improve the quality and security of employment, and ease entrenched income and gender inequality. The government should set a full employment target and embed the target both in a new agreement with the Reserve Bank and in its forthcoming Wellbeing Framework. In addition to restoring full employment, the government should take advantage of the current tight labour market conditions to bring people who have been left behind into paid employment. That requires major reform of employment services and a shift from the present compliance-heavy system of mutual obligations towards one in which people receive the help they need to secure a decent job.

The government has taken some important urgent steps to **curb inflation**, including through intervention in the energy market. This budget should go further, both to ease hardship and to avoid the blunt and brutal alternative of higher interest rates, which would cruel our chances of achieving full employment. Our recommendations to use the Budget to curb inflation include:

- increasing the supply of rental housing by restricting tax deductions for properties that are currently vacant or under short-term leases;
- improving the energy efficiency of low-income homes;
- reducing out-of-pocket costs for essential community services;
- ending the full expensing of business costs and removing tax concessions for employer-provided cars.

Some of these measures would offer temporary relief, while others should be adopted as permanent reforms.

The budget should also deliver well-targeted **cost-of-living relief** for people on low incomes, including by benchmarking Rent Assistance to actual rents paid, providing energy debt relief of up to $2000 per household and reducing energy bills by exempting low-income households from contributing to renewable energy subsides from which they do not benefit.

Despite its vital role in all our lives, the Australian **community and care sector** is built on shaky funding foundations with funding levels bearing little relationship to community need (present or future) and indexation arrangements inconsistent and inappropriate. Capped, grant-funded services have been in a particularly precarious position, with arbitrary and highly discretionary funding allocations and indexation formulae that at best are inadequate, at worse are mystifying (or non-existent). The Albanese Government's stated commitment to the strength, sustainability and independence of the community sector has been very genuinely welcomed by the sector, and the level of engagement by Government Ministers and Departments has been very encouraging. The October 2022 Budget delivered some much-needed temporary funding relief for community services, but we now look to the May Budget to extend indexation arrangements for another 12 months while a more rational and consistent approach is developed.

Australia has entered an era of 'concurrent, consecutive and compounding' **disasters** and severe weather that occur throughout the year.[1] During 2021-22 alone there were 36 significant events requiring states, territories and the Australian government to enact measures before, during and after emergencies.[2] Climate-induced disasters and extreme weather is only set to worsen and grow more constant in the immediate future. ACOSS proposes a package of measures in this Budget to better equip people on low incomes, communities at risk of disadvantage, and the services upon which they rely to prepare, respond to, and recover from, natural disasters. This includes increased financial assistance (through a more adequate Disaster Response Payment), a $400 million fund to enhance the capacity of community organisations to respond and recover, and an $800 million fund to support local community resilience and recovery.

The renewed focus on strengthening Medicare under the Albanese Government is welcome. ACOSS urges the government to continue work to improve access to primary care for people on low incomes, to **close gaps in the universal health system and reduce out-of-pocket costs** through: increased public dental funding as a step towards a universal system, replacing the Extended Medicare Safety Net with more effective mechanisms to reduce out-of-pocket costs for patients including bulk billing incentives, and abolishing the Private Health Insurance Rebate and redirecting some of the savings into the public hospital system.

The May Budget will include a standalone **Wellbeing Statement** ('Measuring what matters') to measure national progress against a framework of key indicators. The proposed framework in the May Budget should be informed by public submissions and form the basis of a community dialogue to ensure it reflects the priorities, concerns and aspirations of the community. Further refinement and implementation of the Wellbeing Framework should be undertaken in future budgets. The framework should have clear

[1] Australian Institute for Disaster Resilience (2022), *Major Incidents Report 2021-22*. Australian Government, Canberra. p 4
[2] *Ibid* p 13

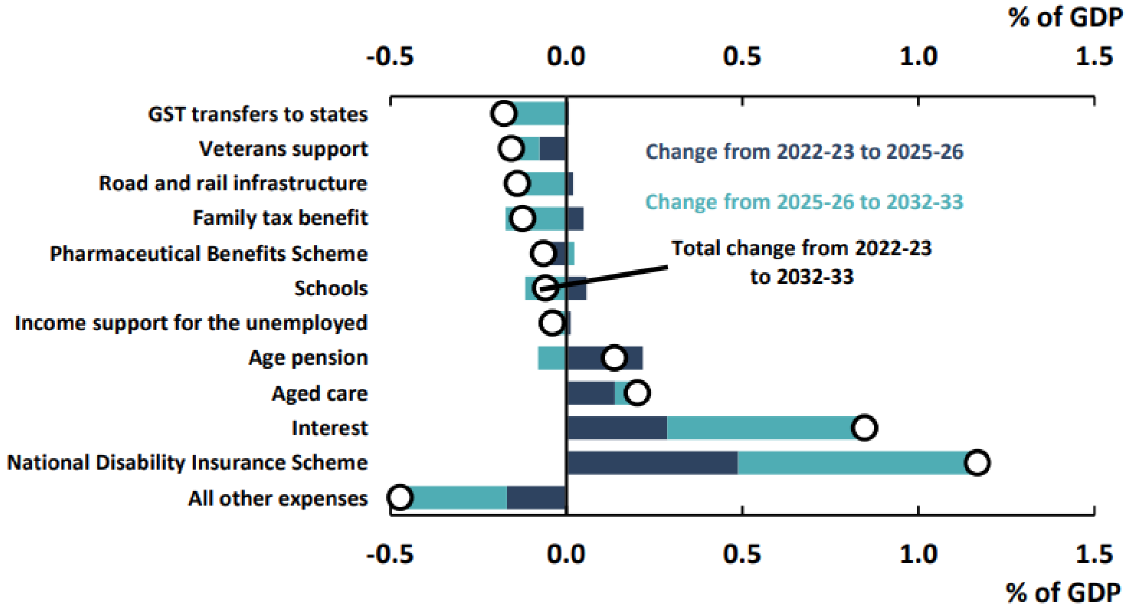
goals, targets and indicators, including **halving poverty by 2030,** aligned with the relevant Sustainable Development Goal. It should be embedded in future Federal Budget policy processes, including requiring publication of distributional modelling of all major direct and indirect (tax) expenditures.[3]

A responsible wellbeing budget strategy

While there is no urgency to reduce the budget deficit, the government must strengthen public revenue to sustain the policies and programs that meet the challenges identified in this submission and reduce public debt.

For too long **governments have neglected investment in essential services and safety nets we need and action on climate change**. Prior to the pandemic, from 2011 to 2018, real growth in public expenditure per person was just 0.4% - well below the historical average of 1.7%.[4] Together with harsh budget expenditure cuts, this has left us with a long list of unmet needs, many of them urgent. Yet over the next decade, budget expenditures are projected to decline as a share of Gross Domestic Product (GDP) in most major programs apart from the National Disability Insurance Scheme (NDIS), aged care, defence and public debt interest payments (Figure 1).

Figure 1: Expenditure on major programs is projected to decline (as a % of GDP)



SOURCE Parliamentary Budget Office (2022), *Beyond the Budget - 2022-23 Report*

This is not the time for more income tax cuts, especially those scheduled for 2024, which cost over $18 billion a year and mainly go to men with high incomes. Australia is the ninth lowest-taxing country among 36 OECD nations. The Budget is in structural deficit, public expenditure needs are growing, inequality remains a major concern and we face high inflation.

[3] For more detail on ACOSS priorities for the forthcoming Wellbeing Framework, see our submission to Measuring what Matters at https://www.acoss.org.au/acoss-reports-submissions/
[4] Parliamentary Budget Office (2021), Beyond the Budget - 2022-23 Report Australian Government, Canberra

Instead of cutting taxes, the government should restructure them so that revenue is raised more fairly and efficiently. High priority should be given to reforms to taxes on investment incomes from property and shares, superannuation, the use of private companies and trusts to avoid tax, curbs on tax avoidance by multinational companies, securing a fair return for Australia's offshore gas reserves, and the removal of business tax concessions that are economically and environmentally harmful such as fossil fuel subsidies.

Major recommendations

Build a social security system that meets need

- Lift base rates of income support payments like JobSeeker and Youth Allowance to the same level as the single pension ($513 per week, including pension supplement) and index all working-age payments twice per year in line with Consumer Price Index (CPI) <u>and</u> wages.
- Improve the adequacy of payment supplements to meet additional living costs, including by lifting the maximum threshold for Commonwealth Rent Assistance (CRA) by 50% (resulting in a 100% increase in the payment – see *Chapter 7: Make housing affordable for people with low incomes*), and establishing a Disability and Illness Supplement and a Single Parent Supplement (to replace Family Tax Benefit Part B).
- Remove unfair waiting periods for payments and improve financial assistance for asylum seekers and temporary migrants, including by restoring funding to the Status Resolution Support Service and increasing financial assistance to parity with allowances.

Employment opportunities for all, with no one left behind

- Commit to full employment through a full employment target agreed between the Government and the Reserve Bank of Australia.
- Introduce a flexible Jobs and Training Offer for people unemployed long-term, comprising a menu of subsidised temporary employment, substantial further education or training, or other help to connect them to suitable jobs.
- Replace harsh unemployment payment compliance arrangements (including automated payment suspensions, excessive activity requirements, and compulsory participation in ineffective programs such as Work for the Dole and Parents Next) with a strengths-based approach.

Fair, Fast and Inclusive action on climate change

- Invest in energy efficiency improvements for low-income homes to cut emissions and energy bills and create thousands of local jobs.
- Provide up to $2,000 per household in emergency energy debt relief to reduce energy payment difficulties made worse by COVID and the energy crisis.
- Reduce energy bills for people on low incomes by removing the costs of the Small-scale Renewable Energy Scheme (SRES) from energy bills (or exempting people on low incomes from paying).

Building thriving, climate-resilient communities

- Empower communities to build their resilience and manage recovery investing in local community resilience hubs, local council community resilience committees, and vulnerability data.
- Increase in financial, housing, food, and other essential supports to better meet the needs of people impact by disasters.
- Strengthen the capability of community sector organisations to respond and build resilience to disasters.

Investing in quality community services to help people in need

- Apply proper and transparent indexation to community services funding and invest in service needs mapping as first step towards needs-based funding.
- Continue to improve the affordability of early childhood education and care by lifting the subsidy to 95% for low-income families and removing activity tests, extending access to free preschool for three-year-olds and ensuring equality in access for First Nations children.
- Properly fund peaks and advocacy organisations to inform public policy and service design.

Make housing affordable for people with low incomes

- The Federal Government should build on the housing policy and institutional foundations being established by committing to a 10 year, 25,000 dwelling per year pipeline of social housing investment;
- Rent Assistance for private tenants with low incomes should be benchmarked to actual rents, requiring a 100% increase in the payment in 2023-24.
- Develop a new national First Nations Housing strategy, supported by a boost to funding for Indigenous Community Housing Organisations (ICHOs) and a new inter-governmental remote housing funding agreement.

Decent retirement incomes and services

- Replace tax concessions for superannuation contributions with a fairer and simpler annual rebate.
- Introduce a 15% levy on superannuation fund earnings after retirement to guarantee universal access to quality aged care services.

A fairer tax system that supports services, safety nets and economic development

- Do not proceed with the 2024-25 income tax cuts.
- Broaden the income definition of the Medicare Levy so that it is harder to avoid and extend the high-income Medicare Levy Surcharge to all individuals with incomes above $120,000 whether or not they have hospital insurance.
- Abolish fuel tax credits for off-road use, except for agriculture and introduce a 10% Commonwealth royalty on offshore gas resources.

Strengthen preventive health care and public health services

- Strengthen the oral health safety net through increased investment in public dental services ($500 million).
- Replace the Extended Medicare Safety Net with more effective and equitable initiatives to reduce out-of-pocket costs and contain price inflation, including public hospital outpatient services, bulk billing incentives and increases in the Medicare Benefits Scheme.
- Abolish the Private Health Insurance Rebate and redirect a portion of the $7 billion saved into the public hospital system.

A note on costings

Where possible, the budget impact of a proposed recommendation has been estimated. Where the budget impact is '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, to the nearest $10 million where the impact is over $100 million, and the nearest $100 million where impact is over $1,000 million.

2. Build a social security system that meets need

We urge the Federal Government in this Budget to address the gross inadequacy of the lowest income support payments, including JobSeeker Payment, Youth Allowance and related income support payments. At a time of high inflation that is having the biggest effect on people on the lowest incomes, it is urgent that the Federal Government lift the base rates of these lowest income support payments. People receiving JobSeeker Payment, Youth Allowance, and Parenting Payment are going without essentials like food, appropriate housing, medication, and electricity because their meagre incomes simply do not cover the cost of living. Unless the government increases these income support payments, more than 1.4 million people will continue to deprive themselves and their families of essentials because they have no other choice.

Australia saw the huge gains that can be made as a society during 2020 when the Coronavirus Supplement was in place. People on the lowest incomes could afford fresh fruit and vegetables, cover the cost of medication, pay bills, and keep a roof over their head. Mental health improved and demand for emergency relief declined among people receiving the Coronavirus Supplement. Women escaped domestic violence and people were able to retrain and reskill to better match their skills with labour market demand. It is difficult to overstate the benefits higher payments delivered for individuals, their families and the community.

Australia can make this historic achievement in public policy a permanent feature of our social security system by substantially lifting base rates of income support in this budget. ACOSS also recommends measures to improve fairness in our social security system, remove discrimination, better support people to receive income support to which they are entitled and ensure people on temporary visas have adequate financial assistance and social protections.

We warmly welcome the establishment of the Economic Inclusion Advisory Committee by the Federal Government, which will play a critical role in providing government with expert advice about payment adequacy in advance of each budget. It is crucial that its findings be made public, and that people receiving income support like JobSeeker are included on the Committee. ACOSS maintains its call for a statutory Social Security Commission to advise the parliament on payment rates and settings. Many of the same functions of a commission could be performed by the committee with adequate resources and statutory frameworks in place.

Major recommendations

- Lift base rates of income support payments like JobSeeker and Youth Allowance to the same level as the single pension ($513 per week, including pension supplement) and index all working-age payments twice per year in line with Consumer Price Index (CPI) <u>and</u> wages.
- Improve the adequacy of payment supplements to meet additional living costs, including by lifting the maximum threshold for Commonwealth Rent Assistance (CRA) by 50% (resulting in a 100% increase in the payment – see *Chapter 7: Make housing affordable for people with low incomes*), and

establishing a Disability and Illness Supplement and a Single Parent Supplement (to replace Family Tax Benefit Part B).

- Remove unfair waiting periods for payments and improve financial assistance for asylum seekers and temporary migrants, including by restoring funding to the Status Resolution Support Service and increasing financial assistance to parity with allowances.

Lift base rates of JobSeeker, Youth Allowance and related working-age payments

The base rates of JobSeeker, Youth Allowance and related payments are too low to sustain an adequate standard of living. These payments have fallen well behind pensions, wages, and community living standards. JobSeeker is less than half the minimum wage (just 42%). The gap between JobSeeker and pensions is growing, having gone from being 80% of the pension in 1980, to 65% of the pension today (equating to a $175 per week difference). Youth Allowance is just 34% of the minimum wage and 54% of the pension. JobSeeker remains the second lowest unemployment payment in wealthy nations as a proportion of average earnings.

The inadequate rates of these payments mean that people go without basic goods and services every day. ACOSS research in 2022[5] found that 94% of people surveyed on JobSeeker and related payments and living in private rental were paying more than 30% of their income on rent. Half were in debt with their energy provider or expected to be once their next bill arrived because they couldn't afford the cost. Almost all respondents (96%) suffered poor mental and physical health because they did not have enough money to meet basic needs.

Recommendation 1: Lift base rates of working-age payments to the current pension rate (including the Pension Supplement) and index to wages.

The government must address the greatest inadequacy in our income support system and lift base rates of JobSeeker Payment, Youth Allowance, Austudy, Abstudy, Special Benefit, Parenting Payment and Crisis Payment in the 2023 Budget. The payments should be brought up to the same level as the pension plus pension supplement ($513 per week for a single person). This would require an increase of $175 per week to the single maximum rate of JobSeeker Payment and $232 per week for single, maximum rate of Youth Allowance. These payments should be increased twice per year in line with wages growth or inflation (whichever delivers the highest increase).

Budget impact: *-$10.5 billion in 2023-24*

[5] ACOSS (2022), How JobSeeker and other income supports are falling behind the cost of living ACOSS, Sydney

Disability or Illness Supplement

We propose that there be a disability and illness supplement benchmarked to additional living costs faced by people with a disability or illness. The recommendation reflects work conducted by NATSEM in 2019 analysing the costs of disability.[6] NATSEM showed that in 2019, a single person with a disability receiving the Disability Support Pension would need an extra $50 a week to achieve the same standard of living as a single person without a disability. We propose a supplement of $55 a week, updated to reflect CPI increases since 2019.[7]

This supplement should be provided to people in the income support system with disability, as well as people with an illness that prevents them from undertaking full-time paid work.

Recommendation 2: Introduce a Disability and Illness Supplement to meet additional living costs of at least $55 per week.

Budget impact: -$3,500 million in 2023-24

Single Parent Supplement

To ensure the additional costs of single parenthood are adequately recognised in our income support system, we propose a supplement of at least $200 per week for a single parent, recognising that these households need a higher level of income than households, without children. This payment would replace Family Tax Benefit Part B.

We propose that the Federal Government Department of Social Services develop further recommendations on the minimum income required for single parent households, including relativities for different family types, working closely with representative groups and taking advice from the Economic Inclusion Advisory Committee.

Recommendation 3: Introduce a Single Parent Supplement that recognises the additional costs of single parenthood.

Budget Impact: Not Available

End mandatory income management

ACOSS applauds the Federal Government's abolition of mandatory cashless debit in 2022. We urge the Federal Government to do the same for mandatory income management. Income management is expensive and ineffective, and the government should abandon this policy and redirect the savings into community-led programs that deliver positive outcomes.

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[6] 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.

[7] This figure has been updated to CPI increases to September 2022 ($55 per week).

Recommendation 4: Abolish mandatory income management and invest savings in community-led programs that support communities.

Budget impact: -$0 million in 2023-24 (savings would be redirected into beneficial, community-led programs).

Restore wage indexation for family payments

Wage indexation of Family Tax Benefit (FTB) was abolished when the Federal Government removed the nexus between FTB and pensions in the 2009/10 Budget. This has frozen the rate of FTB in real terms because it now rises only in line with the Consumer Price Index. Prior to 2009, FTB Part A was benchmarked against the couple rate of the pension, a measure put in place by the Hawke Government to lift children out of poverty. It was set at 16.6% or 21.6% of the couple pension rate (for young and older children respectively). This ensured FTB maintained pace with wage growth because pensions are benchmarked to wages. Given its importance in supplementing the incomes of low-income families, ACOSS recommends restoring wage indexation of FTB to ensure it maintains pace with community living standards.

Recommendation 5: Restore wage indexation of Family Tax Benefit Part A either by reconnecting the indexation of the payment to pensions or directly lifting the payment in line with wages or CPI (whichever is greater).

Budget impact: -$10 million 2023-24

Reform unfair waiting periods

People should be able to receive income support when they need it. However, our income support system denies people support for various lengths of time by applying waiting periods.

The Liquid Assets Waiting Period (LAWP) denies people unemployment payments if they have cash assets of $5,000 or more for up to 13 weeks. The result is that people eat into modest savings to put food on the table while they wait for income support. Considering 80% of people receiving JobSeeker have done so for 12 months or more, denying people a critical cash buffer leads to deprivation and destitution that may have been avoided if they did not have to serve the LAWP. A much fairer approach would be to replace the LAWP with a comprehensive means test so that people are not forced to whittle down modest savings to access our social safety net.

ACOSS also calls for reform of the Newly Arrived Residents Waiting Period (NARWP) so that people are not forced to wait for up to four years to receive income support. The NAWRP applies to people who have attained permanent residency, and denies payment of JobSeeker Payment, Parenting Payment and other key supports for up to four years. Many people subjected to the NARWP have already lived and worked in Australia for years on temporary visas before applying for permanent residency. Consequently, people who have substantially contributed to our economy are denied support if they suddenly lose their job or have a child for whom FTB is payable. Finally, the Ordinary Waiting Period should be abolished. As with the LAWP, people who are eligible for income support should be able to receive it and not be forced to wait one week before their payment starts.

Recommendation 6: Abolish the Liquid Assets Waiting Period and replace it with a comprehensive means test.

Budget impact: -$60 million in 2023-24

Recommendation 7: Reduce waiting periods for newly arrived migrants, and abolish the waiting period for Family Tax Benefit, Paid Parental Leave, Special Benefit, Carer Allowance.

Budget impact: -$620 million in 2023-24

Recommendation 8: Improve access to income support by removing Ordinary Waiting Period

Budget impact: -$150 million in 2023-24

Improve financial assistance for asylum seekers and temporary migrants

Australia should ensure migrants who are building their lives here are supported to cover the basics. Cuts to funding of the Status Resolution Support Service under the previous Government must be restored, at a minimum, to support asylum seekers to meet essential living costs. Financial assistance provided under this program should be lifted from 89% to 100% of the JobSeeker Payment. In addition to reform of unfair waiting periods, work should be done by the Federal Government to ensure that people in Australia with no other means have access to financial assistance.

Recommendation 9: Restore funding cut from the Status Resolution Support Service, and lift financial assistance payments to allowance rates

Budget impact: Not available

Recommendation 10: Ensure temporary migrants with no other means of assistance have access to crisis support and financial assistance

Undertake a policy dialogue and development process with affected stakeholders, representative groups and relevant experts to develop an appropriate program of financial and other crisis assistance for temporary migrants who have no other means of support.

Budget impact: Not applicable

Improve the operation of our income support system

There are a range of measures that, if implemented, would improve the fairness of our income support system.

Firstly, ACOSS recommends that the income test for Special Benefit be aligned with that of JobSeeker Payment. Special Benefit is the payment of last resort for people who do not qualify for other income support. It is only received by around 10,000 people. It is paid at the same rate as JobSeeker however it has a dollar-for-dollar income test that includes in-kind goods and services. Consequently, some people who are eligible for Special Benefit hardly receive any financial support because of this archaic income test.

Aligning the income test to that of JobSeeker would improve equity in our income support system and reduce poverty experienced by people receiving the payment.

Secondly, ACOSS recommends that the statute of limitations for debt recovery be returned. In 2017, the six-year statute of limitations was abolished, allowing the Federal Government to seek alleged overpayments without a time limit. ACOSS understands people have been pursued for alleged debts from more than ten years ago, which is near impossible to contest because they no longer have payslips or other records. It is standard practice to have a statute of limitations with respect to debts, and ACOSS calls for it to be returned with respect to Centrelink debts.

Finally, ACOSS recommends that Centrelink be adequately funded to meet demand. During 2020 and 2021, resources were directed to Centrelink to meet increased demand resulting from the pandemic. This additional resourcing reduced call waiting times to record lows and facilitated the rapid administration of payments, ensuring people got support when they were most in need. This should continue to ensure that people can get Centrelink services quickly. It is also crucial that remote Centrelink services be better funded to meet need, and that Centrelink engage more social workers to support people experiencing domestic violence, trauma, poor mental health, and other issues facing people receiving income support.

Recommendation 11: Align the Special Benefit means test

Budget impact: -$20 million in 2023-24

Recommendation 12: Reinstate a statute of limitations on debt recovery

Budget impact: -$25 million in 2023-24

Recommendation 13: Boost Centrelink resources including social workers on staff

Budget impact: -$50 million in 2023-24

Establish a social security commission

The rates of social security payments and other settings are generally a result of political decision-making as opposed to reflecting the evidence around what people need to cover basic costs. An independent statutory body to advise the parliament on payment rates and other settings would enable a fairer approach to social security design, with rates set by reference to household need.

ACOSS welcomes the establishment of the Economic Inclusion Advisory Committee, which we consider could undertake the role of a commission. It would be important for the legislated Committee to have a transparent process for the selection of members, its terms of reference as well as its deliberations and to have adequate resources to support its work.

Recommendation 14: 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 in 2023-24

Other relevant recommendations

- Benchmark Rent Assistance to actual rents paid (see Chapter 7: Make housing affordable for people with low incomes)

3. Employment opportunities for all, with no one left behind

Australia is close to achieving full employment, but we are not there yet. Sustained full employment has the potential to greatly improve overall living standards and wellbeing (since fewer resources would be wasted), lift the incomes of people lacking paid work and those on low wages, improve the quality and security of employment, and ease entrenched income and gender inequality.

In addition to restoring full employment, the government should take advantage of the current tight labour market conditions to bring people who have been left behind into paid employment. That requires major reform of employment services and a shift from the present compliance-heavy system of mutual obligations towards one in which people receive the help they need to secure a decent job.

The government should also take further steps to curb inflation directly, including by addressing rampant inflation in housing rents and by introducing a Jobs and Training Offer to improve the employment prospects of people unemployed long-term (and thereby ease labour shortages).

Major recommendations

- Commit to full employment through a full employment target agreed between the Government and the Reserve Bank of Australia.
- Introduce a flexible Jobs and Training Offer for people unemployed long-term, comprising a menu of subsidised temporary employment, substantial further education or training, or other help to connect them to suitable jobs.
- Replace harsh unemployment payment compliance arrangements (including automated payment suspensions, excessive activity requirements, and compulsory participation in ineffective programs such as Work for the Dole and Parents Next) with a strengths-based approach.

A commitment to full employment

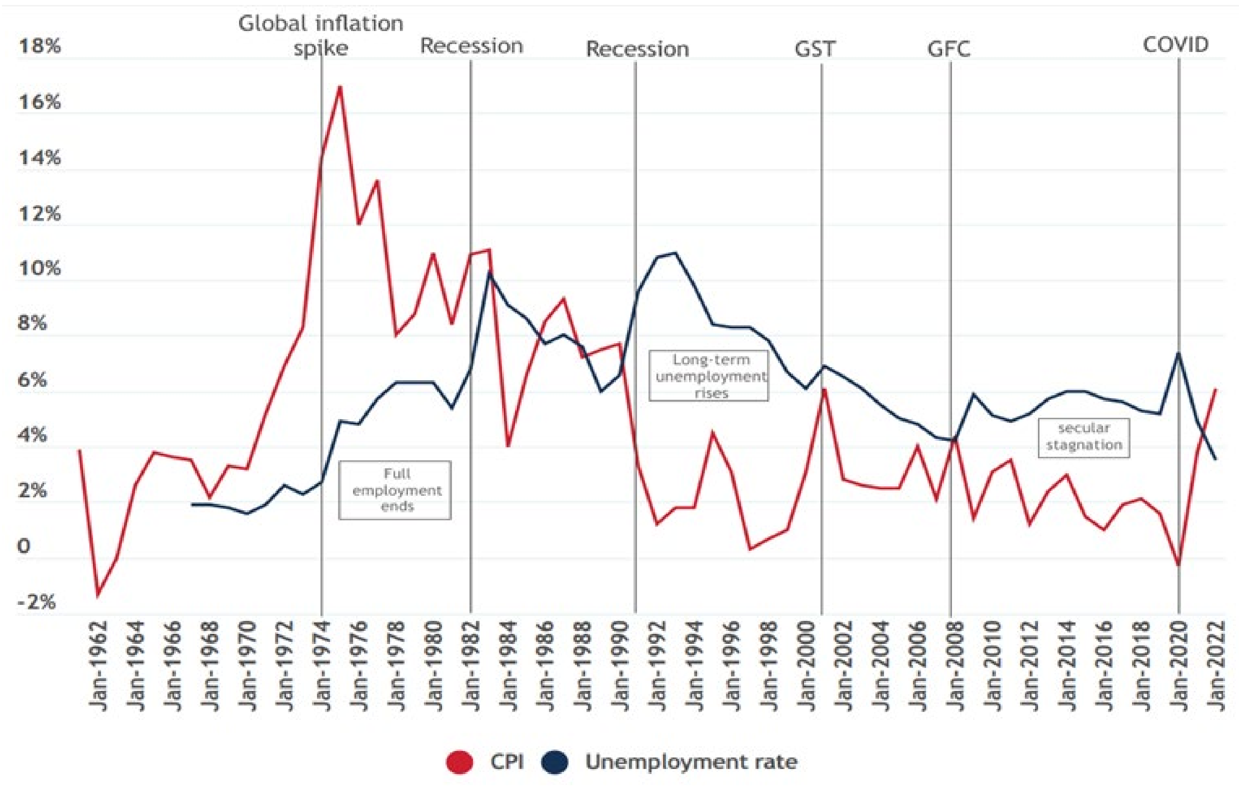
At last year's historic Jobs and Skills Summit, ACOSS, together with the ACTU and Business Council of Australia (BCA), called for a shared commitment to restore full employment and advocated policies to achieve it. At its heart, full employment means that people seeking employment or more paid hours can find them. In our Jobs and Skills Summit position paper and submission to the RBA Review we called on the Government to adopt a *full employment target* and for this to be included, along with a modified inflation target, in a new agreement between the Government and the Reserve Bank. The full employment target would consist of:

- A combined unemployment and underemployment rate equivalent to levels achieved in the pre-1974 full employment era;
- A ratio of unemployed and under-employed people to job vacancies close to one.

Whether the potential of full employment is realised depends on other policies including reform of workplace relations (on which good progress has been made) and income support. It also depends on changes in employment and recruitment practices: whether employers respond to labour shortages by recruiting people they have not previously considered (such as people with disability and those unemployed long-term), offering adequate predictable paid working hours to people who are under-employed, and investing in training. The government can help speed those adjustments by curbing the exploitation of temporary migrant workers, strengthening vocational education and training, and establishing robust local workforce development planning systems.

Full employment also brings challenges. On many occasions since the 1970s, governments and the Reserve Bank deliberately increased unemployment to forestall labour shortages and an outbreak of inflation (Figure 2). People out of paid work and those lacking the paid hours they need were sacrificed in the process. We welcome the government's efforts to curb inflation directly to reduce over-reliance on the blunt and brutal instrument of high interest rates, especially by easing the costs of energy. Further action is needed to address high housing rents (see *Chapter 7: Make housing affordable for people with low incomes* and *Chapter 2: Build a social security system that meets need*) and improve the employment prospects of people unemployed long-term (and thereby ease labour shortages), through a Jobs and Training Offer.

Figure 2: Since the mid-1970s, high unemployment has been used to curb inflation



SOURCE: Australian Bureau of Statistics (various years), *Labour Force Australia*; *Consumer Price Index, Australia*

Recommendation 15: Adopt a full employment target.

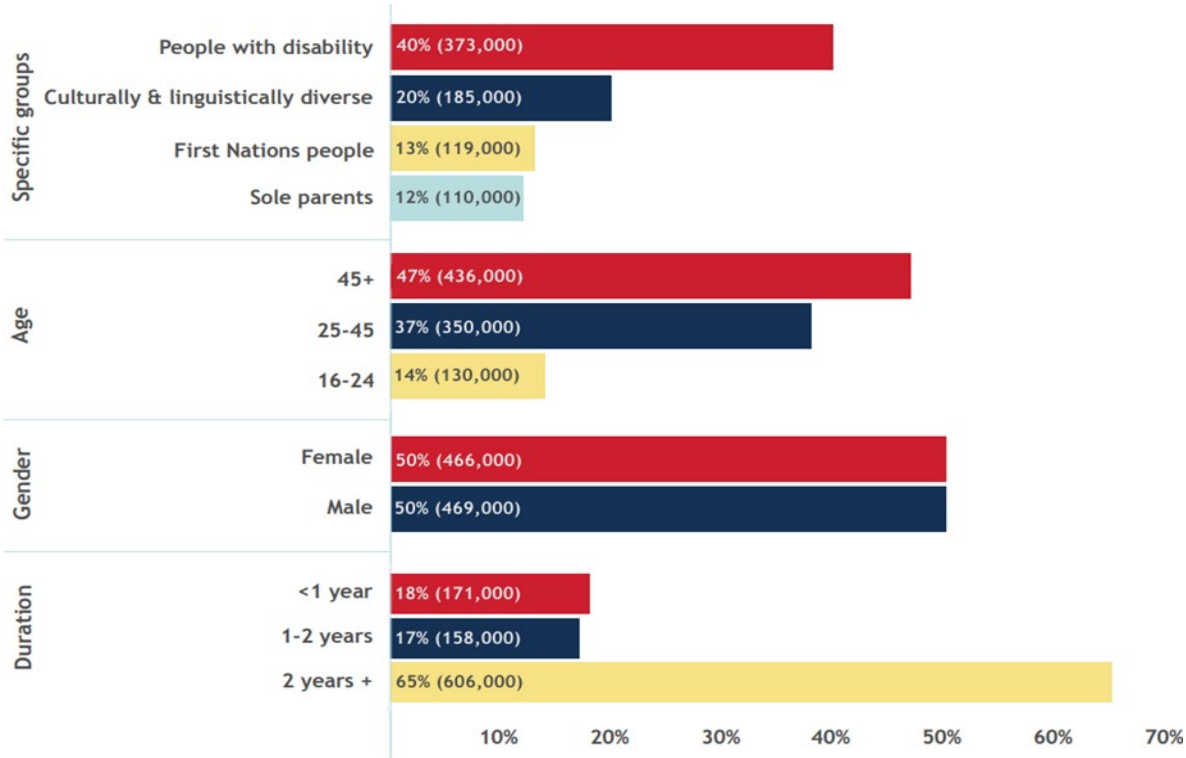
This should be included in a new agreement between the Government and the Reserve Bank of Australia (RBA) and consist of:

- A combined unemployment and underemployment rate equivalent to levels achieved in the pre-1974 full employment era;
- A ratio of unemployed and under-employed people to job vacancies close to one.

A Jobs and Training 'Offer' to reduce long-term unemployment

In March 2021, 80% of the 840,000 people on unemployment payments (665,000 people) had received income support for more than a year (70% for over two years). These long periods on income support reflect the disadvantaged profile of people on those payments. Figure 3 shows that of people on unemployment payments in March 2022, 40% had a disability, 47% were 45 years or older, 20% were from culturally and linguistically diverse backgrounds, 10% belonged to First Nations communities and 13% were raising a child alone. Most had high school qualifications or less.

Figure 3: Profile of people on unemployment payments (March 2022)



Source: Department of Social Services (2022), _DSS payment demographic data_, March 2022

We propose that the government make an annual Jobs and Training Offer to people unemployed long-term as the centrepiece of employment service reforms to reduce prolonged unemployment. The offer gives effect to genuine mutual obligation by putting the onus on government to uphold its end of the employment bargain.

The offer draws on evidence that short-term and unpaid 'work experience' and internship models are not as effective as job starts with wage subsidies, and that many participants in employment services are severely restricted in the range of jobs they can apply for by a lack of post-secondary qualifications. Paid work experience in regular employment and suitable training (separately or in combination) are therefore key components of the offer. Assistance provided under the offer would be determined jointly by the person and their employment consultant based on individual circumstances and local labour market conditions.

To partially fund the offer, ACOSS recommends abolition of Work for the Dole, the Youth Jobs PaTH program, and the 'six-month activity requirement'. We also recommend greatly reduced use of the Employability Skills Training program (EST) in Workforce Australia services. Work for the Dole is a punitive program that makes little or no difference to people's employment prospects because they do not receive work experience in regular employment. Similarly, EST courses are unlikely to provide the support people who are unemployed long-term need.

Assistance provided under the offer would be partly funded by replacing the current one-off Employment Fund credit of $1,600 for each unemployed person (regardless of their duration of unemployment) with an annual credit to the Fund. This would help ensure that people unemployed long-term are not 'parked' in the system. Since experience shows that providers are likely to underspend the Employment Fund (especially on the larger investments required by people unemployed long-term) this should be supplemented by program funding from other sources. To ensure people eligible for the offer have access to work experience in regular employment, a dedicated wage subsidy program for people unemployed long-term should be established by combining existing schemes. This should meet the actual cost of the subsidy. 'Demand-led' programs such as Launch into Work should also be expanded. Training places could largely be provided through the Fee-Free TAFE, Jobtrainer and Skills for Education and Employment programs.

Recommendation 16: Introduce a Jobs and Training Offer for people unemployed long-term.

1. A flexible Jobs and Training Offer should be offered to people who are on unemployment payments for over 12 months.
2. The offer would comprise subsidised paid work experience, and/or vocational and foundational education and training and/or other assistance to connect them directly to a suitable job or substantially improve their employment prospects, in each year of long-term unemployment. It would:
   - be negotiated between program participants and skilled employment consultants who have the time and resources to properly assess needs and assemble a suitable package of support;
   - be backed by local planning mechanisms under an enhanced Local Jobs Program that connects the right people with the right jobs and training places;
   - include access to jobs generated through public procurement, by setting targets for employment of people unemployed long term in public tenders.

3. To implement the offer, the following programs would be expanded, improved and consolidated:

   - Wage subsidies with private employers and community services for 3-6 month placements in regular employment, replacing the Employability Skills Training, Work for the Dole and the Youth Jobs PaTH programs;
   - Free vocational training and further education under 'fee-free TAFE', jobtrainer and Skills for Education and Employment schemes; and
   - Annual credits to the Employment Fund in respect of people who fall within the above target groups.

Budget impact: -$500 million in 2022-23 (-$1,000 million in 2023-24)

Local employment and workforce development planning and partnerships

The establishment of the Local Jobs Program and expansion of Employment Facilitators and Task Forces to the 52 employment regions was a positive first step to build the local partnerships and planning and coordination mechanisms that are needed to generate jobs and connect people to the right jobs and training opportunities. Where local partnerships are already well-established through other mechanisms (including state and local government initiatives), they should also be used.

To work effectively, these employment and workforce development partnerships must be driven from the bottom up – by local employers, unions, service providers and communities. Robust information and feedback channels must be established between the local partners and state/territory and national policy development and advisory mechanisms, including Jobs and Skills Australia.

Collaboration between local employment services, Chambers of Commerce and Farming Associations, TAFE and community colleges, unions, local governments, and community organisations is vital for the success of the proposed Jobs and Training Offer. Planning should be undertaken at a community level to ensure that people eligible for the offer have access to the best employment and training opportunities available, and to expand those opportunities as needed. A community-driven Jobs and Training Offer could include jobs in a range of roles in climate resilience, support for communities during disasters and recovery, retrofitting low-income housing, building social housing, and meeting the growing demand for care services. Local Task Forces could set targets to generate Jobs and Training Offer places (and ongoing jobs) in partnership with employers and communities.

Recommendation 17: Strengthen community-driven local employment and workforce development planning by:

- Extending the Employment Facilitator role so that employment strategies for regions are integrated with the workforce planning activity of Jobs and Skills Australia;
- Setting Jobs and Training Offer place targets for each community and establishing a brokering role in employment regions through the Facilitator network to recruit employers for subsidised job placements;

- Aligning social procurement strategies with the allocation of Jobs and Training Offer places;
- Establishing a national advisory body (possibly within Jobs and Skills Australia) to connect Local Taskforces with national policy-makers and share best practice.

Budget impact: Not available

Ensure that mutual obligation requirements are fair and people's employment prospects are improved

A stated goal of the new Workforce Australia model recommended by the Employment Services Expert Panel was to expand agency and choice for people using employment services. That goal is undermined by the retention of rigid activity requirements such as the four and six-monthly activity requirements, Work for the Dole, and a punitive compliance and penalty regime with widespread automated payment suspensions – which may increase following the introduction of the complex Points Based Activation System.

Standard activity requirements are often pointless and not grounded in the best available evidence of what works to improve people's employment prospects. The default job search requirement – to apply for 20 jobs a month unless people are exempted or engaged in alternative activities - remains excessive, and is unlikely to help people secure employment.

The Workforce Australia Select Committee Inquiry is a welcome opportunity to review mutual obligation settings. Unfortunately, the Inquiry will necessarily take months to report. The government must act swiftly to remove the most harmful elements of the mutual obligation system. It should establish an ongoing mechanism beyond the present Inquiry to develop a fresh, strengths-based approach to income support entitlements and employment services.

Recommendation 18: Replace the current harmful mutual obligation framework with a strengths-based model

- Immediately reduce harmful mutual obligation requirements and penalties by removing automated payment suspensions; abolishing Work for the Dole and reducing reliance on employability skills training; and reducing default compulsory activity hours to a maximum of 15 hours a week instead of the current 25 hours.
- Establish an advisory body of people affected, community organisations, and social security and conditionality experts to advise government on how to design a strengths-based approach that is fair and evidence-based.

Budget impact: Not available

Career guidance and training

Many people without paid work – especially new entrants to the paid workforce such as young people leaving education, re-entrants to the workforce such as parents whose children are approaching school-age, and older workers refreshing their careers - would benefit from career guidance and pathway planning linked to appropriate training. In a labour market where employers increasingly seek qualified and skilled workers, and those lacking post-school qualifications are often stuck in insecure jobs, this can make the difference between success and failure in securing decent employment. 'Career guidance' refers here to specialised professional career advice to help people identify their chosen career path, skills and future employment opportunities, and to secure the training, work experience and related support (such as childcare) they need to achieve their goals. This typically requires more than a few interviews or a 'careers course'.

Professional career guidance and tailored vocational training are not widely available through Workforce Australia because providers are not required or resourced to offer them. Payment incentives for providers are still geared towards 'work first' outcomes, there are no minimum qualification requirements for employment consultants, and programs offering career guidance for people who are unemployed are fragmented according to the age and family status of participants (and of varying quality). Careers advice and counselling are offered through some state government programs and TAFE networks but not widely available across the nation.

The fee-free TAFE places announced in the October 2022 Budget are a welcome extension of earlier initiatives such as JobTrainer. Yet there remains too little incentive for employment service providers to refer people to appropriate training, rather than training that it is convenient for the provider to access or that quickly converts into employment. Although restrictions on participation in training for people on unemployment payments have been eased slightly, people over 25 years of age cannot undertake full-time training for over 12 months without transferring to a lower income support payment. Employment service providers have limited incentive to place people in training unless it yields a short-term employment outcome.

We raise two options to fill this gap in the provision of professional career guidance for participants in Workforce Australia:

- establish a separate career guidance program outside Workforce Australia, initially for participants belonging to groups who are most likely to need it, or
- establish a career guidance component of Workforce Australia services.

Recommendation 19: Improve access to professional career guidance services for participants in Workforce Australia belonging to groups likely to need them - including young people with Year 12 qualifications or less, parents and carers returning to paid work, older workers who need to acquire new skills, and workers with Year 12 qualifications or less recently retrenched from their employment - by either:

1. establishing a separate career guidance service outside Workforce Australia for people belonging to those groups, which would include services tailored to the needs of each of the above target groups. This would build on - and improve - the existing Transition to Work program for young people and Career Transition

Assistance program for older workers and replace the prevocational support elements of Parents Next;[8]

or

2. directing Workforce Australia providers to make this option available to people belonging to those groups during the development of job plans and as part of the Jobs and Training Offer, and funding it through the Employment Fund.

Budget Impact: Not available.

[8] ACOSS is consulting with members over a replacement program or programs for Parents Next, which we have consistently argued should be abolished.

4. Fair, fast and inclusive action on climate change

Climate change threatens people's health and wellbeing, their quality of life, employment, livelihoods, homes and life itself. The impacts are occurring now and accelerating. People experiencing financial and social disadvantage are negatively impacted the most by climate change. They are also worst affected by a slow, poorly managed transition to a clean energy economy because they pay disproportionately more for essential services and do not have the finances to access clean energy technologies.

We are already seeing how poorly targeted and inequitable policies to reduce emissions are benefitting people with wealth, choice and control. People on low incomes, however, are paying disproportionately more towards the transition, and are missing out on the benefits being created including more energy-efficient homes, rooftop solar, electric vehicles and potential new jobs.

Policies should prioritise people with the least resources, affected workers and communities hardest hit by the transition to a zero-carbon economy.

Cost recovery and incentives should be fair and equitable, with government incentives targeted to people experiencing financial disadvantage.

If we get the policy setting right, with a fast, fair and inclusive plan to address climate change, we can improve the lives of people experiencing disadvantage, from the cities to remote Australia and reduce poverty and inequality.

We urgently need investment to develop clear frameworks, objectives and monitoring to guide a fair, fast and inclusive transition. To reduce energy bills, energy debt and improve the energy efficiency and productivity of housing for people on low incomes. And to support workers and communities who will be impacted by the transition.

Major recommendations

- Invest in energy efficiency improvements for low-income homes to cut emissions and energy bills and create thousands of local jobs.
- Provide up to $2,000 per household in emergency energy debt relief to reduce energy payment difficulties made worse by COVID and the energy crisis.
- Reduce energy bills for people on low incomes by removing the costs of the Small-scale Renewable Energy Scheme (SRES) from energy bills (or exempting people on low incomes from paying).

Healthy, affordable, low-emissions homes

Research shows that a program to electrify, improve energy efficiency and productivity of low-income homes would deliver physical and mental health benefits, reduce poverty and emissions, and generate more than 23,800 jobs nationwide, adding $4.9 billion to our economy. Modelling by Deloitte Access Economics projected that targeting Australia's most financially disadvantaged households with energy efficiency measures would result in a 17% higher economic impact than an equivalent program delivered across all homes.[9]

A healthy, affordable, low-emissions home program should include three streams: public and community housing, private rental dwellings and low-income owner-occupied homes. If implementation were to be staged, public and community housing dwellings should be prioritised. Further work could be done on the funding arrangements, including developing a special purpose funding vehicle that combines federal and state government funding, green bonds, philanthropy, along with the use of zero or low-interest loans. Australian Renewable Energy Agency (ARENA) and the Clean Energy Finance Corporation could also play a role in delivery and funding.

Recommendation 20: Invest up to $10,000 in energy efficiency upgrades and solar photovoltaic (PV) installations for public and community housing, including First Nations' housing dwellings.

Public and community dwellings house some of the community's most disadvantaged people, who can least afford high energy bills. An initial target of bringing every dwelling to at least five stars - and electrified as far as possible - would make a significant reduction to energy bills and the improve health and wellbeing of tenants. There are approximately 319,800 state/territory owned public housing (including Indigenous housing) and 117,865 community housing (including Indigenous housing). We estimate at least 75% of these homes will need retrofitting (assuming some homes will already be at five star and some state/territories are implementing retrofits). Requiring a budget of approximately $3.28 billion in total/4 years, to be shared with state and territory governments.

Budget impact: -$410 million in 2023-24

Recommendation 21: Build the foundation for national rental home upgrades.

Private rental dwellings house a significant proportion of members of the community on low incomes. Low-income private renters are experiencing significant housing and energy bill stress and are not empowered to improve the energy efficiency of their homes. Minimum mandatory rental standards are likely to be the most effective policy intervention to improve energy performance in rental homes. The following items under this measure would build knowledge and evidence ahead of implementation of such standards:

- A national baseline study of the energy performance of rental homes
- Pilot methods to build engagement with landlords

[9] Deloitte Access Economics (2021), The economic impacts of the low-income national energy productivity program Deloitte Access Economics, Canberra

- Run a trial and evaluation of different technical interventions to improve energy performance in a range of rental properties across the country
- With states and territories, provide funding for co-development of feature-based minimum rental standards, with a long-term goal of implementing performance-based rental standards
- Provide seed funding for the Clean Energy Finance Corporation (CEFC) to develop a finance program to support landlords to implement upgrades to comply with minimum rental standards.

Budget impact: -$100 million in 2023-24

Recommendation 22: Invest in $5,000 energy efficiency upgrades and solar PV installations for properties of low-income homeowners.

Managed by a third party, invest up to $5,000 per household to improve the energy performance of 1.1 million low-income homeowners on the lowest 20% of incomes.[10]

Budget impact: -$240 million 2023-24

Provide emergency energy debt relief

A combination of increasing energy prices, people spending more time at home, and residual effects of economic fallout from COVID, has resulted in increasing energy bill debt. Data from the Australian Energy Regulator (AER) finds around 2.7% of residential energy consumers have debt longer than 90 days. For people at that point, the average debt is $1000. By the time they get access to a hardship program, that average debt has often grown to more than $1700. For a quarter of those customers, their debt is greater than $2,500. The number of people with energy debts of $2500 or more has increased by a staggering 39% throughout 2022.

With energy prices still set to increase in 2023, people on low incomes and with energy debt will struggle to afford their next energy bill, let alone be able to cool their home in summer and heat them in winter. People on low incomes are already depriving themselves of energy by not cooling homes, not cooking or using hot water, and going without food or medicines to afford their energy bills, which is seriously affecting their health and wellbeing.

Direct assistance by government is needed before debt spirals out of control and becomes more unmanageable. To immediately reduce debt, we are calling on the Federal Government to provide short-term (up to 12 months) payments of up to $2,000 per person experiencing unmanageable energy debt. The Federal Government should also work with retailers to provide additional relief to those customers with debts greater than $2,000, and help customers reduce their bills going forward.

[10] The proposal would need lead time to undertake a tender process, contract a third party and set up implementation systems. Consequently, funding would be smaller in first year, approximately $243.5 million in year 1 and $1.46 billion in year 2, $1.46 billion in year 3 and $1.70 billion in year 4.

Recommendation 23: Provide additional short-term (up to 12 months) payments via an emergency payment allowance to customers in payment difficulties and energy debt.

Budget impact: -$350 million in 2023-24

Agency for delivering clean, affordable, dependable energy for all

Systemic failures to reduce energy vulnerability and hardship continue, and no framework has been developed to ensure people experiencing poverty and disadvantage benefit from the energy transition. Australia lacks a national framework and formal commitment, as they have in the European Union, to drive energy wellbeing, reduce energy hardship and vulnerability to it, improve energy affordability and ensure that people experiencing social and financial disadvantage benefit from the energy transition.

Despite recommendations made by the Finkel Review in 2017 and the Australian Competition and Consumer Commission (ACCC) review of electricity pricing to address some of the drivers of energy vulnerability and hardship, few of the recommendations have been progressed. ACOSS is concerned that without an energy vulnerability and hardship framework, or an agency to recommend reforms, millions of people will be left behind in the energy transition and face ongoing energy hardship.

Recommendation 24: Create an Agency to coordinate, make recommendations and monitor reforms to reduce energy hardship, improve energy affordability and ensure people experiencing social and financial disadvantage benefit from the energy transition.

Budget impact: -$2 million in 2023-24

Fair and inclusive transition for fossil fuel dependent workers and communities

Some workers and communities could experience negative effects from our response to climate change and reducing emissions, such as people who depend heavily on burning or extracting fossil fuels. Creating jobs will not be enough to ensure that all affected workers and communities are benefitting from the transition. A broader energy and community transition plan is needed, which should be overseen by a dedicated authority. A planned and well managed transition that is co-designed with workers, the local community and people experiencing financial disadvantage, would ensure that affected workers are appropriately supported, create thousands of new jobs, address existing poverty and disadvantage, and revive and transform regional towns.

Recommendation 25: Support a just transition for affected workers and communities, including by establishing:

- An Energy Transition Authority to manage, in consultation with workers and local communities, the effects of the energy transition. This includes mine and gas field closures, overseeing worker support and coordinating plans for regional economic diversity, social development and environmental sustainability.

- 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, and associated industries, as well as remaining fossil fuel generators.

Budget impact: -$2 million (-$4 million in 2023-24)[11]

Shift subsidies off energy bills

The Small-scale Renewable Energy Scheme (SRES), in place until 2030, subsidises the costs of installing small-scale renewable energy sources (such as rooftop solar and hot water heat pumps) to households which can afford them. The cost is currently recouped through business and household electricity bills, with GST being charged on top.

The ACCC was critical of the equity impacts of the SRES because people on low incomes pay disproportionately more towards the scheme than others and do not receive the same benefits. The ACCC recommended that the scheme be abolished.[12]

ACOSS is advocating that the cost of recouping the SRES subsidy be directly and fully funded by the Federal Government, with eligibility limited to people on low incomes to access rooftop solar and hot water heat pumps. A second-best option is to exempt people on low incomes from contributing to the costs of the SRES and the Large-scale Renewable Energy Target (LRET).

Recommendation 26: The Federal Government should fully fund the Small-scale Renewable Energy Scheme.

Budget impact: -$1,500 million (-$1,500 million in 2022-23)[13]

Other relevant recommendations:

- Phase out fossil fuel subsidies (see Chapter 9: A fairer tax system that supports services, safety nets and economic development)

[11] Based on analysis of previous budget proposals of ALP and Greens, ACOSS proposes $15 million over 4 years, assuming fewer costs in first year of establishing the Just Transition Authority and programs.
[12] Australian Consumer and Competition Commission (2018), Restoring electricity affordability and Australia's competitive advantage Australian Government, Canberra. Recommendation 24.
[13] Calculations based on small-scale technology certificate (STC) forecast modelling produced for the Clean Energy Regulator, published in Starkey, S and Ablaza, J (2021), SRES and Small-scale PV Projections Jacobs, Melbourne

5. Building thriving, climate-resilient communities

The unprecedented 2019/20 bushfires and 2021/22 floods in Australia have had significant economic, health and social impacts on millions of people. Recovery will take years for most and some people may never fully recover.

People experiencing financial disadvantage are impacted first, worst and longest, because they do not have the means to cope, adapt and recover. Scientists tell us we can expect more frequent and severe extreme weather events fuelled by climate change, which will present significant challenges for many people and communities.

Policies are needed to build resilience of community sector organisations and people experiencing poverty and disadvantage to the effects of climate change. 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 preparedness, responsiveness and recovery efforts. Without appropriate policies to support resilience, response and recovery, it is likely we will entrench and drive greater poverty and inequality in Australia.

Major recommendations

- Empower communities to build their resilience and manage recovery investing in local community resilience hubs, local council community resilience committees, and vulnerability data.
- Increase in financial, housing, food, and other essential supports to better meet the needs of people impact by disasters.
- Strengthen the capability of community sector organisations to respond and build resilience to disasters.

Empower communities to build their resilience to disasters and lead recovery efforts

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 First Nations People, communities, and organisations, is essential to improve the nation’s preparedness, responsiveness and recovery efforts regarding extreme weather events.

Recommendation 27: Support and empower local communities to build their resilience and lead disaster recovery efforts, including:

1. Creating and funding local Community Resilience Hubs which are community-led, engage in building community resilience and assist the community in planning, response and recovery.

Budget impact: -$573 million per annum 2023-24.[14]

2. Funding local councils to form local community resilience committees to support the development and implementation of resilience plans, and to promote collaboration and joint planning between government, community organisations and local businesses.

Budget impact: -$64.4 million 2023-24.[15]

3. Supporting the development of an online tool that includes a social vulnerability index (such as the Australian Natural Disaster Resilience Index) and mapping feature to help identify where communities may need additional support to build resilience, prepare, respond and recover from disasters.

Budget impact: -$2 million in 2023-24.

4. Providing funding to support First Nations Peoples and communities to participate in whole-of-community responses to build climate resilience and to better prepare for, respond to and recover from disasters, that builds on traditional and local knowledge.

Budget impact: - $25 million 2023-24.

5. Resourcing community service organisations to build the resilience of their clients.

Budget impact: -$175 million in 2023-24[16]

TOTAL BUDGET IMPACT: -$840 million in 2023-24

Better meet the needs of people affected by disasters

Feedback from community sector organisations on the ground during extreme weather events, such as bushfires, floods, and storms, suggests that the amount, timeliness and accessibility of support has not adequately met the needs of affected communities. It is important that we have adequate support measures and processes in place to reduce trauma and facilitate a speedy recovery from disasters.

[14] ACOSS has estimated costings based on an initial investment of, on average, $2 million per annum outlay per community hub, to staff, accommodate and resource the hub. There are approximately 537 local councils across the country, bringing the total estimated cost to $1,074 million. The Federal Government would contribute half the costs, matched by the states.
[15] ACOSS has estimated costings based on there being 537 local councils, with the Federal Government contributing a minimum $120,000 to each council.
[16] ACOSS has estimated costings using a figure 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 per year, at an average cost of up to $50,000 per organisation to deliver Red Cross RediPlan for clients and other relevant plans.

Recommendation 28: Better meet the needs of people affected by disasters by:

- Increasing the Australian Government Disaster Recovery Payment from $1,000 to $3,000, and from $400 per child to $1,000 per child. These payments have not been increased since 2006 and the cost of living has increased substantially in that time. The $20,000 asset limit should be removed.
- Increasing the amount and duration of Disaster Recovery Allowance to $73 a day, indexed to wages. The allowance is paid at the same rate as JobSeeker, just $48 a day for a single person. This is clearly inadequate for anyone, let alone someone who has lost everything in a disaster.
- Supporting access to affordable housing by:
  - providing rent and relocation assistance for the period of the recovery.
  - assisting with providing and identifying short-term accommodation.
  - developing a national temporary housing program.
- Expanding mobile recovery centres and outreach clinics.
- Providing additional funding to meet increased demand for social support services post disaster, including:
  - food relief
  - legal and social support services
  - adequate mental health support over the short, medium and long term
  - specialist domestic and family violence services, particularly in the recovery period after a disaster
  - other additional support tailored and responsive to community needs, particularly in regional and rural areas.

Budget impact: Not available[17]

Affordable, accessible, quality insurance

The Australian Insurance Council has expressed concerns that climate change will lead to increased damage to our infrastructure, property and assets, and that insurance customers will need to make more claims.[18] It is well established that having insurance reduces financial hardship and speeds up recovery when affected by a disaster. However, covering the cost of insurance is becoming more difficult. The Insurance Council notes that insurance premiums have risen because of an increase in catastrophic events. The average home insurance premium now costs almost four times as much as it did in 2004.[19] Scientific research shows every region in Australia will be affected by

[17] Costs are challenging to quantify, as they will be dependent on frequency of extreme weather events and numbers of people impacted.
[18] Insurance Council of Australia (2022), *Climate Change Action* webpage. Accessed January 2023
[19] Insurance Council of Australia (2023), *Data Hub* webpage. Accessed January 2023

more frequent and more extreme weather events, and it is possible some regions will become uninsurable.[20]

A report by the Actuaries Institute on home insurance affordability shows that home insurance is already unaffordable for more than one million households and will become prohibitive because of climate change impacts already locked in.[21] Many studies show people on low incomes have lower take-up of insurance because they cannot afford it. As insurance premiums increase, it is inevitable we will see more people, especially people already experiencing financial hardship, drop or reduce insurance as the costs become prohibitive. This will increase financial disadvantage and inequality in our community and lead to an increase in the need for government support.

The current 'risk pricing' insurance framework is no longer fit-for-purpose. Recent insurance reviews have not adequately addressed the extent of climate change impacts on insurance affordability, especially for people on low incomes. All require further examination and action.

Recommendation 29: Improve access to affordable, quality insurance, with targeted support for people on low incomes by:

- Establishing a comprehensive review of affordable, accessible and quality insurance, having regard to the worsening impacts of climate change. The review must include a focus on specific support for people experiencing financial disadvantage.
- Collecting data on take-up of insurance, including under-insurance and non-insurance.

Budget impact: -$3.5 million in 2023-34

Strengthen the community sector's capacity in response, recovery, and resilience

Australia has entered an era of 'concurrent, consecutive and compounding' disasters and severe weather that occur throughout the year.[22] During 2021-22 alone there were 36 significant events requiring states, territories and the Australian government to enact measures before, during and after emergencies.[23] Climate-induced disasters and extreme weather is only set to worsen and grow more constant in the immediate future.

Responding to disasters is now a core responsibility for community services. Organisations provide goods, equipment, clothing, shelter, counselling and advisory services for people navigating trauma. Demand for these services remains high and not just in the initial aftermath of an event, but for months and years to come. There are disproportionate impacts on particular cohorts, including First Nations peoples, people living with disabilities, as well as culturally and linguistically diverse groups.

[20] Insurance Council of Australia (2022), *op.cit.*
[21] Finity Consulting (2022), *Home insurance affordability and socioeconomic equity in a changing climate. Green paper* Actuaries Institute, Sydney
[22] Australian Institute for Disaster Resilience (2022), *Major Incidents Report 2021-22* Australian Institute for Disaster Resilience, Melbourne p 4
[23] *Ibid,* p 13

The sector's core services, which enable it to respond to emergencies and disasters, are badly under-funded. Organisations are also directly affected by disasters, with workers and volunteers themselves being survivors (or disaster-impacted) and local offices suffering damage. As such, providers face widespread staff burnout and exhaustion. Deloitte Access Economics estimated that the 2019 Queensland floods cost at least $2.3 billion in health, social and community impacts, which included hardship applications, calls to recovery hotlines, mental health supports, and outreach services.[24]

ACOSS welcomes the government's Disaster Recovery Funding to help communities respond to disasters and the new Disaster Ready Fund to help communities prevent and build resilience to disasters.

However, a specific funding stream focused on improving the core capabilities of community sector should complement or be integrated within the Disasters Recovery Funding and the Disaster Ready Fund, to ensure the community sector has the capacity, capability and readiness to prepare for and respond to disasters, as part of the overarching national approach to readiness and risk reduction. We believe community sector funding streams are a missing piece in the Government's emergency and disaster readiness strategy and would ensure those responding on the ground are enabled to do so more efficiently, effectively and cohesively.

Recommendation 30: Strengthen capability of community sector organisations to respond and build resilience to disasters

1. Strengthen capability of community sector to be better **prepared and resilient** to disasters, including:

    - Creating a permanent enabling fund - Community Sector Disaster Resilience Fund - to complement or be integrated within the Disaster Ready Fund, so community services have core funding to improve preparedness and improve response and recovery due to disasters. This should include funds to participate in planning, response and recovery at appropriate levels, provide training for staff, volunteers, and local communities, undertake risk assessments and service continuity plans, and undertake adaptation and preparedness benchmarking.

Budget impact: -$262.5 million[25]

    - Provide funds to social sector peaks to strengthen the community sector disaster management tool, establish a community of practice and provide training to community sector organisations to implement the disaster management tool (to conduct sector specific risk assessments and develop disaster management and service continuity plans).

Budget impact: -$4 million

2. Strengthen capability of community sector to respond to disasters and better support recovery, by creating a permanent flexible contingency fund - Community Sector Disaster Contingency Fund – complementary to or integrated within the Disaster Recovery Funding Arrangements**,** so community services in

24 https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-dae-monsoon-trough-social-economic-cost-report-160719.pdf p 26-27.
25 ACOSS has estimated costings utilising an estimation of 14,000 community service organisations under DSS service provision. ACOSS has assumed up to 25% of these organisations a year would aim to access the funds to support costs of participating in local area planning, update and provide disaster training for staff and volunteers, update risk assessments and continuity planning, and benchmarking at a cost of $75,000.

disaster areas can quickly replace equipment, support workforce constraints, and meet increased demand during disaster response and recovery efforts.

Budget Impact: -$140 million 2023-2024 [26]

TOTAL BUDGET IMPACT: -$406.5 million in 2023-24

[26] 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 impacts from disaster, manage surge capacity, and compensation for additional service provision.

6. Investing in quality community services to help people in need

The community sector is critical to Australia's social cohesion, economic prosperity, climate resilience, health and wellbeing. The Federal Government relies on the community sector in a multitude of ways. Departments, including Social Services, Attorney-General, Health and Home Affairs, as well as bodies like the National Indigenous Australians Agency, fund community organisations to provide population-wide care services (like childcare and aged care), specialist services (like disability support) and services to people in crisis (like emergency relief, homelessness, domestic violence, financial counselling), as well as to advocate on behalf of their communities. Our research shows that people's need for help continues to soar and is growing increasingly complex.

The community sector is also one of the largest and fastest job creators, with some of the highest projected employment forecasts.[27] In terms of improving workforce participation, creating quality jobs and maintaining a high quality of life for everyone in this country through suitable care services, the care economy is one of Australia's most important and promising industries.

While there have been some promising new initiatives commenced by the Federal Government, it still chronically under-invests in the community sector overall. Specifically, the funding system administered by the Commonwealth is plagued by inconsistencies, a lack of transparency, and a disconnect to the genuine needs of the community. After three years of disasters, pandemic and escalating hardship, these structural problems remain.

The Federal Government must invest in the sector to ensure that everyone who needs care or support can receive it. As a priority, Government should be ensuring that services have the capacity to help communities devastated by disaster and those experiencing poverty and disadvantage. It should also ensure that the sector has a well remunerated and skilled workforce to deliver critical services on behalf of government.

Major recommendations

- Apply proper and transparent indexation to community services funding and invest in service needs mapping as first step towards needs-based funding.
- Continue to improve the affordability of early childhood education and care by lifting the subsidy to 95% for low-income families and removing activity tests, extending access to free preschool for three-year-olds and ensuring equality in access for First Nations children.
- Properly fund peaks and advocacy organisations to inform public policy and service design.

[27] National Skills Commission (March 2022), *Projecting Employment to 2026*, Australian Government, Canberra.

Apply proper and transparent indexation to all grants and contracts for community sector organisations

Over the past ten years, the Commonwealth has not applied a consistent, adequate or transparent approach to the indexation of funding and pricing of community services. As a result, the sector has seen unsustainable cuts to funding year-on-year with the indexation gap—the difference between the real growth in the cost of delivering services and the indexation rate—expanding annually. This situation has been exacerbated this financial year by historically high inflation, the Fair Work Commission's decision to increase the national minimum wage by 5.25% and the national minimum award wage by 4.6%, as well as compulsory increases in superannuation by 0.5%. Many organisations are financially overstretched and at breaking point.

The government's supplementary assistance for community organisations, announced as part of the October 2022 Federal Budget, is a welcomed measure aimed at reducing some of the financial strain being felt by essential services. However, this is a one-off measure and certain organisations will not receive assistance under it, instead continuing to experience significant and growing financial strain.

Prior to the election, the Federal Government made a commitment to 'proper and transparent indexation, so community organisations do not see the real value of their grant drop away during the term of the grant'.[28] Delivering on this commitment requires more than one-off or temporary measures. It requires more sustainable indexation levels for services, as well as reform of the method by which indexation is determined and applied to all community service organisations.

Generally, labour costs represent about 70 to 75% of total costs in the sector. However, the wage price index is not an adequate representation of labour cost change for social services because it is too broad, does not include all key cost drivers of labour (e.g. superannuation has increased by 1% alone), does not reflect real movement in low-paid, woman-dominated industries and can be misrepresentative of low or minimum wage industries in the aggregate. As such, we recommend that in the coming financial year, the government apply a 5.5% rate of indexation for community service contracts (linked to wage inflation in the sector) while it commissions a review into its methodology for formulating indexation on grants and contracts for community services over the medium term, to more accurately reflect the sector's real wage and cost pressures.

If these actions are not undertaken, and the real value of government contracts continue to erode, the sector's capacity will continue to diminish at a time when rising demand and increased complexity of service user need are being experienced across the country.

Recommendation 31: Indexation for community sector funding should be improved:

- Community sector organisations should receive an indexation rate of 5.5% for the next 12 months to cover historically high organisational costs.
- Review the method by which the Federal Government determines and applies indexation to community services, to more accurately reflect the labour and cost pressures for delivering government-funded service delivery.

[28] Senator Jenny McAllister (March 2022), *Restoring Respect for the Community Sector,* speech to Australian Services Union Members, Blaxland.

- Improve the transparency by which community service organisations are notified about the quantum and indexation rate they receive on government contracts and grants, including publishing relevant indexation rate(s) and calculation methods in Budget Papers.

Budget impact: Not available

Conduct a service needs analysis to inform investment decisions

Our recent research demonstrates that the people's need for community services in the past three years has increased significantly and grown more complex. People experiencing poverty and inequality have endured the pandemic, continuous and devastating disasters, as well as incredibly distressing economic hardship. These events have a disproportionate impact on people on low incomes, and reliant on social security. More people are escaping family violence, seeking safe and adequate shelter and/or trying to access mental health, relationship, financial counselling and other advisory services.

As previously mentioned, community services are inadequately funded to meet the community's need for care, support and crisis services. For community services to fully meet community need, government must develop a more sophisticated understanding of how the need for community services continues to change, and how to best meet these evolving needs. Developing this evidence base would greatly assist the government to target its investment in areas where the need for assistance is more acute both in terms of population cohorts and geography.

Recommendation 32: Allocation of funding should be based on a comprehensive service needs analysis and demand mapping exercise, conducted in partnership with the community sector and communities across Australia.

Budget impact: -$10 million in 2023-24

Ensure proper funding to peaks and advocacy organisations to inform public policy and service design

Prior to the election, the government recognised that advocacy is a key component of the work of the community sector.[29] The community sector is responsible for advocating to improve the economic and social systems supporting people experiencing poverty, disadvantage and hardship. Collectively, peak bodies ensure that the voices of marginalised people are heard in Canberra on social services, health, law and justice, family violence, gender equity, climate change, immigration, early childhood education and care, housing, homelessness and unemployment to name critical, whole-of-government priorities.

[29] Senator Jenny McAllister (March 2022), *Restoring Respect for the Community Sector,* speech to Australian Services Union Members, Blaxland.

Since its election, the Albanese Federal Government has regularly sought the expertise and advice of community organisations in the review of programs, development of policy and design (or redesign) of services. The increased level of engagement has been warmly welcomed by the sector. Ministers and departments have invited community sector leaders to sit on taskforces, advisory groups and panels because of the quality of leadership and expertise they offer. Various ministers and departments have requested peaks and advocacy organisations attend ministerial roundtables and workshops, provide evidence at Royal Commissions, and contribute case studies as well as expertise in senior policy meetings. The government also expects input from the sector regarding important draft legislation central to its agenda.

Peaks and advocacy organisations have deep, trusted networks and understanding of leading policy and service practice in different jurisdictions. They are keen to engage with government to collaboratively address urgent policy challenges. Yet many peaks are not resourced to do this critical work properly. Over the previous ten years, core funding was cut to a range of organisations, including those representing Aboriginal and Torres Strait Islander people, LGBTIQA+ people, children and young people, refugees and migrants, people in housing need, or experiencing or at risk of homelessness and people accessing adult community education.

Many other peaks and advocacy organisations have suffered real value cuts to their funding because they receive little or no indexation. With current inflationary pressures and relevant wage increases, this pressure has become wholly unsustainable. Such organisations are out of reserves and/or out of alternative revenue options.

The Federal Government has already begun to remove or nullify the effect of gag clauses in Commonwealth-funded service contracts. It now must restore investment to peak bodies and advocacy organisations or risk losing the expertise, advocacy and advice of such groups in the short to medium term.

Recommendation 33: 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: -$25 million in 2023-24

Continue to improve the affordability of early childhood education and care (ECEC)

In this budget cycle, there are additional short-term improvements that should be made to the ECEC system, to ensure there is a thriving ECEC workforce to meet the increased demand resulting from the Cheaper Child Care reforms and to ensure children from low-income families can affordably access the services they need.

The government's commitment to lifting the maximum rate of Child Care Subsidy (CCS) to 90% of the hourly fee cap for families earning up to $80,000 will improve equitable access to early childhood education and care. However, the families that are most in need of improved affordability will miss out on these benefits because they don't have access to enough hours of subsidy due to the current design of the activity test. An increase in the rate of the CCS, without a complementary measure to increase the number of hours available to families with low incomes and less than 16 hours of work, study or training will exacerbate existing inequity and widen attainment gaps for children in families with low incomes and insecure work.

We support the proposal of the Grattan Institute to increase the subsidy rate to 95% for low-income families, with the same simpler, flatter taper rate.[30] Additionally, we support removing the bottom two steps of the activity test to improve equity of access for children from low-income households and who are currently excluded in the design of the system. The activity test result for low-income, low activity families should be increased to 48 hours per fortnight (increase from 24 hours per fortnight), so children from these families can access at three days of subsidised early learning to support their learning, development and wellbeing.

Despite the recognised hard work, dedication and care provided by the ECEC workforce, the sector remains a low-paid profession, particularly compared to educators in schools. Cost-of-living pressures affect educators as much as the families they support. This combined with exhaustion from the pandemic is resulting in the highest rates of attrition experienced in the sector. With the Cheaper Child Care reforms expected to increase demand, it is critical that this attrition is slowed, and educators are encouraged into the sector. We therefore recommend the Australian government fund a 15% wages supplement for the ECEC sector as an interim step, before 1 July 2023. This would bring wages closer to the salary and conditions of the school sector. This wage supplement must commence as soon as possible to secure the workforce ahead of next year's reforms. This supplementary measure should be followed by more durable improvements to the pay, conditions and job security for ECEC staff. The *Secure Jobs, Better Pay* legislation offers an opportunity for strengthening the workforce in the medium term.

Additionally, we recommend that the government further invest in the Inclusion Support Program (ISP) to ensure its funding parameters meet the objectives of supporting children with additional inclusion support needs to fully participate in early learning. The ISP is important in ensuring that all children can equitably access ECEC and thrive alongside their peers, but some parents have reported difficulties with access to it. Specifically, the additional educator wage subsidy must be increased to align with the current Award and indexed annually. Further, the current caps of 25 and 40 hours per week must be removed and funding aligned with the child's enrolment. These two changes will ensure children with additional support needs are supported to fully participate in early learning, giving their families the confidence and flexibility to participate in work, study or volunteering.

The above recommendations would strengthen the sector, its workforce, and make it easier for low-income families to access quality services. Beyond this budget cycle, there is a need to genuinely consider how to move towards a more equitable, simpler and more accessible system. ACOSS supports the progressive introduction of a system of free, universal and quality early childhood education and care. This would be a major reform yielding multiple economic and social benefits for the country. The Minister for Early Childhood Education, Dr Anne Aly, has stated that universality is also a government aspiration.[31]

[30] Grattan Institute (2020), 'Cheaper Childcare: A practical plan to boost female workforce participation, 2020' p 55-56
[31] Butler, Josh (June 2022), 'The aspiration of universal childcare: Anne Aly on what drives Labor's ambitious plans', *The Guardian*.

As a future step towards such a universal system in the medium term, we recommend the government consider low-income families being able to access free or low-cost early childhood education and care for at least three days per week as soon as families want it, with more available at minimal cost for those who need it, including families participating in work, study or volunteering or families experiencing vulnerability and disadvantage. This would pave the way towards further reforms in the move to a free, universal and quality ECEC system.

Recommendation 34: Affordability, accessibility and quality of early childhood care and education should be improved by:

- Lifting the CCS to 95% for low-income families.
- Removing the requirement to meet an activity test to access the CCS to support continuity of access to high-quality early education and care for children, especially for low-income families.
- Investing in a Government-funded, 15% interim wage supplement to the early childhood education and care sector, to commence as soon as possible before the early childhood education and care reforms in July 2023.
- Investing in the ISP with an immediate catch-up rate for additional educators and ongoing indexation and removal of the 25-hour cap for additional educator.

Budget impact: Not available.

Improve access to preschool

High-quality and accessible early childhood education has a significant positive impact on a child's development and future learning outcomes and is a policy area that can deliver a major social and economic benefit to the country. 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.

There have been significant strides in lifting enrolments of children in preschool programs in the year before school (four-year-olds) and additional preschool funding was announced by the Federal Government for this cohort for four years to 2025. However, Australia lags in enrolment of three-year-olds and is in the bottom third of countries ranked by the OECD (at 65%), with our enrolment rates for the entire three-year- to five-year-old cohort, substantially behind the OECD average as well as the leading developed nations.[32] Significant reforms announced in Victoria and New South Wales to increase preschool access to two years before school and increase the hours of delivery from 15 to 30 hours in the year before school will help address these. However, these welcome reforms will also exacerbate the disparity of access already evident across the country, with children's access to affordable preschool further dependent on where they live.

In the May 2023 Budget, we recommend the government undertake immediate reforms that improve the accessibility and availability of preschool for children aged three, aligned to existing provisions for four-year olds so that they can attend preschool at

[32] OECD, 'Enrolment Rate in Early Childhood Education', accessed January 2023.

least two days per week in the two years before starting school. This would mean, for example, extending the existing exemption from the CCS activity test that exists for four-year-olds to three-year-olds.

Beyond this budget cycle, we think further reforms should be considered that improve accessibility and affordability of preschool, especially for children from low-income families. This would include moving to a system where preschool is available for free or at a low cost for at least three days per week, with more available at minimal cost for those who need it.[33]

Recommendation 35: Current early childhood education and care policy settings should be reformed so that:

- Children from three years old have access to high-quality early education in the two years before starting school (with the national rollout of this reform to prioritise children experiencing educational disadvantage, including Aboriginal and Torres Strait Islander, children in rural and remote areas, children from non-English speaking backgrounds).
- Funding commitments remain long-term to provide security for parents and early learning centres, in line with the recommendations of the Universal Access National Partnership Council of Australian Governments (COAG) Review.[34]

Budget impact: Not available

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 equity means dismantling the systems that perpetuate the ongoing trauma, disadvantage and marginalisation experienced by Aboriginal and Torres Strait Islander children.

There have been some additional investments in Aboriginal early childhood in the Closing the Gap Implementation Plan. The Federal Government's decision to increase the fortnightly base entitlement for Aboriginal and Torres Strait Islander families to 36 hours is a positive and welcomed step. However, more comprehensive reform is required, which includes a strengthened role for community-controlled organisations in the lives of Aboriginal and Torres Strait Islander children.

Recommendation 36: 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:

[33] Centre for Policy Development (2021), *Starting Better: A Guarantee for Young Children and Families,* Melbourne.
[34] Nous (2020), 'UNAP Review – COAG Education Council', Nous Consulting.

- Ensure Aboriginal and Torres Strait Islander three- and four-year-old children have a minimum of three days per week of high-quality preschool with a bachelor-qualified teacher.
- 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.
- 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.

Budget impact: -$80 million in 2023-24

Other relevant recommendations

- Restore wage supplementation funding for homelessness services (see *Chapter 7: Make housing affordable for people with low incomes*)

7. Make housing affordable for people with low incomes

Since the last May Budget, there have been several significant federal housing policy developments, which together provide a solid foundation for further affordable housing growth. ACOSS has welcomed these commitments and looks forward to engaging with the government in the development of the new National Housing and Homelessness Plan over the coming months. The announcements to date will establish the necessary institutional and policy frameworks to delivering a pipeline of new affordable and social housing stock at much greater scale over the next decade.

There is an assessed shortfall of 500,000 social housing dwellings to meet current need and projected population growth. To meet the social housing shortfall, the government would need to build 25,000 social homes each year for two decades. To compound these challenges, the withdrawal of the National Rental Affordability Scheme will see the subsidies and rent restrictions attached to some 22,000 of these affordable homes expiring, with no plan to replace them. We welcome the intention to develop new institutional investment incentives via the Housing Australia Future Fund (HAFF), Accord and with input from the Supply Council.

Compounding the challenge, rent inflation reached an historic high in the year to December 2022, increasing by 10%. This is the biggest driver of cost-of-living pressure for low-income households. In the face of these policy challenges, it is imperative that this Federal Budget includes a major focus on housing policy to increase social housing stock and improve rental affordability for low-income tenants.

Major recommendations

- The Federal Government should build on the housing policy and institutional foundations being established by committing to a 10 year, 25,000 dwelling per year pipeline of social housing investment;
- Rent Assistance for private tenants with low incomes should be benchmarked to actual rents, requiring a 100% increase in the payment in 2023-24.
- Develop a new national First Nations Housing strategy, supported by a boost to funding for Indigenous Community Housing Organisations (ICHOs) and a new inter-governmental remote housing funding agreement.

Boost social housing investment

Since taking office, the Federal Government has announced several major housing policy initiatives, which provide a new foundation for reform and platform for investment to grow social and community housing stock. These include:

- The commitment to establishing the $10 billion HAFF, a new mechanism for funding construction of new social and affordable housing. The HAFF will seek to draw funding from state and territory governments and institutional investors to build 20,000 new social housing dwellings (of which 4000 will be allocated to women and children escaping family violence) and 10,000 affordable dwellings;

- The announcement of the new National Housing Accord, a framework for collaboration between all levels of government and industry stakeholders, with an agreed target of 1 million additional homes over 5 years. The Accord is intended to provide a mechanism for development of incentives to institutional investment, including from superannuation funds;
- A commitment under the Accord to deliver 10,000 affordable, energy-efficient dwellings, in addition to the 30,000 social and affordable housing dwellings to be delivered through the HAFF;
- The establishment of the National Housing Supply Council which will be tasked with reviewing barriers to institutional investment and innovative financing models;
- The development of the National Housing and Homelessness Plan in 2023;
- An expansion of the remit of the National Housing Infrastructure Facility to allocate up to $575 million to fund an additional 5,500 dwellings.

An additional 500,000 social housing dwellings are needed to meet current and projected demand over the next decade. Direct public investment is a cost-effective and efficient way to fund social housing. In this Budget, the Government should lay out a ten-year investment plan to meet the need for social and affordable housing, through a pipeline of 25,000 new dwellings per year delivered through the new Commonwealth/State housing agreement and leveraging the HAFF and Accord. This should be complemented by a Rapid Response Housing Fund to quickly secure additional affordable rental stock in the next 12 months.

Recommendation 37: Build an additional 25,000 dwellings per year for 10 years to meet social housing shortfall.

Budget impact: -$10 billion in 2023-34 (recurrent)

Recommendation 38: Establish a Rapid Response Housing Fund to expedite increase in affordable rental stock

A 1 year **$2.0 Billion 'Rapid Response Housing Fund'** should be established to encourage proposals from Community Housing Organisations to expand social and affordable housing via mechanisms other than new construction (e.g. acquisition of suitable distressed new build property or existing rental homes). The scheme should deliver between 4,000 to 5,000 properties within the first year of establishment.

Budget impact: -$2 billion in 2023-24

Benchmark Rent Assistance to actual rents paid

CRA should be benchmarked to actual rents paid rather than set at an arbitrary amount that rises in line with CPI only. We propose to link the maximum rent threshold to average rents paid for outer Sydney, Melbourne and Brisbane, as done by UNSW's Social Policy Research Centre in their budget standards work. This would deliver an increase of 50% to the upper CRA rent threshold.

This increase would better reflect rents – for example, the average rent for a two-bedroom unit in outer Sydney is $375 per week – almost twice the current CRA max threshold for a couple or single parent with one or two children. Higher maximum rates would not be restricted to residents in these capital cities, recognising the high median rents paid outside capital cities. Rather, rents in these three cities (which together comprise most rental dwellings across the country) would be used for benchmarking purposes.

The following table shows how CRA would change by benchmarking the payment to rents, including rates of payment and maximum rent thresholds for selected households.

Table 1: Benchmarking CRA to rents (2022, $ per week)

Household size	Dwelling size	Weekly rent 2022*	Current CRA max rent per week threshold	Proposed max rent threshold per week	Proposed % increase to max CRA rent threshold	Increased weekly CRA paid^
Single	1br unit	$283	$169	$256	68%	$141
Couple no chn, Single parent 1-2 chn	2br unit	$325	$205+	$310-$315	58%	$151-170
Couple 1-2 chn	3br house	$387	$250	$380	30%	$186
Average					**50%**	

Source: Saunders et al (2017) Healthy living budgets for unemployed and low paid workers, Social Policy Research Centre UNSW Sydney. *average lowest quartile, outer Syd, Melb & Bris (March). +Current maximum rent for a sole parent with one child is $208 per week. ^Based on an across the board 50% increase in maximum CRA rent thresholds.

ACOSS also calls on the Federal Government to conduct a review of settings for CRA, including whether current eligibility criteria are appropriate, noting many people on low incomes are ineligible for the payment. This is something that could be explored by the Economic Inclusion Advisory Committee.

Recommendation 39: Benchmark Commonwealth Rent Assistance (CRA) to rents paid, lifting the maximum rent threshold by 50%, which would deliver a 100% increase to maximum rates of payment.

Budget impact: -$4,000 million in 2023-24

Develop a new First Nations 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 demonstrated 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 ICHOs as an alternative to mainstream providers and to support their capacity to take advantage of new financing options such as the Bond Aggregator.

Recommendation 40: Develop a new national Aboriginal and Torres Strait Islander housing strategy to build capacity for Indigenous Community Housing Organisations (ICHOs) in urban, rural, regional and remote areas, supported by at least a 10% boost to funding under the Federal-State housing agreement.

Budget impact: -$200 million in 2023-24

Develop a new inter-governmental remote housing agreement

The National Partnership on Remote Indigenous Housing expired in June 2018 and has been replaced with a range of uneven and short-term bilateral arrangements that do not meet the scale of the need. The Labor Government's additional $100 million investment in remote housing in the Northern Territory is welcome, a national, recurrent, remote housing funding program is needed. The previous Federal Government's review of the National Partnership Agreement on Remote Housing in late 2017 recommended that:

- a recurrent program be funded to maintain existing houses, preserve functionality, and increase the life of housing assets; and that
- investment be provided for an additional 5,500 houses by 2028, which are needed to continue efforts on Closing the Gap on Indigenous disadvantage.

Recommendation 41: 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: -$500 million in 2023-24

Restore wage supplementation funding for homelessness services

Homelessness services are slated for a $56 million cut to funding on 1 July resulting from the cessation of Equal Remuneration Order supplementation funding to meet the cost of higher wages for community sector workers resulting from the equal pay case. These cuts will have a very damaging effect on services and people in crisis, in a time of acute rental stress, low vacancy rates and high demand for crisis accommodation services. At a minimum, this funding should be restored ongoing, including in the next Commonwealth/State Housing Agreement.

Recommendation 42: Restore wage supplementation funding for homelessness services

Budget Impact: -$56 million in 2023-24

Other relevant recommendations:

- Reduce the Capital Gains Tax discount for individuals and trusts (see Chapter 9: A fairer tax system that supports services, safety nets and economic development).
- Restrict deductions for personal investment expenses (negative gearing) so they can only be offset against income from the same class of investments (see *Chapter 9: A fairer tax system that supports services, safety nets and economic development*).
- Ease the rental housing shortage and improve compliance with tax law by restricting deductions for investment properties while they are not on long-term leases. (see *Chapter 9: A fairer tax system that supports services, safety nets and economic development*).
- Invest in energy efficiency improvements for low-income homes to cut emissions and energy bills and create thousands of local jobs (see *Chapter 4: Fair, Fast and Inclusive action on climate change*).

8. Decent retirement incomes and services

Security in retirement depends on pensions that prevent poverty, fair superannuation that cushions the loss of income from employment, affordable housing, and universal access to quality health and aged care services. Tax concessions for superannuation cost $52 billion in 2022, almost the same as Age Pensions ($55 billion).[35] The tax treatment of superannuation is parsimonious for people on low incomes and most women, and too generous for people with high incomes, mainly men. This entrenches inequality in retirement and deprives governments of the revenue they need to fund decent health and aged care for an ageing population. Tax concessions for contributions should be replaced with an annual rebate that is simpler and fairer. To guarantee quality aged care for all, a levy should apply to superannuation fund investment incomes after retirement, and the Medicare Levy should be strengthened to fund essential health services.

Major recommendations

- Replace tax concessions for superannuation contributions with a fairer and simpler annual rebate.
- Introduce a 15% levy on superannuation fund earnings after retirement to guarantee universal access to quality aged care services.

Make superannuation fairer for women and people with low incomes

People on low and modest incomes presently receive little or no support from tax concessions for superannuation contributions that cost the budget $25 billion annually. 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 unfair flat 15% tax on employer contributions.

The system particularly disadvantages women. In 2017, 11% of women 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.

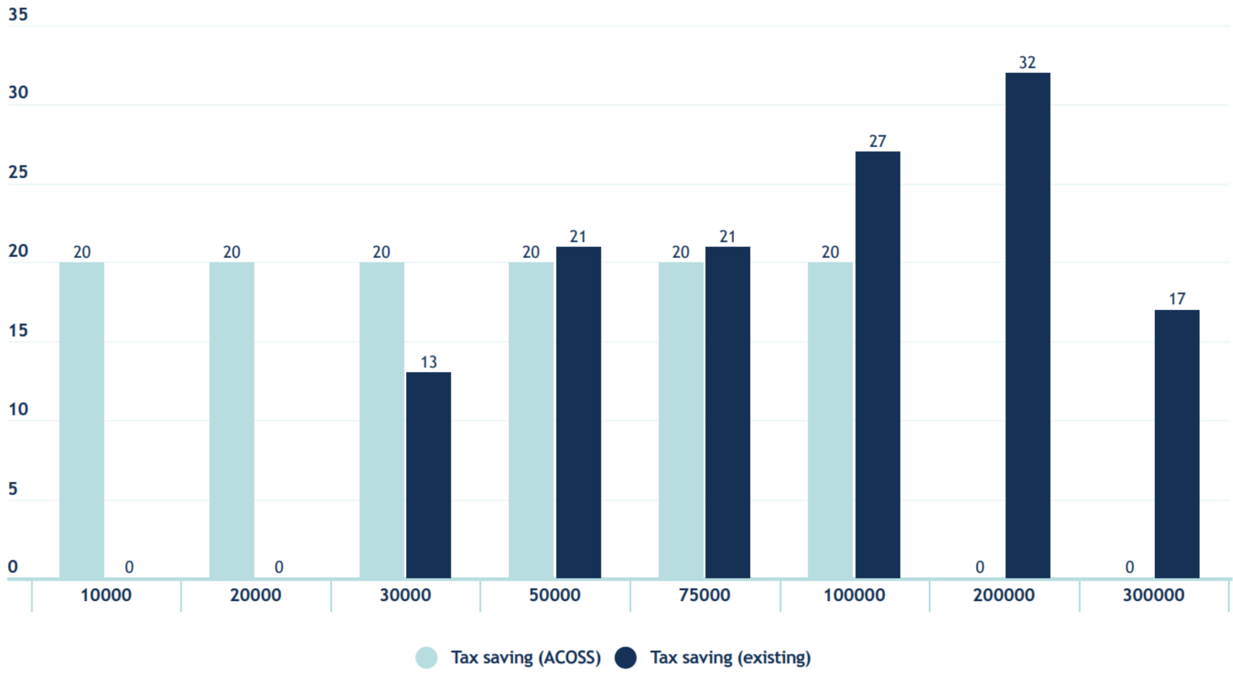
The flat 15% superannuation contributions tax should be replaced with a refundable rebate (for example, 20% of contributions from all sources) that provides the same or greater support for each dollar of contributions for people with low incomes as that provided to middle- and high-income-earners. To make super worthwhile for people with very low incomes and small contributions, a higher refundable rebate (for example equal

35 Chalmers J & Gallagher K (2022), *Budget paper No 1, 2022-23* Australian Government, Canberra

to 100% of contributions) could be paid for the first $500 a year contributed, regardless of income.

The rebate should be paid for by taxing contributions at each person's marginal tax rate and lowering the annual cap on concessional contributions from $25,000 to $15,000 (thus reducing tax breaks for people with high incomes). There should be no concessions for 'catch-up contributions' above the annual cap. The impact of this reform on the marginal tax rate applied to contributions just above the Superannuation Guarantee is illustrated in Figure 4.

Figure 4: Tax saved, in cents per dollar contributed above the Super Guarantee, at different income levels (existing system compared with 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 43: Fair and simple tax concessions for superannuation contributions:

1. From 1 July 2024, 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. Subject to revenue-neutrality, the rebate for concessional contributions should 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 concessional cap ($45,000), and people should no longer be able to make up to three years' contributions within the cap in a single year.
4. The exception to the general prohibition on direct borrowing by super funds for limited recourse borrowing by self-managed funds should be removed.

Budget impact: $0

A levy on superannuation fund income post-retirement to help pay for aged care

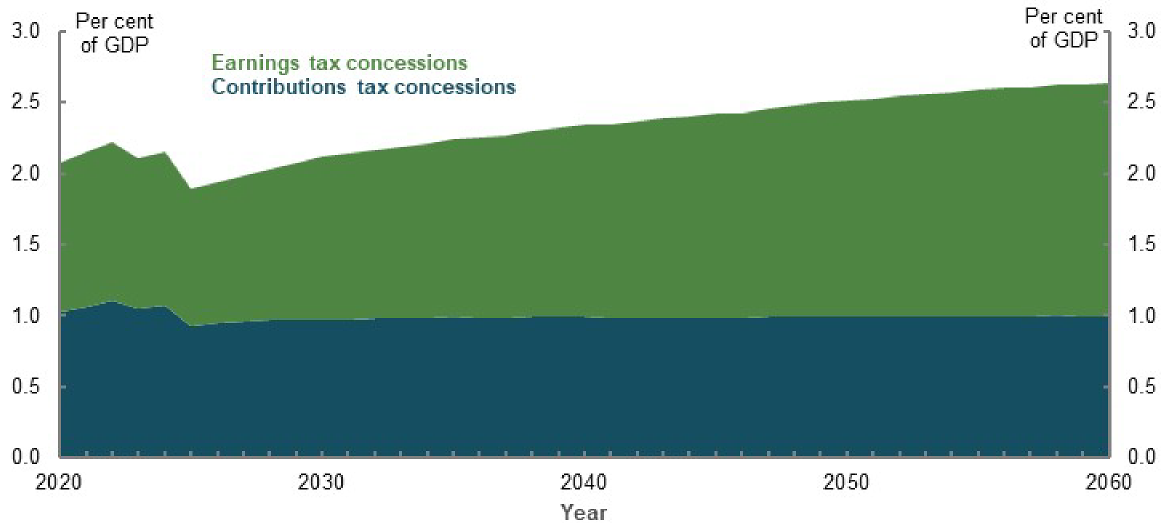
It will not be possible for future governments to properly fund aged care and health services for an ageing population while only 16% of older people pays income tax.[36] We must choose between over-generous tax breaks for retirement, decent services, or a steep rise in out-of-pocket costs for health 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 enjoyment of retirement while they are still healthy, in case they need to pay for essential health and aged care services later in life. The result is larger bequests instead of improved living standards in retirement.[37]

The fiscal cost of tax concessions for superannuation, especially post-retirement tax concessions, is projected to rise substantially as the population ages and the superannuation system matures, from 2.1% of GDP in 2020 to 2.6% in 2060 (Figure 5). Over the same period, growing public expenditures on health and aged care will put more pressure on Commonwealth budgets.

[36] Coates B (2018), 'The entitlement of age', Grattan Institute.
[37] Treasury (2020), *Retirement Income Review, Final Report, July 2020* Australian Government, Canberra.

Figure 5: Projected cost of superannuation tax concessions (% of GDP)



Source: Treasury (2020), [Retirement Income Review, Final Report, July 2020]() Australian Government, Canberra.

The tax treatment of superannuation after retirement is 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 (lump sums and pensions), 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 accruing to super funds are taxed at 15% (10% for capital gains).

Re-contribution strategies (where a member who receives a superannuation payment and makes contributions 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, that distinction should be removed, and the same tax rate should apply to super fund earnings before and after retirement.[38]

The tax exemption for the investment income of super funds in the so-called pension phase opens up many tax avoidance opportunities. 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 Capital Gains Tax (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 pension to accumulation accounts. This undermines the purpose of superannuation, to support a decent retirement rather than bequests to adult children.

[38] Henry K et al. (2009), *Australia's future tax system review final report* The Treasury, Canberra, at:. Tax avoidance through re-contribution strategies was addressed in part by the previous Government's decision in 2016 to apply the 15% tax rate to the investment income of Transition to Retirement accounts.

To contribute to the cost of a guarantee of universal, quality aged care, a 15% aged care levy should apply to the investment income of superannuation funds after retirement. As well as simplifying the tax treatment of superannuation (since fund earnings in the accumulation phase are already taxed at that rate), this would ease concerns among retired people about whether they can 'afford' decent in-home and/or residential care when they need it later in life. If the levy is introduced, the proceeds would be earmarked to aged care services, to guarantee a decent standard of care for all who need it, without user charges.[39]

Recommendation 44: Introduce a 15% levy on superannuation fund earnings after retirement to fund an aged care service guarantee:

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 1 July 2024 (with a 5% increase each year).
2. To simplify the system, the distinction between accumulation and pension phases should be phased out.
3. The levy should be offset by a 15% rebate (minus any imputation credits) for people over preservation age whose income (including Age Pension, earnings, superannuation and other investment income) falls below their tax-free threshold. The rebate would be calculated each year by the Australian Taxation Office (ATO) and transferred to a superannuation fund chosen by the taxpayer.
4. Opportunities to avoid or reduce tax on capital gains accrued during working life by holding assets in a self-managed super fund should be curtailed.
5. Transfers from superannuation accounts to the estates of deceased fund members should be taxed at the statutory rate of 17% without exception apart from transfers to spouses and dependent children.
6. Revenue collected from these measures (which would rise substantially in later years) should be earmarked for an *aged care service guarantee,* assuring free high-quality care (net of accommodation and ancillary services) at home and in nursing homes.

Budget impact: $0 ($*2,500 million* in 2024-25).

Ensure that people use superannuation for retirement rather than bequests

In response to concerns raised about low investment returns during the COVID recession, the previous Government reduced the minimum rate at which superannuation balances must be drawn down after retirement. That decision was misguided since members were already withdrawing too little of their superannuation to enjoy a decent retirement – which is the core purpose of superannuation. This temporary easing of draw-down requirements is due to expire in July 2023. It should not be extended further.

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[39] Accommodation and other services would still attract charges, but the care component of aged care services would be free, as is the case for public hospital treatment and care.

Recommendation 45: Require people to draw down their superannuation for retirement rather than keeping it for bequests

The temporary reduction in superannuation minimum draw-down rates should not be extended beyond July 2023.

Budget impact: $0.

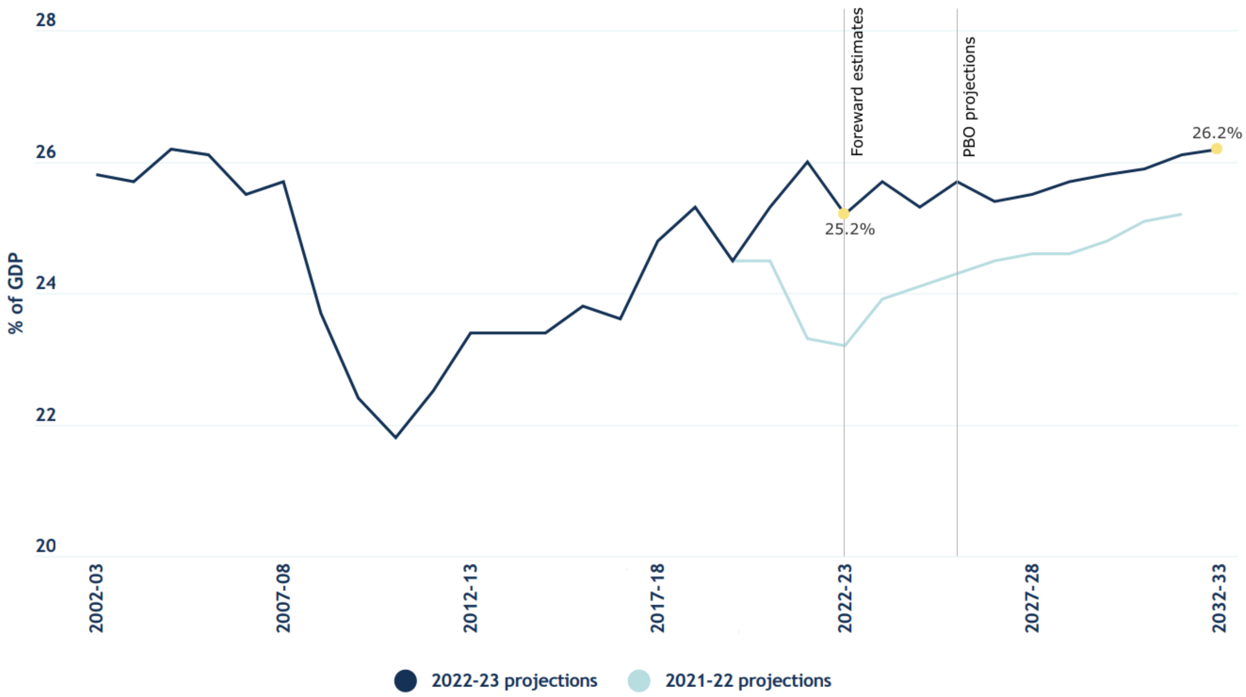
9. A fairer tax system that supports services, safety nets and economic development

While there is no urgency to reduce the budget deficit, the Government should use the tax system to contain inflation in the short term and shore up the revenue base needed in future years to finance essential services and income support and action on climate change, as proposed in the community sector statement on budget policy.[40]

Aside from public debt interest cost, the NDIS and defence spending, expenditure on most Commonwealth expenditure programs are projected to decline over the next decade (as a share of GDP) despite unmet needs for essential services such as dental and mental health, care services and an income support safety net that demonstrably fails to shield people on the lowest incomes from poverty (see Figure X, in the *Summary*). This is the legacy of decades of neglect of investment in those programs.

To fund those essential services and safety nets, respond to climate change, and reduce public debt, the Government must increase public revenue. Australian government revenue is still below the level reached (as a share of GDP) before eight successive personal income tax cuts during the 2000s (Figure 6). The tax base has also been eroded by avoidance and evasion (discussed later in this Chapter).

Figure 6: Australian government revenues are still below long-term levels (% of GDP)



SOURCE: Parliamentary Budget Office (2022), *Beyond the Budget - 2022-23*

[40] ACOSS (2021), *A Guarantee to the Nation – Community organisations' call to the Parties* ACOSS, Canberra

Australian governments simply don't collect enough tax to fund the essential services and safety nets we need. Australia is the ninth lowest-taxing country among 36 OECD nations. All levels of government collect 29% of GDP in tax compared with an average of 34.1% among wealthy nations. Contrary to claims that Australia relies too heavily on income taxes, personal income tax revenue is also lower than the average for wealthy nations (11.4% of GDP in 2017 compared with an OECD average of 17%) when we take account of social insurance taxes. An average full-time worker pays 24% of their overall income in income tax, below the OECD average of 25% and that paid by the average worker in the United States (also 25%).[41]

Instead of cutting taxes, the government should restructure them so that revenue is raised more fairly and efficiently. High priority should be given to reforms to taxes on investment incomes from property and shares, superannuation (see previous chapter), strengthening the Medicare Levy to help fund essential health services, curbs on personal income tax avoidance using private companies and trusts and profit shifting by multinational companies, securing a fair return for Australia's offshore gas reserves, and removing environmentally harmful fossil fuel subsidies.

Higher interest rates would be a blunt and brutal way to contain inflation. Instead, greater use should be made of fiscal policy, including taxation. This would ensure that the burden of restraint is more equitably shared. The Government should use the tax system strategically to contain inflation by reducing private consumption, deferring business investment, containing asset prices, and urgently increasing the supply of rental housing, as follows:

- reducing personal consumption by halving the 2024 income tax cuts (Recommendation 46) and tightening the statutory formula for calculating motor vehicle fringe benefits (Recommendation 58);
- deferring business investment by ending the full expensing of business costs when this is due to expire in June 2023;
- containing asset price inflation by restricting deductions for personal investment expenses so they can only be offset against income from the same class of investments (Recommendation 50); and
- increasing housing supply and easing rent increases by restricting deductions for rental properties where a dwelling is vacant for part of the year or rented for tourist accommodation rather than long-term tenancies (Recommendation 51).

Some of these measures would be temporary, while others are permanent, desirable reforms of the tax system in their own right.

Major recommendations:

- Do not proceed with the 2024-25 income tax cuts.
- Broaden the income definition of the Medicare Levy so that it is harder to avoid and extend the high-income Medicare Levy Surcharge to all individuals with incomes above $120,000 whether or not they have hospital insurance.
- Abolish fuel tax credits for off-road use, except for agriculture and introduce a 10% Commonwealth royalty on offshore gas resources.

41 OECD (2022), *Revenue statistics*; OECD (2022), *Taxing wages brochure*.

Do not proceed with the 'Stage 3' tax cuts

With the Budget in structural deficit, growing public expenditure needs and high inflation, this is not the time for more income tax cuts, especially those scheduled for 2024, which cost over $18 billion a year. Those tax cuts would also go to people who need the least support. Analysis from the Parliamentary Budget Office indicates that over three-quarters (80%) of the value of the tax cuts will go to the top 20% of taxpayers on around $103,000 or more, and only one-third will go women.[42]

At the least, changes to rates and thresholds that exclusively benefit people with high incomes should not proceed: removal of the 37% tax rate for incomes between $120,000 and $180,000 and the increase in the threshold for the 45% rate from $180,000 to $200,000. This would save approximately $9 billion in 2024-25, half the cost of the Stage 3 tax cuts.[43] This would leave in place a tax cut of up to $37 per week for individuals on incomes up to $120,000.

Recommendation 46: Remove the 'Stage 3' tax cuts

The tax cuts legislated to commence in 2024-25 should not proceed.

Budget impact: $0 million (*$18,000 million* in 2024-25)

Strengthen the Medicare Levy

Broaden the income definition of the Medicare Levy so that it is harder to avoid.

The income definition for the Medicare Levy is taxable income, which opens opportunities for taxpayers to avoid paying it by taking advantage of negative gearing arrangements, salary sacrifice, or the use of private trusts. The broader income definition for the high-income Medicare Levy Surcharge ('MLS income') restricts these tax avoidance opportunities. To strengthen revenue for health services, this broader definition should extend to the Medicare Levy itself.

Recommendation 47: Prevent avoidance of the Medicare Levy through tax shelters.

- From 1 July 2024, 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 using tax shelters such as private trusts, negative gearing or salary sacrifice arrangements.
- Revenue raised from this change should be earmarked for public expenditure on essential health and disability services.

Budget impact: $0 (*$1,300 million* in 2024-25)

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[42] Parliamentary Budget Office (2021), *Distributional analysis of the Stage 3 tax cuts*. Australian Government, Canberra

[43] The vast majority of those savings would come from retention of the 37% tax rate.

Introduce a three-tier Medicare Levy by removing the high-income Medicare Levy Surcharge exemption and simplifying it.

The high-income Medicare Levy Surcharge is designed to encourage uptake of private health insurance. Consistent with our proposal to abolish the Private Health Insurance Rebate (see *Chapter 10. Strengthen preventive health care and public health services*), we consider that people with high incomes should make a fair contribution to the costs of public health care services directly through the tax system rather than indirectly by taking out hospital insurance.

We therefore propose to remove the exemption for people with private hospital insurance and absorb the Surcharge into the Medicare Levy so that it (the Levy) is tiered according to income.[44] At the same time, we propose that the rate structure for the new tiered Medicare Levy be simplified, by:

- Retaining the exemption for individuals and families with low incomes;
- Applying the existing 2% rate (for those not exempted) to all individual income up to $120,000 per year;
- Adding a 4% rate for additional individual income above $120,000 (in place of the more complex rate structure of the Surcharge).

Aside from making tax returns simpler for most people who have partners, the proposed changes would only impact individuals on $120,000 or more (the top 20% of taxpayers) – requiring most to make a modest additional contribution to the cost of public healthcare services. That contribution would be an extra 2% of the portion of their income exceeding $120,000 – not 2% of their entire income.

Recommendation 48: Reform and simplify the Medicare Levy Surcharge

From 1 July 2024, remove the exemption from the Medicare Levy Surcharge for people with hospital insurance and simplify it by moving from a family-based to individual-based rate structure, for example:

- 2% of all individual income up to $120,000 and
- 4% for each additional dollar of individual income above $120,000.

Budget impact: Not available

Tax investment income more fairly and consistently

Households invest more in dwellings than businesses invest in plant and equipment. The result of our high levels of housing investment is growing prices rather than affordable housing for all. Through 2021 home prices rose by 22% (though they have declined somewhat since). Since January 2021 rents have risen by more than 10%.[45]

Our tax system encourages over-investment in housing and other assets that increase in value at the expense of more productive investments. Capital gains from investment in

[44] This would be implemented in conjunction with Recommendation 45 so that the income definitions for the Levy and Surcharge are consistent.
[45] Davidson P & Bradbury B (2022)*, The wealth inequality pandemic*, ACOSS and UNSW Sydney. Corelogic (2023), *Quarterly* rental *review, January 2023*.

housing, shares and other assets are taxed at half an individual's marginal tax rate, and these increases in personal wealth are only taxed when the assets are sold. This tax bias encourages speculative investments in assets, inflating their value and detracting from long-term economic development. It exacerbates boom and bust cycles in the economy, especially when, as now, interest rates are at very low levels.

The 50% CGT discount overwhelmingly benefits the top 10% of taxpayers, who receive two-thirds of all capital gains.[46] We propose that this concession be halved, so that three-quarters of capital gains are taxed. Rather than grandfathering this change (which would lock in existing investments), we propose that from July 2023 the tax rate on capital gains be progressively lifted 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). 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.

From January 2023, investors should no longer be able to claim deductions on those expenses until the investment yields a positive return (often through sale of the asset years later).[47] That is, 'negative gearing' of expenses relating to assets such as housing and shares (where individuals offset income tax on their wages and other income with deductions for fictional 'investment losses') should not be permitted. Investors could still claim deductions, but they 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.[48] This restriction would not apply to investment in an 'active business'.

Recommendation 49: Reduce the general CGT discount for individuals and trusts.

From 1 July 2023, the exemption of 50% of personal capital gains from CGT should be reduced from 50% to 25%, phased in over five years (reduced by 5% per year).

Budget impact: *$600 million* (*$1,200 million* in 2024-25).

Recommendation 50: Restrict deductions for personal investment expenses (negative gearing) so they can only be offset against income from the same class of investments.

- 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.

[46] Australian Taxation Office (2022), '*Taxation Statistics'.*
[47] 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
[48] Unlike the above change to CGT, grandfathering is appropriate here because otherwise some existing investors would lack the cashflow to pay the extra tax.

- This should apply to all new investments of this type entered into after 1 January 2024. Subject to appropriate anti-avoidance rules, existing investments would not be affected.

Budget impact: $0 ($700 million in 2024-25).

With rental vacancies at historic lows (especially in tourist areas) and advertised rents rising dramatically, people with low incomes are facing the worst rental housing crisis in decades and many thousands are at risk of homelessness. The situation is likely to worsen as migration levels rise and builders struggle to meet demand for new homes and extensions. Yet many rental properties are vacant for much of the year, and a growing share is rented to tourists (for example through AirBnB) as this brings higher returns than long-term leases.

Landlords may claim income tax deductions for expenses (especially interest payments on housing loans) for the portion of each year that a rental property is 'genuinely available for rent'. This restriction is notoriously difficult to enforce where the dwelling is used as a holiday home by the owner. The law was recently tightened to deny deductions for vacant land on which the owner planned to build a dwelling for rent. The same logic should apply to dwellings that are purportedly 'available for rent' but not currently leased. This would both ease the rental housing crisis and simplify and improve compliance with the income tax law.

We also propose that, as a temporary measure to ease the crisis (especially in coastal tourist regions), deductions should be denied for any portion of a year in which an entire dwelling is rented on a short-term lease as tourist accommodation. This would support the efforts of local councils in tourist regions to discourage landlords from renting entire dwellings to tourists to ease housing shortages for local residents and workers.

Recommendation 51: Ease the rental housing shortage and improve compliance with tax law by restricting deductions for investment properties while they are not on long-term leases.

- From 1 July 2023, restrict deductions for rental property investment expenses to portions of the year when the property is rented on a long-term lease (not only 'genuinely available for rent').
- From 1 July 2023 to 1 July 2025, deny deductions for rental property investment expenses for portions of the year in which an entire dwelling is rented out for short-term tourist stays rather than long-term tenancies or short-term accommodation for local workers.

Budget impact: Not available.

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).[49] 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 proposed changes would apply to private express trusts (both fixed and discretionary trusts), with exemptions like 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), 'Paradise Papers' (Bermuda), and 'Pandora Papers' (Cayman Islands and Samoa). In 2014, Australia was a prominent supporter of the G20 initiative to curb these practices by improving the transparency of beneficial ownership of companies and trusts. Seven years later, two independent progress reviews have found Australia has not complied with its commitments to improve transparency in beneficial ownership of companies and trusts.[50]

To encourage tax compliance and curb money laundering, 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 could be protected by exempting those trusts (but not related entities that are not themselves family trusts) from requirements to publicly list their beneficiaries.[51]

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[49] Review of Business Taxation (1999), *A tax system redesigned: More certain, equitable and durable* Treasury, Canberra.
[50] Group of 20 (2014), *High-level principles on beneficial ownership transparency* G20, Brisbane*; 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'*, OECD Publishing, Paris, at: https://doi.org/10.1787/9789264280069-en ; Financial Action Task Force (2018), *Anti-money laundering and counter-terrorist financing measures - Australia, 3rd Enhanced Follow-up Report & Technical Compliance Re-Rating* Paris.
[51] In 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.

In addition, private companies should be required to declare their beneficial owners to Australian Securities & Investment Commission (ASIC) and companies exempted from public disclosure requirements by previous grandfathering arrangements should be included.

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 so that they are taxed at their personal tax rate.

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.[52]

Recommendation 52: Curb the use of private trusts to avoid personal income tax and conceal income:

- From 1 July 2024, 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.
- Alternately, CGT should apply to untaxed and preferentially-taxed distributions to the beneficiaries of closely-held discretionary trusts, including distributions arising from asset revaluations.
- By July 2024, a public register should be established by the ATO 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, any beneficiaries that are not natural persons (for example other trusts or companies), annual financial statements, and (where the trust is not a family trust) all other beneficiaries together with a declaration from the trustee identifying all beneficial owners.

Budget impact: $0 (*$1,500 million* in 2024-25)

Recommendation 53: Curb the use of private companies to avoid personal income tax.

From 1 July 2024, 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 (*$1,500 million* in 2024-25).

[52] 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.

Curb international business tax avoidance

We welcome the new Government's commitment to tighten thin capitalisation rules so to curb profit shifting into low tax jurisdictions. This complements the previous Government's introduction of a Diverted Profits Tax and a Multinational Anti-Avoidance Law (MAAL).

More needs to be done, especially by improving the financial transparency of multinational companies operating in Australia.

Recommendation 54: Curb international business tax avoidance:

Base erosion and profit shifting by companies operating internationally should be curbed by making the following changes from July 2024:

- 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;
- Apply a special withholding tax to transfers of funds to secrecy jurisdictions that do not provide effective information exchange pursuant to international treaties.

Budget impact: Not available.

A royalty on offshore gas resources

Australia is not getting the economic benefit we deserve from exploitation of our gas resources. Although we are largest gas-exporter in the world, governments in Australia collect taxes and royalties from petroleum and gas mining at much lower effective rates than comparable countries such as Denmark, the Netherlands and Norway.[53]

We get the least value from our offshore gas resources since no state government royalties apply. Instead, the Commonwealth levies a Petroleum Resource Rent Tax (PRRT) on above-normal profits from petroleum and gas mining, but that tax is dysfunctional.[54] In 2021-22 it raised just $2.2 billion and is projected to raise less than that in three years' time. The PRRT has been under review since the Callaghan Report in 2017 but the problems identified then have still not been resolved.

In addition to reforming the PRRT, which could yield substantial revenue in future years, the government should introduce a 10% royalty on existing and future offshore LNG projects which are only subject to the PRRT. This would better align their tax treatment

53 Boue C (2017), *Upstream petroleum taxation in Australia in comparative perspective.* submission to Senate Inquiry into corporate tax avoidance. Oxford Energy Institute. Taxes and royalties for hydrocarbons contribute over$40 billion a year to public revenue in Qatar and one quarter of public revenue in Norway (Burke P 2023, *On the way out: Government revenues from fossil fuels in Australia*, TTPI Working Paper 16/2022 December 2022).
54 Kraal D (2017), *Australia's Offshore Oil and Gas Industry*, Austaxpolicy Tax and Transfer Policy Blog, 28 August 2017; Ward J (2018), *Submission to Australia's oil and gas reserves Senate Inquiry*. Centre for International Corporate Tax Accountability and Research.

with that of onshore oil and gas projects (including the North West Shelf Project) which are already subject to state government royalties of 10% or more. It would also bring forward revenues from offshore gas production while the PRRT is reformed, and improve revenue certainty, noting that royalties are offset against future PRRT liabilities.

Recommendation 55: A fair return for exploitation of offshore gas reserves:

From 1 July 2023, introduce a 10% Commonwealth royalty on offshore gas resources.

Budget impact: *$4,000 million* (*$3,000 million* in 2024-25).

Remove fossil fuel subsidies

The fuel tax offset for off-road use refunds the excise paid by businesses for fuel that is not used to transport goods or people on Australian roads. Its rationale is that the fuel excise is a user charge to fund public roads, so fuels used for other purposes should be exempted. This is questionable, especially when Australia will struggle to meet its carbon reduction commitments. Fuel taxation is a mechanism for generating general government revenue and reducing our reliance on environmentally harmful fossil fuels.

In *Chapter 3: Fair, Fast and Inclusive action on climate change*, we argue that fuel tax credits for off-road use increases carbon emissions and dampens incentives to improve energy efficiency and switch fuels.

Recommendation 56: Abolish fuel tax credits for off-road use:

From 1 July 2023, fuel tax credits for off-road non-agricultural uses should be abolished and tax credits for agricultural use should be reviewed.

Budget impact: *$7,000 million* (*$6,000 million* in 2024-25).

Increase budget scrutiny of tax expenditures and abolish those identified as wasteful or poorly targeted.

Most 'waste' in Commonwealth budgets lies hidden in 'shadow expenditures' on the revenue side of the ledger– tax expenditures for various social and economic purposes. In 2022-23, major tax expenditures were estimated to cost over $180 billion compared with $651 billion in direct expenditure. Major tax expenditures in 2022-23 include over $75 billion in CGT concessions, $52 billion in superannuation concessions and $11 billion for accelerated depreciation investment allowances.[55]

Tax expenditures attract much less scrutiny than direct expenditures, as revenue measures are usually considered towards the end of the annual expenditure review process. Expert bodies such as the OECD recommend that major tax expenditures be reviewed alongside related direct expenditures. For example, tax expenditures for superannuation should be considered alongside Age Pension expenses when reviewing retirement income policies.

55 Chalmers J et al (2022), op.cit.

We welcome the Government’s commitment to increase the visibility and transparency of the annual Tax Expenditure Statement. ACOSS recommends that it include for the first time detailed distributional analysis (by income and gender) of major tax concessions such as those for superannuation.

As a first step in removing waste from tax expenditures, we recommend that the formula for calculating the value of motor vehicle fringe benefits for Fringe Benefits Tax purposes be tightened to remove concessional tax treatment for ‘company cars’. This was announced, but not implemented, in the 2013 Economic Statement. ACOSS does not support the Government’s decision to remove FTB from salary-sacrificed electric vehicles (EVs) as this is an inequitable and efficient way to encourage their purchase. However, we note that if the standard formula for calculating the value of motor vehicle fringe benefits was tightened there would be more incentive to purchase EVs.

Tax concessions for executive share schemes are among the most inequitable tax breaks. They delay the taxation of fringe benefits in the form of free or discounted shares for years, saving people already on very high incomes many thousands of dollars in tax. The previous Government announced in the 2022 Budget that these fringe benefits would no longer be brought to tax when an executive leaves their employment. This decision should be reversed and consideration given to bringing employee share schemes into the Fringe Benefits Tax system, with an exemption for share ‘discounts’ of $1,000 or less.

The previous Government extended income tax deductions for COVID tests required for employment purposes. While this is fair as a general principle, it is not fair when people on the lowest incomes have to pay for COVID tests to protect themselves and their families from the disease. COVID tests should be freely available for people with low incomes.

Recommendation 57: Increase budget scrutiny and transparency of tax expenditures.

- The cost-effectiveness and fairness of tax expenditures should be regularly examined as part of the present expenditure review process, in conjunction with review of direct expenditures in each portfolio.
- The annual Tax Expenditure Statement should include detailed distributional analysis (by income and gender) of major tax concessions such as those for superannuation.

Recommendation 58: Remove wasteful and poorly targeted tax expenditures.

- Tighten the statutory formula for calculating motor vehicle fringe benefits to remove the tax benefit from salary packaging of cars, beyond charitable organisations.

Budget impact: $0 (*$400 million* in 2024-25).

- Do not proceed with the removal of the ‘cessation of employment taxing point’ for executive share schemes.
- Remove tax deductibility from COVID-19 test expenses and use the revenue savings to make COVID tests (PCRs and RATs) free for people who need them.

Budget impact: Not available at this stage.

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

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.[56]

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 promote healthy living.[57]

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. 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.[58] 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 59: Introduce a 'sugary drinks tax'

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 2024 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

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[56] 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.
[57] 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.
[58] 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 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.

fitness, fitness programs for children and young people, and a fresh food transport subsidy for remote areas.

Budget impact: $0 million (*$500 million* in 2024-25).

Recommendation 60: 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 2024 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 2024-25).

10. Strengthen preventive health care and public health services

Out-of-pocket health care costs in Australia are far too high. A recent report from the Grattan Institute found that in 2019-20 patients spent $30 billion on out-of-pocket medical costs - approximately 17% of national healthcare expenditure, among the highest in the OECD. High costs are deterring patients from seeking needed care.[59] In 2020-21 nearly half a million Australians missed out on seeing a specialist because of cost, and more than half a million deferred or did not fill a prescription because of cost. There are some gaping holes in our Medicare safety net which must be addressed, including the lack of a universal dental health scheme. There is also insufficient focus on the social determinants of health, and the role that affordable housing, adequate incomes and energy-efficient homes, for example, play in population health and wellbeing. Our health spending priorities are skewed towards the acute end, with insufficient investment in health prevention and promotion. For the duration of the COVID-19 pandemic, we need to invest in community-led health promotion to ensure that public health strategies are successful.

We welcome the Government commitment under the National Health Prevention Plan to lift expenditure on preventive health to 5% of the Commonwealth health budget by 2030 and urge the Government to prioritise establishment of the Prevention Fund in 2023. This should be complemented by reforms to tax policy settings to discourage consumption of sweetened beverages and tax alcoholic drinks more consistently to deliver public health benefits (see *Chapter 9: A fairer tax system that supports services, safety nets and economic development*). It is also vital that the Strengthening Medicare Taskforce ensures that primary health care reform delivers better access for people on the very lowest incomes. Finally, wasteful spending programs should be abolished, redesigned or replaced to reduce Budget costs, improve equity and contain price inflation.

Major recommendations

- Strengthen the oral health safety net through increased investment in public dental services ($500 million).
- Replace the Extended Medicare Safety Net with more effective and equitable initiatives to reduce out-of-pocket costs and contain price inflation, including public hospital outpatient services, bulk billing incentives and increases in the Medicare Benefits Scheme.
- Abolish the Private Health Insurance Rebate and redirect a portion of the $7 billion saved into the public hospital system.

59 Duckett, S., Stobart, A., and Lin, L. (2022). Not so universal: How to reduce out-of-pocket healthcare payments. Grattan Institute

Strengthen the oral health safety net

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 most people on low incomes, and many go without the treatment they need. This creates costs in our broader health system (with dental conditions the second leading cause of preventable hospitalisations), but also impacts on people's ability to live their lives, including to eat well, work and be engaged in their communities. Australia should begin the transition to a universal oral health scheme, funded by the Federal Government, by expanding existing public dental funding and access.

Recommendation 61: Increase funding for public dental services to meet the needs of eligible populations

Budget impact: -$500 million (-$750 million in 2024-25)

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 approximately $7 billion from abolishing the rebate in 2023-24 would be offset by a modest increase in demand for public hospital services.

Recommendation 62: Abolish the Private Health Insurance Rebate and reinvest $3 billion in public hospitals.

Budget impact: *$4,000 million* (*$4,200 million* in 2023-24)

Replace the Extended Medicare Safety Net (EMSN) with more equitable and effective mechanisms to reduce out-of-pocket costs

Poorly designed consumer subsidies such as the EMSN can exacerbate inflation in health costs and offer little benefit to people on lower incomes. An independent review of the EMSN found that less than 4 % of EMSN benefits go to the most socioeconomically disadvantaged 20 % of the population. This is because they struggle to afford the gap fees that enable them to reach the EMSN thresholds.[60] While EMSN benefit caps have

[60] 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.

helped to stabilise fees charged for specialist and allied health services, there is no evidence that this has resulted in a more equitable distribution of EMSN benefits across the income distribution. The last review of the Safety Nets was more than a decade ago. More fundamental reform is needed, including greater transparency for people on the outpatient fees charged by specialists and out-of-pocket costs to patients.

Recommendation 63: Replace the Extended Medicare Safety Net (EMSN) with more effective and equitable initiatives to reduce out-of-pocket costs and contain price inflation, including public hospital outpatient services, bulk billing incentives and increases in the Medicare Benefits Scheme.

Budget impact: Budget neutral[61]

Invest in community-led health promotion for COVID-19 public health response

The task of protecting everyone from the virus is far from over. If Australia does not want to endure further lockdowns and associated disruption, it is critical that we learn the lessons from the first phase of the rollout and better resource community-led health initiatives. This requires ongoing investment to continue their work into 2024. Such organisations must have financial security to continue to reach specific at-risk and under-serviced populations with evolving public health messages.

Recommendation 64: Provide targeted funding for community organisations representing key population groups to continue to deliver peer-led health promotion and education to their own communities to ensure that evolving health promotion and education messages about COVID-19 are reaching hard to reach and at-risk populations.

Budget impact: -$100 million[62]

Other relevant recommendations

- Introduce a 'sugary drinks tax (see *Chapter 9: A fairer tax system that supports services, safety nets and economic development*);
- Tax drinks consistently on the basis of alcohol content (see *Chapter 9: A fairer tax system that supports services, safety nets and economic development*);
- Remove tax deductibility from COVID-19 test expenses and use the revenue savings to make COVID tests (PCRs and RATs) free for people who need them (See *Chapter 9: A fairer tax system that supports services, safety nets and economic development*);

Centre for Health Economics Research and Evaluation (2011), *Extended Medicare Safety Net: Review of capping arrangements report 2011* CHERE, University of Technology, Sydney, Sydney.

[61] We propose that funding for the EMSN be redirected to the other proposed initiatives, in addition to drawing on the $750 million Strengthening Medicare Fund.

[62] Expenditure in later years will be determined by the trajectory of the pandemic.

11. First Nations communities

If governments are serious about improving outcomes for First Nations People, they must support local, community-driven solutions. The recommendations relating to First Nations communities in this submission are designed to support community-led reform. Building capacity in communities is critical to improve the quality of life and wellbeing.

ACOSS strongly supports the 'Uluru Statement from the Heart' to give First Nations People a say in the decisions that affect their lives with a constitutional voice to Parliament. 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.

The following recommendations – featured elsewhere in the submission – are priorities for reform with respect to policies, programs and services that affect First Nations People:

- 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: Investing in quality community services to help people in need*).
- Abolish mandatory income management and invest savings in community-led programs that support communities (see *Chapter 2: Build a social security system that meets need*).
- Develop a new national First Nations Housing strategy, supported by a boost to funding for Indigenous Community Housing Organisations (ICHOs) and a new inter-governmental remote housing funding agreement (see *Chapter 7: Make housing affordable for people with low incomes*).
- Invest up to $10,000 in energy efficiency upgrades and solar photovoltaic (PV) installations for public and community housing, including First Nations' housing dwellings (see *Chapter 4: Fair, Fast and Inclusive action on climate change*).
- 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 (see *Chapter 5: Building thriving, climate-resilient communities*).
- 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 (see *Chapter 6: Investing in quality community services to help people in need*).