



2012-13 Budget Priority Statement

Recommendations for the 2012-13 Federal Budget | ACOSS Paper 179

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Overview

In this submission, ACOSS outlines policy recommendations for consideration by the Federal Government in its 2012-13 Budget. The submission aims to resolve the tension between the Government's commitment to restore the Budget to surplus from 2012-13 and the urgency of social and economic needs not yet met, of key social and economic reforms not yet completed.

Our submission for 2012-13 builds on the Government's budgetary decisions in 2011-12. Last year, ACOSS urged the Australian Government to tackle waste and to give priority to some of those who are struggle the most. We were particularly pleased to see the Government's commitments to reduce the Fringe Benefits Tax concession for company provided cars and remove the tax offset for a 'dependent spouse' except where the partner is of mature age. We also congratulated the Government for its 2011 announcement to increase Family Tax Benefits for teenagers living at home in low income families, and to ease the Newstart Allowance income test for sole parents seeking part time jobs. Each of these policies had been advocated by ACOSS and was warmly welcomed.

There is no question that, through good economic stewardship, Australia has fared relatively well during the recent global economic downturn and our unemployment rate remains relatively low. However, it is also clear that, at the beginning of 2012, progress in reducing unemployment further has stalled, Australia's economic growth prospects are uncertain in the short term, and structural changes in the economy pose social challenges as well as economic ones.

Our priority for the 2012-13 Federal Budget remains to ensure that no person is excluded from the benefits of economic growth and prosperity and from the opportunity to fully participate in society. Some of the policy building blocks to meet this goal have been laid, including the commitment to introduce a National Disability Insurance Scheme, the emerging policy focus on employment participation for people excluded from the labour market, and last year's mental health reform package.

The glaring gaps in our national policy efforts to reduce poverty and exclusion include the inadequacy of income support and employment assistance for unemployed people, sole parents, young people and people with disabilities who rely on payments such as Newstart and Youth Allowance, the absence of a national scheme to guarantee affordable basic dental treatment for people on low incomes, and the growing crisis in the supply of affordable, secure housing.

Substantial public investment is needed to bridge these policy gaps, yet the Government has rightly resolved to tighten fiscal policy while the economy continues to recover from the downturn. The solution to this tension between resources and need is not to retreat from reform. It is to pursue it more comprehensively, with a sustained attack on wasteful expenditures and tax breaks.

We propose that modest additional expenditures of the order of \$3.6 billion in 2012-13 (\$7.9 billion in the following year) in key priority areas be funded by savings from tackling unfair, inefficient tax waste and tax breaks, and by implementing revenue strengthening reforms advocated by the Australia's Future Tax System (Henry) Review. This would save an estimated \$4.8 billion in 2012-13 and \$8.6 billion in the following year.

The resulting modest improvement in the budget bottom line (of \$1.2 billion in 2012-13 and \$0.7 billion in 2013-14) would assist the Government to restore the Budget to surplus.

This Budget strategy would lay the foundations for more sustainable Budget spending, and a more efficient tax system in future years, as well as promoting great social and economic fairness and an adequate standing of living for all.

Proposed new expenditures, which altogether would cost an estimated \$3.6 billion (\$7.9 billion in 2013-14), include the following:

- Raise the level of payments for Newstart Allowance, Youth Allowance and other Allowance payments for single adults and young people living independently of their parents by \$50 per week as recommended by the Henry Report (\$600 million);
- Double the number of places in the new wage subsidy scheme for long term unemployed people and substantially boost the resources available to Job Service Australia providers to work intensively with this group from present inadequate levels (which fund an interview every two months plus \$100 a month for training and work experience) (\$100 million in 2013-14);
- Develop a national population-based oral health program, in place of the Medicare Chronic Disease Dental Scheme and Teen Dental Program (\$500 million);
- Introduce a national comprehensive community based primary health care program (\$500 million);
- Establish an Affordable Housing Growth Fund to expand the stock of affordable housing, with a down-payment of \$750 million in the first year and increased and sustained long-term ongoing funding, and increase the maximum rate of Commonwealth Rent Assistance by 30% (around \$15 per week) to assist people on low incomes to meet rising rental costs (\$1,000 million);
- Properly index community services funding to cover unavoidable increases in costs and assist the sector to meet its equal pay obligations and recruit and retain quality staff (\$350 million).

Over most of the past decade, much of the fiscal proceeds of the mining boom have been squandered on poorly-targeted direct spending and tax expenditures instead of essential services. The following expenditure saving and revenue measures would cut waste and implement key Henry Review proposals to raise tax more efficiently in the future. Altogether they would raise \$4.8 billion in 2012-13 (\$8.6 billion in 2013-14):

- Remove the private health insurance rebate from ancillary health cover (\$500 million);¹
- Reform the tax treatment of private trusts to stem their use to avoid personal income tax obligations (\$1,000 million in 2013-14);
- Fairer and more consistent tax treatment of lump sum termination payments such as 'golden handshakes' (\$300 million);
- Abolish poorly targeted tax rebates and deductions including the Senior Australians Tax Offset, the Mature Age Worker Tax Offset, the deduction for self-education expenses, recreational boating concessions, and the Medical Expenses Tax Offset (\$2,000 million);
- Remove recently introduced Capital Gains Tax concessions for small business, which together enable individuals to permanently avoid tax on the capital gains from disposal of business assets (\$1,000 million);
- Tighten the 'thin capitalisation rules' to reduce opportunities for international companies to shift profits offshore (\$500 million).

In addition, we recommend (in line with the Henry Report) that the following poorly targeted tax concessions and direct expenditures be replaced by better-designed programs to improve assistance for those who need them most and to simplify them, at no cost to public revenue:

- Tax concessions for superannuation contributions should be restructured to make the system fairer and simpler, in conjunction with the proposed increase in Superannuation Guarantee contributions. This reform would roughly double the gains in retirement incomes for low income earners from higher compulsory contributions. It would cap poorly targeted tax breaks for the top 20% of taxpayers, who currently receive half of the benefits of \$16 billion in annual tax concessions for superannuation contributions.
- The Child Care Rebate should be integrated within the better-targeted Child Care Benefit, so that benefits are based on child care needs, reasonable costs and capacity to pay, together with a minimum level of assistance for all. This would increase subsidies for low and middle income families facing the highest costs and reduce the regressivity of present subsidies for 'gap fees'.

¹ This would be in addition to the Government's proposal to income test the rebate, which we support and is already factored into the forward estimates.

Community Services and Sector Development

Community services provide vital support for the health and welfare of all Australians. Their services span disability and aged care, child care, family relationships, homelessness and emergency accommodation, mental health and drug and alcohol, domestic violence, sexual assault, legal, emergency relief, financial counselling and child protection.

The Productivity Commission has estimated that the not-for-profit sector generated \$41 billion in 2006-07.² It noted that this was larger than the communications sector and comparable to the measured contribution to national income of the wholesale trade, transport and storage and government administration and defence industries combined. It is a sector that grew at more than twice the real growth rate of the national economy and provided 8.5% of total Australian employment. Community services make up a significant proportion of these figures, for example as the largest employer base within not-for-profit organisations.

Despite this major economic contribution, community services in Australia face a major challenge to their effectiveness, as they are routinely underfunded. The Productivity Commission found that governments themselves tend to fund only 70% of the costs of the services that they contract community organisations to provide. Government contracts have grossly undervalued inflation and so have driven a decline in funding in real terms, even as demand for services in many areas has increased. Inadequate funding has also led to workforce challenges in attracting and retaining the qualified, experienced community workers to deliver effective services. As governments have increasingly outsourced the provision of those services to community organisations, the drive for government savings has left the sector under-funded and facing increasing challenges to sustain the support they provide. Key indicators of this trend include the striking pay disparities between community service workers and comparable roles in the government and business sectors; and the increasing difficulties faced by the sector in attracting and retaining staff. Evidence to the equal pay case before Fair Work Australia indicates that there is still much work to be done to ensure wages for community workers enable qualified, experienced workers to support effective, viable service. While the equal pay case has the potential to increase award - and therefore *minimum* - rates of pay in parts of the country, that is still a far cry from the sector's capacity to pay 'market-based' wages as recommended by the Productivity Commission in 2010.

Additionally, the community sector is routinely sidelined from major national processes designed to support industry and innovation. Recent examples include the omission of community sector involvement in the Federal Government's Flood Taskforce following the Queensland floods and cyclone Yasi earlier this year; and the failure to fund community sector peak bodies to support services and their clients adapting to climate change under the Climate Change Grant Program.

² PC (2010) *Research Report into the contribution of the Not-for-profit sector*, Productivity Commission, <http://www.pc.gov.au/projects/study/not-for-profit/report>.

ACOSS reaffirms its strong recommendation for processes to be funded within programmatic budget allocations that facilitate better collaboration between Government and the community sector to redress these continuing problems. Key processes include:

- *Determining the policy settings for adequate funding of sustainable, effective community services.* ACOSS recommended this for the 2011 Budget and since then has engaged in sustained advocacy with the Commonwealth Government on this issue. Community services will be affected by significant reforms underway on many fronts, including equal pay, the national disability insurance scheme and aged care as well as the not-for-profit reform agenda. The absence of an adequate and consistent policy context to funding of community services undermines their effectiveness and the capacity to support and sustain these reforms.
- *Adequate rates of indexation in all funding to community services.* The persistent failure to pay adequate indexation has resulted in the erosion of government funding for community services over many years. ACOSS' 2011 Australian Community Sector Survey found the following average rates of indexation for government-funded community services³:

Average rates of indexation(%), government funding for community services, 2011

Commonwealth government	1.30
State or territory government	2.32
Local government	1.05

These averages are significantly lower than basic CPI, much less the pressure of rising wage and utility costs that are increasingly undermining the viability of services. Moreover, the Commonwealth Government does not have a consistent or adequate approach to indexation for community services even within its own departments, further undermining the capacity of services to budget and plan properly.

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

³ ACOSS (2011) *Australian Community Sector Survey*, http://acoss.org.au/images/uploads/ACSS_2011_Report_Volume_1_National.pdf.

- *Ensuring Government processes and budgetary allocations take account of the not-for-profit community sector.* From disaster relief to preparedness for social, economic and environmental change, it is vital that the community sector is well-represented and resourced to provide advice into Government processes on a range of fronts beyond direct service delivery, social policy and advocacy.
- *Incorporating the community sector within workforce development programs and policies.* Workforce development is a clear example of a current national process, funded by the Commonwealth, that is not adequately engaging with the community sector. Incorporating the community sector more fully within the programs already underway provides a vital low cost opportunity to support the significant contribution of this sector. Examples include: workforce mapping across major program areas to identify areas of skills shortages & their potential impact; improving access to affordable training for people seeking to work in community services, such as supporting community organisations in vocational education and training as registered training organisations; scholarships for under-represented groups including those with Aboriginal and Torres Strait Islander and Culturally and Linguistically Diverse backgrounds to increase employment opportunities in the community sector; seed funding to develop short training products that will potentially enhance practice in key areas such as cultural competency, collaboration and outcome measurement.

The development of the community sector is in the national interest and should be a priority for both its social as well as economic value.

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

Recommendation 1: That the Government ensure adequate funding for the delivery of community services, including appropriate levels of indexation for continuing funding.

Determining the adequate level of funding for effective community services, and maintaining that value through appropriate indexation, are vital steps to ensure the effectiveness of community services and the viability of this important sector.

Cost: \$324 million in 2012-2013⁴ (\$336 million in 2013-14)

⁴ Detailed work is required to establish accurate data on this point. Therefore this figure is a rough estimate on the price of appropriate indexation. It does not cover adequate funding across all community services; and it is indicative rather than reflective of accurate modeling.

Recommendation 2: That the Government ensure that processes designed to sustain and develop industry and support innovation incorporate community sector expertise.

This requires budgetary allocation in the development of programs to ensure community sector representation beyond social service delivery, policy development and advocacy.

Recommendation 3: That the Government implement an industry facilitation scheme to assist the development of an effective, sustainable community service sector.

The purpose of the package is to research, analyse and implement the requirements for adequately funded and sustainable community services. This work would entail analysis to determine adequate funding levels for the true cost of delivering effective services, including through the attraction and retention of quality workers; and working with community organisations to advise and implement new processes accordingly.

Cost: \$10 million in 2012-13 (\$15 million in 2013-14)

Recommendation 4: That the Government abolish the Child Care Rebate and increase the maximum rate of Child Care Benefit

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

Cost: Revenue neutral⁵

TOTAL COST: \$334 million 2012-2013 (\$351 million in 2013-14)

⁵ Savings from abolishing the Child Care Rebate should be re-directed towards establishing a minimum rate of Child Care Benefit and increasing the maximum rate.

Employment, Education and Training

The level of unemployment is estimated in the MYEFO to increase slightly to 5.5% by the middle of 2012. While this is still low by OECD standards, a majority of recipients of unemployment payments are unemployed long-term (over 12 months) and it will be harder to secure employment for them as unemployment is rising. Prolonged joblessness is socially corrosive, leading to severe health problems, family breakdown and the entrenchment of social exclusion in the worst affected communities.

In theory, the Job Services Australia (JSA) employment services system targets the most help towards the most disadvantaged jobseekers by paying providers higher fees to assist those in the highest 'streams' of assistance. A major weakness of the new system is that after 12 months of unemployment, most people will be offered a very low level of assistance because the Work Experience phase of the new system is seriously under-resourced. This is counterproductive, given evidence that suggests that the impact of intensive investment in employment assistance on employment prospects is greater on average for people experiencing long-term unemployment. Each unemployed person entering work experience attracts just \$500 in Employment Pathway Funds to purchase six months of work experience or training, together with funding for an interview every two months (up to \$700 per year). In its last Budget, the Government doubled this amount to \$1,000 for people unemployed for two years, but this will now have to finance 11 months of compulsory activity (up from 6 months previously - an average funding level of \$100 a month). This investment is inadequate to overcome the barriers to work of people unemployed long-term.

We propose that fees for the 'work experience phase' be approximately doubled, to the same level that applies to Stream 3 jobseekers in their first year of unemployment, as a first step to rectifying this problem. This means that the level of provider resourcing for long term unemployed people would be roughly equivalent to that for those assessed as most at risk of long term unemployment. In this way, assistance would be targeted to the most disadvantaged without incentives to providers to delay assistance until later in the unemployment spell.

A period of paid work experience in regular employment can significantly improve the job prospects of long term unemployed people. It can do so by reassuring employers that the jobseekers is capable of undertaking the work, and in the case of more disadvantaged jobseekers, by boosting their confidence, essential on-the-job skills and job search networks. One problem with previous programs of this kind is that they emphasised the filling of program quotas rather than employment outcomes. A further difficulty is that insufficient attention was paid to the transition from subsidised to unsubsidised employment. The most effective paid work experience programs are carefully targeted towards long term unemployed people (whose job prospects are relatively poor without assistance of this kind); and designed to transition them into mainstream employment and keep them engaged in job search rather than simply providing temporary work. International examples include 'transitional jobs' schemes in the UK and US; the former Supported Work Demonstration Program in the US; and the Danish work training scheme that combines paid work experience and training.

In its last Budget the Government reintroduced a temporary wage subsidy scheme for very long term unemployed people. This program will be administered by Job Services Australia providers and targets jobseekers unemployed for 24 months or more. It provides a subsidy roughly equivalent to Newstart Allowance for up to six months (12 months on a pro-rata basis in the case of jobseekers with a part time work requirement) for wages paid by a private sector or local Government employer on commencement of employment. These subsidies are designed to encourage employers to give very long term unemployed people a chance to demonstrate their capacity to perform the job. When carefully targeted and administered, similar programs in Australia and overseas have significantly boosted the job prospects of long term unemployed people at a cost that is little more than the unemployment benefit they would have been paid in the absence of the program. However, only 10,000 wage subsidies per year will be available. When a similar wage subsidy scheme was introduced in 2006, take up was low among employment service providers because the administrative cost exceeded the potential benefits of such a scheme when implemented on a small scale. We therefore propose that the scheme be scaled up substantially in its second year by doubling the number of places.

To assist more deeply disadvantaged jobseekers – those who need a higher level of on the job support to sustain employment, we propose a separate wage subsidy scheme, also administered by JSA providers, which fully subsidises a modest wage for a period of up to 6 months. This would be limited to public or community sector employers including social enterprises. Such employment would not be counted for the purpose of JSA outcome payments. Thus, providers would have incentives to refer jobseekers who are unlikely to obtain a job without the wage subsidy, and to work with the employer to improve their job readiness so that they have a better chance of securing an unsubsidised job on completion of the placement.

Recommendation 5: Improve employment assistance for long term unemployed people

The resources available to Job Services Australia providers in the new employment services system to assist long term unemployed people in the Work Experience phase should be bolstered by replacing the current fees paid to providers in that phase with those paid in respect of Stream 3 jobseekers in their first year of unemployment (currently up to \$1,100 in annual service fees and \$1,100 in annual Employment pathway Fund credits).

The period of compulsory work related activity for long term unemployed people that is funded through the Employment Pathway Fund in the Work Experience Phase should be six months each year.

Cost: \$100 million (\$150 million in 2012-2013)

Recommendation 6: Establish paid work experience for long term unemployed people

(1) The number of wage subsidies available for very long term unemployed people should be doubled in 2013-14 to 20,000 places.

Cost: \$30 million in 2013-14

(2) A paid work experience program that fully subsidises the wage for a period of 6 months' temporary paid employment in regular jobs should be established as a work experience option for jobseekers assessed by the provider as not yet ready for open employment, but significantly more likely to get a job if they participate in such a program. These placements would generally only be available within not for profit organisations and in an employment setting that is adapted to the needs of more disadvantaged job seekers (for example social enterprises). By 2013-14, 10,000 places should be funded in this program.

Cost: (\$300 million in 2013-2014)

TOTAL COST: \$100 million (\$480 million in 2011-2012)

Health

The opportunity to develop adequate, timely dental services to ensure universal access to dental care is of vital importance and currently the key priority in health for ACOSS. **Redirecting existing health funding towards a more equitable set of priorities in health** is fundamental to successfully addressing the ongoing and structural inequities of Australia's health system. In addition to universal dental care, these priorities should include adequacy and effectiveness of primary care; and effective investment in health promotion to shore up the value of our investment in health in terms of both outcomes and dollars.

One key to supporting better health through adequate and sustainable funding models is to share the fiscal responsibility more broadly across government. It is a reality of those experiencing poverty and inequality that poor health often goes along with barriers to employment and insecure housing or homelessness. Just as addressing poor health in this context relies on more than a medical model of care, so too the funding and programmatic support falls beyond the bureaucratic boundaries of health departments and should be a priority across Government.

ACOSS remains deeply committed to dental health as a vital and hitherto missing component of Australia's universal health system. A universal program should ensure that the cost of a comprehensive oral health check and a basic course of treatment are available to all every two years, with capacity for additional treatment when warranted by particular circumstances. The vast majority of dental funding provided by the Commonwealth Government is spent on the Medicare Chronic Disease Dental Scheme (MCDDS) and the Private Health Insurance rebate. Neither of these areas of expenditure has demonstrated effectiveness in improving oral health outcomes, nor in arresting the growing gap between the oral health status of people on low incomes, or living in regional, rural and remote areas of Australia and others. Yet the MCDDS remains a key program, and often the only program, through which people on low incomes are able to access dental care, as around 80% of MCDDS users are Health Care Card holders. Until and unless Australia is able to achieve universal access to timely, affordable and effective dental care, there will continue to be strong consumer concern about the proposed abolition of the MCDDS.

Adequate, sustained and evidence-based investment in community-based primary care is another priority if we are to successfully redress the current inequities in access to services and outcomes that entrench health disadvantages in this country. The development of Medicare Locals and Local Hospital (or) Health Networks in the National Health Reform Agenda is a key step here. However, ACOSS remains concerned about the adequacy of the investment so far, particularly in Medicare Locals. We are also concerned about the extent of engagement to date with the communities they are intended to serve. Medicare Locals will only work if they have a joint approach to population health planning on a geographical basis. We need to see better engagement with multidisciplinary health teams and with the non-government sector, particularly given that non-government health and community services are already providing support to those individuals and communities that miss out most from current services and improving health. The integration of oral health within primary

health care would also yield improved dental health outcomes, particularly for those currently missing out.

The continuing lack of integration is also a barrier to effectiveness for other Commonwealth priorities including the personally controlled electronic health records (PCEHR) and the options for Telehealth under the National Broadband Network. An efficient communications program for producing better community health outcomes would see more comprehensive funding in line with a consumer focus on primary care. If such a program included the intake and assessment system that feeds information into the PCEHR, it might become a useful tool for consumers' engagement with their own health, as well as a clinical aid for handover and improved communication between clinicians and consumers during periods such as entry to the health system, hospital discharge and transition to wellness/ rehabilitation services.

Integrating community services through primary health care is also vital if we are to implement the worthy objectives of the National Mental Health Strategy (NMHS). While the objectives set out in this strategy are commendable, the failure to implement them has been a consequence of the specialisation of mental health toward acute care and disparate servicing patterns across the states and territories. Despite the critical role of community-based mental health services, funding remains skewed towards hospitals, acute care and fee for service models. Current funding arrangements do not support the NMHS, with expenditure directed toward those already in the mental health system. By contrast, support for needs-based funding would distribute funds according to population health needs. Other social health and support programs have had significant budgetary tightening due to increased demand, creating further challenges for the development of new and effective programs to meet continuing unmet need.

Finally, we must secure continuing and adequate levels of investment in health promotion. This is not a panacea for current challenges in either fiscal or policy terms. While many health promotion programs promote health and save money, not all health promotion programs are effective. But there are considerable gains to be made through effective investment in health promotion and in furthering the objectives of good primary care, including in oral health promotion. In addition, the new Australian National Preventive Health Agency (ANPHA) is a key mechanism through which improved health can be achieved for people on low incomes missing out. It is vital that ANPHA engages with a wide range of interests in health beyond traditional medicine, including allied health, mental health and oral health professionals, and with the non-government and community services that are already working with some of the most disadvantaged individuals and communities in Australia.

With a tight fiscal environment and the search for savings to offset the significant spending implications of some much-needed reforms, ACOSS reiterates its commitment to the abolition of the 30% private health insurance rebate to ancillary services. In 2010-11, the Department of Health and Ageing estimated actual expenditure on this rebate at \$4,705,362 (based on the new program structure to be implemented 1 July 2011 by the Department). However, changes to the rebate announced in the 2009-10 Budget were expected to save approximately \$1.9 billion between 2010 and 2014; and this reform was reiterated in the 2011 Budget. The extension of the rebate to ancillary health care

services (as distinct from hospital care) is particularly hard to justify as this subsidy is even less likely to reduce the costs of providing public health care.

It is also unfair that high income earners are subsidised by the PHI rebate arrangements for services such as dental care, when public oral health services for people on low incomes are in such a parlous state. This cost to revenue could be more efficiently spent, and lead to superior health outcomes, if directed to additional capacity in public services where there is the potential for improved dynamic efficiency, by integrating information across the primary care sector, allowing for early detection of a range of preventable conditions.

Recommendation 7: The Government should develop a universal, population-based oral health scheme that improves access to timely, affordable and effective services for all in Australia. Acknowledging the significant workforce and distributional barriers, as well as funding, that need to be overcome to implement this recommendation, the scheme should be phased-in incrementally and through targeting of priority groups. It should begin with a universal children's scheme and adults on low incomes and in areas that are particularly poorly-serviced in terms of oral health currently.

Cost: \$2,900 million in 2012 – 13 (\$2,907 million in 2013-14)

Recommendation 8: Following the successful implementation of the previous recommendation, the Government should abolish the Medicare Chronic Disease Dental Scheme and Medicare Teen Dental Program.

Saving: \$543 million in 2012-2013 (\$603 million in 2013-14)

The revenue from these programs should be redirected to ensuring a universal scheme of timely, affordable and effective dental care in Australia. As the MCDDS was slated for abolition in 2011 Budget the saving in outer years is limited to the Teen Dental Program.

Recommendation 9: The Government should fund a national, comprehensive, community-based primary health care program.

Cost: \$720 million in 2012-13 (\$1,200 million in 2013-14)

Primary health care funding stream should be used as a way to improve dynamic efficiency by pooling funds and allocating them to support multidisciplinary teams, linking clinical services with allied health and associated community services. Funding should be needs-based, distributing funds according to population health needs with enhanced investment in outer years.

Recommendation 10: The Government should remove the 30% private health insurance rebate for ancillary cover.

Saving: \$1,062 million 2012-2013 (forward estimate unclear as projected impact of proposed means testing was not detailed beyond policy announcement)

The 30% private health insurance rebate should be removed from ancillary health cover from July 2011 and the revenue redirected to improving public health services and access to those services for patients in the public system, particularly those on low incomes or marginalised from services due to geographic isolation.

Total costs: \$3,620 million 2012-2013 (\$4,107 million in 2013-14)

Total savings: \$1,605 million 2012-2013 (\$603 million in 2013-14)

TOTAL COST: \$2,015 million 2012-2013 (\$3,504 million in 2013-14)

Housing and Infrastructure

The Labor Government has made important - indeed historic - policy and funding commitments to improve the availability of affordable housing and reduce homelessness in Australia.

Substantial additional investment was directed to affordable housing programs under the Nation Building Stimulus Plan (\$5.65 billion) and the National Affordable Housing Agreement (\$400 million). New housing programs were implemented, including the National Rental Affordability Scheme, First Home Saver Accounts, and the Housing Affordability Fund. The Government also made ambitious commitments to reduce homelessness. Its Homelessness White Paper, the Road Home, committed the Government to reduce homelessness and offer accommodation to all 'rough sleepers' by 2020. This was supported by a funding commitment of \$800 million over 5 years.

However, the Government had noted itself that the anticipated increase in public and community housing from the stimulus package was only about half of what is needed to meet the 2020 homelessness targets.⁶

Australia has amongst the most expensive housing in the world. Rents and mortgages are the biggest source of financial stress in many households. More than a million people on low incomes continue to experience housing stress, with housing costs exceeding 30% of household income.⁷ The majority of those in housing stress are in private rentals. Sixty five percent (65%) of people on low incomes who are in private rentals experience housing stress, with many of these households spending over half of their income on rent.

It is estimated that, as at 2007, there was a shortage of almost 500 000 affordable private rental dwellings available and affordable to people living on low incomes.⁸ Over the decade from 1995 to 2006, Australia experienced a decline in public housing stock of approximately 25,000 dwellings, offset only in part by some increase in community housing.⁹ This has led to lengthy, though tightly targeted, public housing waiting lists (at approximately 175 000 people in 2009).¹⁰ State Housing Authorities have also changed the way they register applicants for and distribute housing to prospective tenants. It is no longer useful to consider 'public housing waiting lists' since the introduction of needs based registers and allocations. The 2006 Census figures recorded 105,000 people as being homeless on any given night¹¹, and crisis accommodation services are turning away 65% of people who seek assistance.

⁶ Prime Minister, House of Representatives Hansard, Tuesday 3 February, pg 11-12

⁷ Ryanti Miarant and Binod Nepal, Housing Stress in Australia 2007, National Centre for Social and Economic Modelling, University of Canberra, 2008.

⁸ National Housing Supply Council (2009) 'State of Supply Report (2010).

⁹ Australian Institute of Health and Welfare, Australia's Welfare 2007, at 237

¹⁰ Australian Institute of Health and Welfare, Housing assistance data development series reports for public rental housing, community housing and state owned and managed Indigenous housing (cited in National Shelter, 'Housing Australia Fact Sheet', October 2010.

¹¹ ABS, 'Counting the Homeless 2006'.

Since the Federal Election in 2010, neither of the major political parties has announced new policy commitments to address housing affordability or reduce homelessness. And, since the return of the Labor Government, there has continued to be silence about additional commitments beyond those made in its first term. The emphasis has shifted to reforming housing assistance programs to make better use of private rental and on growing the community housing sector through a combination of stock transfer and leverage of private finance. ACOSS supports this direction as a partial means of growing affordable housing supply.

ACOSS has consistently argued that a long term commitment to the growth of affordable housing stock is needed to meet the high level of housing need in Australia.¹² There is a need to establish an Affordable Housing Growth Fund in order to expand the stock of affordable housing, with a long term funding strategy attached to the Fund. The National Rental Affordability Scheme (NRAS) which directly encourages investment in new affordable flats and houses should also be expanded. The Rudd Government had committed to doubling NRAS if the scheme proved to be a success as an important means for expanding low cost rental housing.

There is now an additional argument to boost housing supply through another round of spending on social housing programs in Australia. The building industry has been weakened due to the high cost of land and housing for home purchasers. The building industry has been greatly assisted by stimulus to social housing and through NRAS. Further spending would support the housing sector generally as well as rebuilding the supply of affordable housing and further developing the community housing sector in Australia.

Commonwealth Rent Assistance (CRA) is a non-taxable supplementary payment provided by the Australian Government to help with the cost of private rental housing. It is available to private renters, non-profit housing tenants and state/territory owned and managed Indigenous housing tenants in some jurisdictions who pay rents above certain levels. Commonwealth Rent Assistance (CRA) is received by approximately 1 million people.¹³

CRA currently subsidises a small fraction of rents in high rent locations, leaving income support recipients and people on low incomes to pay most of their rent from often inadequate incomes. Indeed, 32% of CRA recipients pay more than 30% of income on rent after CRA. However, without CRA, 59% of these households would pay more than 30% of income on rent. In the current market, CRA remains an important, though inadequate, measure to improve housing affordability.

¹² See, for e.g. ACOSS, Submission to Senate Economics Committee Inquiry into the Government's economic stimulus initiatives. Available at <http://www.acoss.org.au/Publications.aspx?displayID=4&subjectID=6>. See, also, ACOSS, The Contest for a Fairer Nation, ACOSS Paper 167, July 2010. Available at http://acoss.org.au/images/uploads/ACOSS_Election_Platform_2010.pdf

¹³ As at 8 June 2007, there were 943 718 income units entitled to receive CRA. See Steering Committee for the Review of Government Service Provision at 16.14.

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

Recommendation 11: Establish a long-term Affordable Housing Growth Fund

An Affordable Housing Growth Fund should be established with a down-payment of \$750 million in the first year with sustained increased long-term on going funding. This funding should be strictly designated for expanding the stock of affordable housing as part of the National Affordable Housing Agreement.

The fund should support Affordable Housing Programs providing a range of different levels of subsidy to meet the needs of households with different income levels. Program guidelines should enable housing providers to draw on a range of Affordable Housing Programs to deliver maximum affordability and provide mixed tenure developments.

Cost: \$750 million (\$1,000 million in 2013-2014)

Recommendation 12: Increase the funds for the National Rental Affordability Scheme

The funding to NRAS should be increased in order to help attract private funding for another round of 50,000 affordable rental properties. This funding should be provisioned for the 2013-14 Budget year and should ideally double the original funding commitment.

Recommendation 13: Review Commonwealth Rent Assistance and increase the maximum rate of CRA

CRA should be reviewed to ensure that it best meets the needs of people who are on low incomes. As a first step, the maximum rate of CRA should be increased from 1 January 2012 by 30% (approximately \$15 per week) for low income households currently receiving the highest rate of CRA.

Cost: \$250 million (\$600 million in 2012-13)

TOTAL COST: \$1,000 million (\$1,600 million 2013-2014)

Social Security

Unemployment payments (Newstart and Youth Allowances) were originally designed to tide people over a short period of unemployment. However, at times of relatively low and falling unemployment such as the present, those who remain on income support are among the most disadvantaged in the labour market. Of the 617,000 Newstart and Youth Allowance (Other) recipients in September 2011, over 60% (378,000) had received these payments for over 12 months, the majority for over than two years. Among these long-term recipients, 60% lack a Year 12 education or above. Among all unemployment payment recipients, around one in six (100,000) have a disability that prevents them from working fulltime and around one third (200,000) are over 45 years old.¹⁴

The maximum single rate of Newstart Allowance in December 2011 was just \$241 per week. The payment for unemployed young people living independently of their parents is \$194 per week. This is not enough to meet the most basic essential costs such as housing, food, clothing and transport costs to search for a job. Research into financial hardship indicates that unemployed people and sole parents face a much higher risk of hardship than most other groups in the community. For example 57% of Parenting Payment recipients and 28% of Newstart Allowance recipients could not afford to pay utility bills on time compared with 12% of all Australians. Over 40% of both groups could not afford dental treatment when needed.¹⁵

The real value of Allowance payments has not increased since the early 1990s, and they were not included in the \$32 per week in pensions announced in 2009. As a result, Newstart Allowance is \$131 per week less than the pension and Youth Allowance is \$178 less. Allowance recipients and those on Parenting Payments also miss out on the \$10 per week Utilities Allowance which assists low income households with rapidly increasing power bills. Aside from the inequity of different levels of payment for people with similar living costs, this gap between pension and allowance payments discourages many people on pensions such as Disability Support Pension from seeking employment, in case they lose the pension and end up on the lower payments. This gap increases every year due to more stringent indexation arrangements for Allowance payments.

The Henry Review of the tax-transfer system recommended that the single rate of Allowance payments be benchmarked to two thirds of the partnered rate, as was implemented for single pensioners in last year's pension reform package. This would require a \$50 per week rise in the single rate of Newstart Allowance, which should also extend to Austudy and Abstudy payments and the Youth Allowance for those living independently of their parents. Payments for sole parents on Newstart Allowance would also increase accordingly. As the Henry Report noted, there is room to increase these payments without significantly weakening work incentives. A single adult on Newstart Allowance who obtains a fulltime job at the minimum wage would double their disposable income.

¹⁴ ACOSS 2010, *Beyond stereotypes*.

¹⁵ ACOSS 2008, *Missing out, hardship in Australia*, ACOSS Info Paper – see www.acoss.org.au.

The Allowance income test reduces payments by 60 cents per dollar earned above \$70 per week. This makes part time employment uneconomical in most cases (especially when child care costs apply), which particularly disadvantages those whom the system expects to undertake part time employment – sole and partnered parents whose youngest child is of school age and people with a partial work capacity. The Henry Report recommended that consideration be given to easing the Allowance income test, at least for these groups. In the 2011 Budget, the Government announced an easing of the income test for sole parents on Newstart and Youth Allowance payments where their youngest child is of school age. However, this was not extended to partnered parents who are principal carers of such children or to recipients with a partial work capacity. The income test should also be eased for those groups.

Claimants of Newstart Allowance, Youth Allowance, Parenting Payment and Sickness Allowance can have their first payment delayed for up to 13 weeks if their liquid assets are above the threshold amount of \$2,500 for singles and \$5,000 for couples, pursuant to the Liquid Assets Waiting Period (LAWP). In the face of the global financial crisis in 2008 the Government temporarily doubled the amount that a person can have in savings before they are affected by the Liquid Asset Waiting Period. However, the original assets threshold was subsequently restored.

The LAWP operates in addition to the main assets test that applies to most assets apart from owner-occupied housing, and other waiting periods including the extra wait for retrenched workers with annual leave entitlements. The Henry Report recommended that the LAWP be abolished as it is unfair and inefficient to require unemployed people to use up practically all of their remaining financial assets before they are entitled to income support. Unemployed people need at least a modest a buffer of savings to enable them to meet lumpy expenditures such as car registration and new refrigerators without going into debts which they will be unable to repay.

Recommendation 14: Increase Allowance payments for single people by \$50 per week

The gap between base rates of allowances and pensions for single people should be reduced by increasing allowance payments for single people to the same proportion of the married couple rates as applies to pensioners. Single rates of Newstart Allowance and other Allowance payments including Austudy Payment, Abstudy Payment, the away from home rate of Youth Allowance, Widow Allowance, Partner Allowance and Special Benefit should be increased by \$50 per week, and the single Allowance rate for those with a dependent child should also be raised to this level, from 1 January 2013.

Cost: \$600 million (\$1,200 million in 2013-2014)

Recommendation 15: Ease the income test for Allowance payments for partnered principal carers of school age children and people with disabilities who are required to seek part time employment

To make part time employment worthwhile for partnered parents and people with disabilities on Allowance payments, from 1 January 2013 the main 'taper' rate in the personal income test for those recipients of Allowance payments should be reduced from 60% to 50%.

Cost: \$20 million (\$40 million in 2013-14)

Recommendation 16: Abolish the liquid assets waiting period for Allowance payments

The Liquid Assets waiting period for Allowance payments should be abolished from 1 January 2013.

Cost: \$50 million (\$60 million in 2013-14)

TOTAL COST: \$670 million (\$1,300 million 2013-2014)

Tax

Australia is the eighth lowest taxing country among the 30 OECD nations.¹⁶ Australians are not over-taxed, but they are taxed unfairly and inefficiently. The main problem is an array of tax shelters and loopholes that enable well off people to avoid paying tax at the appropriate marginal rate. This means that most Australians have to pay higher rates of tax than they would otherwise, to raise the same amount of revenue for Government benefits and services. It also undermines the integrity of the tax system and public confidence that everyone is paying a fair share of tax.

Individual taxpayers can reduce the marginal tax rates on their income by:

- sheltering income in a private trust;
- sacrificing salary for superannuation, which enables a tax-payer on the top marginal rate to reduce their tax rate from 46.5% to 15%; and
- taking advantage of the concessional tax treatment of termination payments such as 'golden handshakes', which in many cases are also taxed at the relatively low rate of 15%;

Businesses can reduce their tax by:

- in the case of international companies, shifting profits from Australia to other lower tax jurisdictions by maximising their Australian debt levels and their overseas profit levels (profit shifting);
- in the case of small business, taking advantage of Capital Gains Tax concessions not available to other taxpayers.

Many tax concessions (tax offsets and deductions) are poorly targeted, benefiting taxpayers who don't need this form of public support. These include the Senior Australians Tax Offset and Mature Age Workers Tax Offset which are based on age rather than ability to pay tax and discriminate against younger taxpayers; the deduction for self education expenses that discriminates against those who study to change careers; the deduction for recreational boating expenses introduced in 2007 (which can be offset against income from related commercial boating activities); the Medical Expenses Tax Offset that duplicates the role of direct expenditures such as the Medicare system and inflates medical costs; and the Health Insurance Rebate for ancillary medical expenses which is poorly targeted and a poor substitute for direct expenditures in health care.¹⁷

If these were removed or pared back, the Government would have more funds available to it to meet social needs in a better targeted way, for example by investing in schools, universities, and health and aged care services. If the Government subjected tax expenditures such as these to the same rigorous Budget scrutiny as its direct expenditures, it could save billions of dollars every year.

¹⁶ OECD 2010, Revenue Statistics.

¹⁷ The savings from this measure are costed in the Health chapter of this submission as it is also a direct expenditure.

Regular reviews of a large number of smaller budget items could save as much as the revenue savings from the handful of larger tax expenditures described below.

Further, we recommend that the proposed 50% tax discount on interest income of up to \$500 per year (\$1,000 in later years) be withdrawn and that this measure only be introduced if accompanied by a reduction in the tax discount for capital gains from 50% to 40% as the Henry Report proposed. The discount on interest income would then be set at 40% rather than 50%. The proposed tax discount on interest income is unlikely in its present form to have a significant impact on private saving. Crucially, it would not equalise the tax treatment of interest and capital gains which was the main goal of the Henry Report proposals. On equity grounds, this goal should be achieved by raising the tax rates on capital gains as well as lowering those on interest income.

If the above measures were introduced, this could save the revenue approximately \$4 billion in 2012-13 rising to approximately \$6 billion in 2013-14. This would assist the Government to restore the Budget to surplus without the need for harsh cuts in expenditure on important social programs. It would also make room for additional expenditure in priority areas identified in this submission.

Our proposal to reform the tax treatment of superannuation contributions has a different objective and is revenue neutral. It is designed to bring equity and efficiency to the taxation of superannuation, by targeting tax concessions for contributions towards low and middle income earners, who are more likely to rely on age pensions in retirement and less likely to save without tax incentives. The present tax treatment of superannuation – especially the flat 15% tax on employer contributions – is highly inequitable and inefficient. Almost half the value of \$16 billion in tax concessions for contributions goes to the top 20% of superannuation fund members. Employer superannuation contributions made on behalf of an individual in the top tax bracket attract a tax break worth more than 30 cents per dollar contributed, while contributions made on behalf of low income earners below the tax free threshold attract a higher rate of tax than they pay on their wages. The Government's proposed 'government contribution' for low income earners would remove this tax penalty from their superannuation savings but they would still receive no tax support for contributions made by their employers, including superannuation guarantee contributions. The main change proposed is to replace the flat 15% tax on employer contributions and other existing tax concessions for contributions with an annual capped rebate, along the lines proposed by the Henry Report. The main difference between this proposal and that in the Henry Report is that employer contributions would not be taxed in the hands of employees, rather tax would be deducted at each employee's marginal rate from contributions paid to the funds by the employer.

Recommendation 17: Existing tax concessions for superannuation, and the proposed Government superannuation contribution, should be replaced with a fairer and simpler superannuation rebate

From 1 July 2013 a two-tier co-contribution, paid annually into the relevant superannuation fund(s), should be introduced to replace all existing tax concessions Government contributions, and co-contributions for superannuation contributions. The rebate should:

1. Apply to the sum total of all contributions (whether compulsory or voluntary and regardless of source);
2. Be paid at the rate of 100% of contributions up to a low flat annual contributions ceiling (to boost superannuation savings for people on low incomes), plus 20% to 30% of additional contributions up to a higher flat annual ceiling (sufficient to encourage a modest level of saving beyond superannuation guarantee contributions by an employee on an average full-time wage).
3. Be limited to contributions that exceed any superannuation benefits paid in a given year, in cases where the fund receives contributions and pays benefits to the same member in the same year.

Income tax at each employee's marginal rate should be deducted by employers from all contributions forwarded to the employee's superannuation fund, with a reconciliation between the ATO and the fund at the end of each year, when the rebate would be paid into the employee's account.

Revenue neutral

Recommendation 18: The use of private trusts to avoid personal income tax should be curbed.

From 1 July 2013, tax-preferred income of private discretionary trusts should be taxed as capital gains in the hands of beneficiaries and measures should be implemented to prevent the trustees of private trusts from avoiding tax on income not distributed to beneficiaries each year and from re-characterising trust income distributed to beneficiaries into a form that attracts a lower rate of tax (for example capital gains).

Revenue: \$1,000 million in 2013-14

Recommendation 19: Lump sum termination payments should be taxed more fairly and consistently

From 1 July 2012, Employment Termination Payments such as 'golden handshakes' (but not superannuation or invalidity payments) in excess of the tax free limit for redundancy payments should be taxed at the employee's marginal tax rate instead of a flat rate of 15% or 30%.¹⁸

Revenue: \$300 million (\$400 million in 2013-14)

¹⁸ The Tax Free Limit for redundancy payments of \$8,435 plus \$4,218 per year of service is generally less than the present 'ETP cap' of \$140,000, above which ETPs are taxed at marginal rates.

Recommendation 20: Opportunities for international companies to reduce tax paid in Australia by increasing the debt levels of their Australian entities should be reduced.

The safe harbour debt limit in the 'thin capitalisation' rules for 'general entities' should be halved from 3:1 (3 parts debt per 1 part equity) to 1.5:1.

Revenue: \$500 million (\$1,000 million in 2013-14)

Recommendation 21: Recently introduced Capital Gains Tax concessions for small business should be abolished.

The following tax concessions for capital gains from the disposal of small business assets should be abolished from 1 July 2012:

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

Revenue: \$1,000 million (\$1,000 million in 2013-14)

Recommendation 22: Tax expenditures should be intensively reviewed each year by the Treasury and Expenditure Review Committee and certain poorly targeted tax deductions and offsets should be abolished from July 2012.

The following tax offsets and deductions should be abolished from 1 July 2012:

- Senior Australians Tax Offset
- Mature Age Workers Tax Offset
- Deduction for self education expenses
- Deduction for recreational boating expenses
- Medical Expenses Tax Offset
- Health insurance rebate for ancillary medical expenses¹⁹

Revenue: \$2,000 million (\$3,000 million in 2013-14)

¹⁹ This is costed in the Health chapter rather than this chapter as it both a direct expense and tax concession.

Recommendation 23: The proposed 50% discount of personal tax on interest income should not proceed.

The proposed 50% discount of personal tax on interest income of up to \$500 per year should be reduced to 40% and should only proceed if the tax discount for capital gains is reduced from 50% to 40% as proposed by the Henry Report.

Revenue: \$200 million in 2013-14²⁰

TOTAL REVENUE: \$3,800 million (\$6,600 million 2012-2013)

²⁰ Implementation of this measure has been deferred to July 2013 so the savings are less in the short term than would otherwise have been the case. If the original Henry Report proposal to reduce the tax discount for capital gains was implemented, the revenue savings should cover the cost of a 40% tax discount for interest income. It would then be appropriate to remove the annual cap on this tax discount as this could be done without any overall loss of equity or public revenue. The objective of aligning the tax treatment of these two forms of income would then be achieved.