



14 October 2009

Committee Secretary
Senate Standing Committee on
Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Secretary

**Re: Inquiry into Youth Allowance Changes/ Social Security and
Other Legislations Amendment (Income Support for Students)
Bill 2009**

The Welfare Rights Centre welcomes the opportunity to make submissions about Youth Allowance and student income support generally. The Centre is a member of the National Welfare Rights Network and a Community Legal Centre specialising in Social Security law and policy as well as Centrelink's administrative practice. Our submission is informed by our direct contact with clients including those in receipt of Youth Allowance. The Centre provides over 4,500 client advices each year.

Introduction

The Government has embarked on long-awaited changes to student income support arrangements, with the biggest overhaul to university education for nearly four decades. The Government's proposed changes were prompted by overwhelming evidence that the proportion of people at university from lower income households had fallen. It seemed that access to university education and a degree was slipping out of reach for many.

Much of what the Government announced received an enthusiastic response, including from the Welfare Rights Centre, particularly the reduction in the age of independence, the increase (and indexing to inflation) of the Parental Income Test and the easing of taper rates. The changes announced in the 2009-10 Federal Budget mirrored suggestions made by our peak body, the National Welfare Rights Network, in submissions to the Bradley Review and in its 2009/10

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Federal Budget submission. We note that the changes were announced in the midst of a financial and economic crisis and congratulate the Government for pursuing this positive agenda during this difficult economic climate.

A summary of the main changes announced are highlighted below:

- the age of independence for Youth Allowance would drop from 25 to 22 over the next three years.
- students would be able to earn up to \$400 a fortnight (up from \$236 a fortnight currently) before payments starts to reduce.
- students earning less than \$42,599 a year or less would now get the full rate of student income support (up from the previous parent income threshold of \$32,800).
- all masters-by-coursework students eligible to apply for Youth Allowance or Abstudy.
- all students starting university eligible for income support receive an indexed scholarship of \$2,254.
- students who have to drive more that 90 minutes from their family home will be eligible for a \$4,000 first-year scholarship and \$1,000 in later years.

In addition, students under 25 years of age were able under the old rules to claim the Independent Youth Allowance by demonstrating financial independence from their families. Independent status could be proved by:

- working part-time for at least 15 hours per week for at least two years;
- earning about \$18,850 over 18 months; or
- working 30 hours per week for at least 18 months in any two-year period.

From 1 January 2010 in accordance with this Bill, the first two would be abolished.

Missing element

First and foremost, the Welfare Rights Centre would like to emphasise that the Bill and the ensuing debate failed to focus on an obvious and missing element in the package. The actual level of Youth Allowance needs to increase. It remains at \$371.40 a

fortnight, despite the Bradley Review finding this amount to be too low, and one of the primary reasons behind students working long hours – putting their health, their studies (and the opportunity of a well - rounded student life) at risk.

The difficulty of “revenue-neutral” change

Unfortunately, the changes are “revenue-neutral” to be paid for by “gap year” changes to the independence criteria which are said to save \$1.8 billion over 4 years.

The criteria for Youth Allowance are to be tightened in order to thwart the practice of students from wealthier families obtaining welfare payments by taking a “gap year” to earn their way to independence. According to the Government, middle and higher income families were “rorting” the system of student income support. Almost one in two of students on the higher independent rate of Youth Allowance were from families earning in excess of \$80,000 a year, with 36% from families earning more than \$100,000 a year.

The Welfare Rights Centre also has concerns about potential “rorting” of the system and there are undoubtedly some such instances. However, the fact remains that the current independence criteria recognising work effort remains an important mechanism for many low and middle income, as well as rural families to gain income support.

Deferral of “gap year” changes

Welfare Rights notes that the Deputy Prime Minister, Julia Gillard, met with students in Canberra on 24 August 2009 and as a result proposed a deferral of this change. The deferral will cost an estimated \$150 million and is to be recovered by postponing plans to increase the amount of money students can earn each fortnight (from \$236 to \$400) without affecting their payments to 2012. Such a delay will adversely affect about 61,000 students who earn above the threshold. The amount has not been increased since the mid 1990s and is well overdue. By redistributing a limited pool of money, the Government has created a contest for a “bucket of money” inevitably creating “winners and losers” (see attached article from the September 2009 edition of the *rights review* published by the Centre).

Who will miss out?

Welfare Rights agrees that student income support is poorly targeted; however, we are concerned that some students in genuine need of income support may miss out. This will undermine the other positive measures in a package designed to ensure that a university education remains a viable and realistic option for Australians from lower socio-economic and disadvantaged backgrounds.

Students in rural and regional areas are two and half times more likely to defer than city students, often doing so for economic reasons. They also have fewer opportunities than their city counterparts of finding a 30 hour a week job to meet the remaining criteria for “independence”.

The Bill potentially limits choices for students living in rural and non-metropolitan locations who are required to relocate in order to attend the preferred tertiary institution.

Government figures indicate that there is a problem with falling levels of start and completion rates for young people from regional and rural Australia at universities. There is a risk that a poorly-calibrated policy change could make a bad situation worse, and even reduce opportunities rather than expand them.

Alternative policy options

Welfare Rights recommends to the Committee some alternatives to achieve the policy objectives of this Bill.

1. Under the new arrangements, as with the old, some parents may be in the position to offer “sham jobs” to their children and thereby bypass the rules. Such potential arrangements should come under greater scrutiny and be stopped as they could become even more attractive options under the new arrangements.

2. With regard to the changes to the independence criteria we note that the Government’s approach was shaped on the basis of research by Dr Bruce Chapman. That research analyses a sub group from a larger group of 58,000 students. It also only looks at students who are independent via work effort and living at home. In our view, there is an argument for better research and analysis of the figures to

inform changes which could have significant and lasting impacts upon the lives of large numbers of young people well into the future.

3. At a minimum, students should not be disadvantaged by a change of rules without prior warning.

4. From our perspective, one of the most significant issues for young people's ability to both commence and complete university education is the inadequate levels of payments. The issues of student poverty – particularly in light of increased pressure from large increases in the private rental market over 2007-08 – is a major problem and one which the Government cannot continue to ignore. Reports of young students going without meals and living in sub-standard accommodation are now a common occurrence in the media.

There is compelling and overwhelming evidence that low rates of Youth Allowance and Abstudy Payment forces students into excessively large amounts of paid work at the expense of focussed and dedicated participation in their academic pursuits and other aspects of campus life.

5. For a number of years Welfare Rights has drawn attention to the current policy with respect to reducing the rate of Rent Assistance by one third for many young people sharing accommodation. This approach places too many young people at risk of poverty.

We attach a copy of an article from the September 2009 edition of the *rights review* published by the Welfare Rights Centre.

Yours sincerely

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Director
Welfare Rights Centre, Sydney
Att: 1

