

Senate Community Affairs Committee
ANSWERS TO QUESTIONS ON NOTICE
DEPARTMENT OF SOCIAL SERVICES
Extent of income inequality in Australia Inquiry

Question Number: 1

Question: How many staff are there in the Policy Office?

Hansard Page: 3

Answer:

The Policy Office has 116 staff or 109 FTE, as at October 2014.

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Question Number: 2

Question: How targeted is Australia’s social security system?

Hansard Page: 7

Answer:

One indicator of how highly targeted our payments is given by the ratio of the amount of money in transfers we give to the bottom quintile to the amount we give to the top quintile. Australia gives over twelve times as much in transfer payments to the poorest fifth of households to the amount we give to the wealthiest fifth of households.

Figure 1: Top and Bottom Income Quintiles: Ratio of Transfers Given to Each

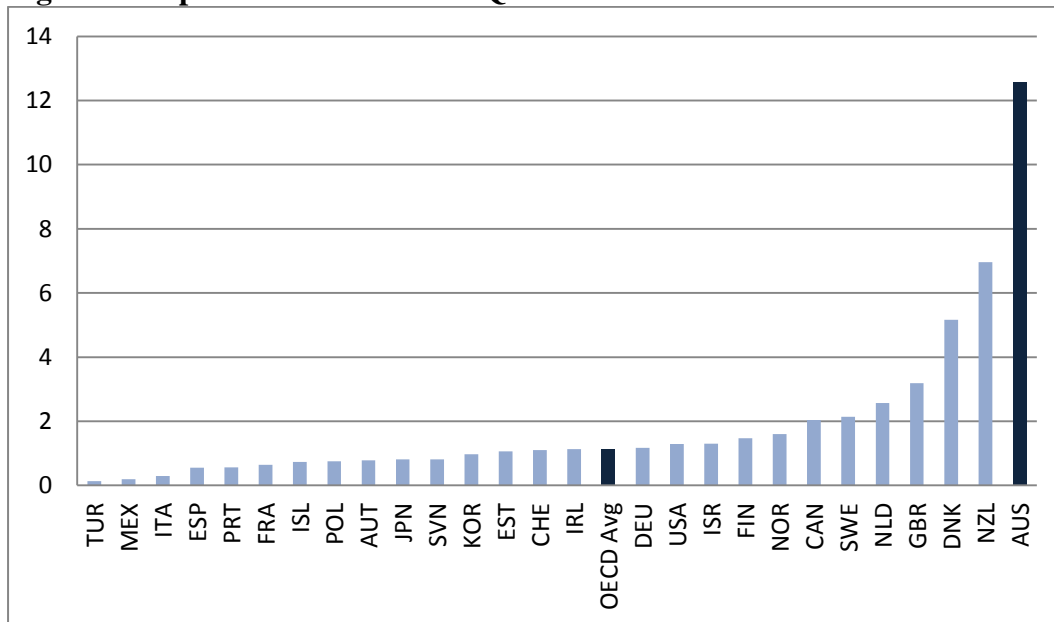


Table 1 shows how this figure is derived, as well as giving other indicators (such as the share of income received by quintiles as transfers) that indicate how targeted Australia’s system is compared to others.

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Table 1: Deriving Ratios of Transfer Payments to Quintiles

Country	Social Security Transfers as % of Household Disposable Income		Income Share of Quintile		Share of all Household Income Going to Quintile as Transfers		Ratio of transfers to top and bottom quintile
	A	B	C	D	E (=AxC)	F (=BxD)	G (=E/F)
	Bottom quintile	Top quintile	Bottom quintile	Top quintile	Bottom quintile	Top quintile	
AUS	71.6%	1.0%	7.1%	40.4%	5.1%	0.4%	12.6
OECD Average	56.9%	9.9%	7.8%	39.3%	4.4%	3.9%	1.1
AUT	64.5%	21.4%	9.4%	36.3%	6.1%	7.8%	0.8
CAN	50.6%	4.7%	7.5%	39.5%	3.8%	1.9%	2.0
CHE	58.1%	11.3%	8.3%	38.6%	4.8%	4.4%	1.1
DEU	67.5%	13.4%	8.7%	37.5%	5.9%	5.0%	1.2
DNK	86.9%	4.7%	9.7%	34.7%	8.4%	1.6%	5.2
ESP	44.8%	12.5%	6.1%	39.5%	2.7%	4.9%	0.6
EST	64.1%	11.8%	7.6%	39.0%	4.9%	4.6%	1.1
FIN	78.0%	14.4%	9.5%	35.0%	7.4%	5.0%	1.5
FRA	59.7%	20.4%	8.6%	39.2%	5.1%	8.0%	0.6
GBR	66.4%	3.7%	7.4%	41.6%	4.9%	1.5%	3.2
IRL	71.7%	11.8%	7.6%	40.8%	5.4%	4.8%	1.1
ISL	45.9%	16.5%	9.5%	36.3%	4.4%	6.0%	0.7
ISR	52.3%	5.2%	5.5%	42.6%	2.9%	2.2%	1.3
ITA	43.7%	28.8%	7.4%	38.6%	3.2%	11.1%	0.3
JPN	50.5%	10.1%	6.5%	40.0%	3.3%	4.0%	0.8
KOR	18.9%	3.4%	6.6%	37.9%	1.2%	1.3%	1.0
MEX	23.2%	9.1%	4.0%	51.5%	0.9%	4.7%	0.2
NLD	65.2%	5.9%	8.8%	37.8%	5.7%	2.2%	2.6

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Country	Social Security Transfers as % of Household Disposable Income		Income Share of Quintile		Share of all Household Income Going to Quintile as Transfers		Ratio of transfers to top and bottom quintile
	A	B	C	D	E (=AxC)	F (=BxD)	G (=E/F)
	Bottom quintile	Top quintile	Bottom quintile	Top quintile	Bottom quintile	Top quintile	
NOR	62.6%	10.6%	9.3%	34.3%	5.8%	3.6%	1.6
NZL	68.2%	1.9%	7.7%	39.7%	5.3%	0.8%	7.0
POL	54.6%	15.2%	8.0%	38.4%	4.4%	5.8%	0.7
PRT	49.4%	15.5%	7.3%	41.6%	3.6%	6.4%	0.6
SVN	57.0%	15.6%	9.4%	42.1%	5.4%	6.6%	0.8
SWE	83.8%	9.7%	8.8%	35.6%	7.4%	3.5%	2.1
TUR	17.8%	15.9%	5.6%	47.6%	1.0%	7.6%	0.1
USA	50.2%	4.9%	5.5%	43.5%	2.8%	2.1%	1.3

Notes for both Figure 1 and Table 1:

Calculated using the method from Whiteford (2007) using Tables 3 and 5 in Causa et al (2014). Data is drawn from the OECD Income distribution database.

Data not available for all OECD countries, and the period differs slightly between countries (2005-2010). Australian data is for 2009-10.

References

Causa, O. *et al* (2014): “Economic Growth from the Household Perspective: GDP and Income Distribution Developments Across OECD countries” *OECD Economics Department working Papers*, No.1111

At http://www.oecd-ilibrary.org/economics/economic-growth-from-the-household-perspective_5jz5m89dh0nt-en

Whiteford (2007): “Transfer Issues and Directions for Reform: Australian Transfer Policy in Comparative Perspective “ Paper for Melbourne Institute - Australia's Future Tax and Transfer Policy Conference.

At http://www.taxreview.treasury.gov.au/content/Content.aspx?doc=html/conference_report.htm

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Question Number: 4

Question: How does Newstart Allowance rate in relation to unemployment payments offered in other OECD countries?

Hansard Page: 8

Answer:

It is hard to compare unemployment benefits across developed countries. The tax/transfer system, payment design, economic conditions and population coverage all vary widely. This is especially so when comparing Newstart Allowance with other countries' unemployment benefits, as Australia has a markedly different benefits system. The Australian social security system does not rely on direct contributions from individuals or employers to provide for social security payments, but rather offers a safety net for Australians who are not able to support themselves, which is highly targeted, means tested and funded from general revenue.

Most OECD countries operate a two level system of social protection for the unemployed. In *social insurance* schemes unemployment benefits are paid at a rate according to the individual's past employment history and earnings. While the rate paid under these schemes is typically higher than Newstart Allowance rates, not all those unemployed qualify for them and those who do are paid them only for a limited time. For those who have not made sufficient contributions to qualify for unemployment insurance, or who have exhausted their time-limited insurance payment, assistance can be much less than Newstart Allowance.

Further, in Australia, supplementary financial help is often available to those on unemployment benefits, whereas this is not a feature most social insurance schemes. These supplementary payments, such as Family Payments, child care payments and Commonwealth Rent Assistance, recognise the extra living costs and caring responsibilities of selected groups of the unemployed. It is also important to note that social security payments sit alongside taxation arrangements, productivity initiatives, employment services and labour market strategies as part of an integrated package to support workforce participation objectives.

The simplest summary measure for international payment comparisons is the Net Replacement Rate (NRR). This is simply the ratio of the "cash in hand" someone on benefits has to the cash in hand (that is, after-tax earnings) they would have in a job. Clearly this varies according to their family and other circumstances, and with the choice of job to which it is benchmarked.

The OECD has extensively modelled NRRs for its member countries. Table 1 gives a summarised measure of replacement rates, averaged over four different family types, developed for the 2011 OECD Employment Outlook:

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Level of unemployment benefits by duration of unemployment spell

Net replacement rates at different points during an unemployment spell, percentage, 2009^a

	Year 1	Year 2	Year 3	Year 4	Year 5	Five-year average
Belgium	71.2	64.6	64.6	64.6	64.6	65.9
Denmark	72.6	73.4	73.4	73.4	9.7	60.5
Austria	61.8	58.7	58.7	58.7	58.7	59.3
Ireland	58.6	58.8	58.8	58.8	58.8	58.8
Portugal	79.3	78.9	55.7	38.9	4.7	51.5
New Zealand	50.8	50.8	50.8	50.8	50.8	50.8
Australia	49.1	49.1	49.1	49.1	49.1	49.1
Germany	64.9	49.4	43.3	37.1	37.1	46.4
France	67.3	67.3	30.0	30.0	30.0	44.9
Finland	60.1	57.8	32.5	32.5	32.5	43.0
Iceland ^b	66.9	64.4	64.4	8.9	8.9	42.7
Sweden	60.9	59.7	56.5	19.4	7.7	40.9
Norway	72.9	73.9	18.1	17.5	17.5	40.0
Spain	67.7	63.7	23.5	23.5	12.6	38.2
United Kingdom	33.0	32.6	32.6	32.6	32.6	32.7
Netherlands	72.6	61.0	5.3	5.3	5.3	29.9
Canada	61.9	15.5	15.5	15.5	15.5	24.8
Luxembourg	85.1	9.3	9.3	9.3	9.3	24.5
Switzerland	80.7	40.4	0.0	0.0	0.0	24.2
Slovenia	56.7	12.2	12.2	12.2	12.2	21.1
Hungary	45.9	12.9	12.9	12.9	12.9	19.5
Greece	53.2	10.1	4.4	4.4	4.4	15.3
Estonia	49.3	13.0	4.6	4.6	4.6	15.2
Poland	44.1	7.5	7.5	7.5	7.5	14.8
Slovak Republic	37.9	9.0	9.0	9.0	9.0	14.8
Czech Republic	29.7	8.8	8.8	8.8	8.8	13.0
United States	44.9	16.5	0.0	0.0	0.0	12.3
Japan	45.5	3.0	3.0	3.0	3.0	11.5
Italy	46.7	1.6	1.6	1.6	1.6	10.6
Turkey	45.3	0.0	0.0	0.0	0.0	9.1
Korea	30.4	0.6	0.6	0.6	0.6	6.6
Median	58.6	40.4	15.5	12.9	9.3	29.9

Countries are shown in descending order of the overall generosity measure (the five-year average). Calculations consider cash incomes (excluding, for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. To focus on the role of unemployment benefits, they assume that no social assistance or housing-related benefits are available as income top-ups for low-income families. Any entitlements to severance payments are also not accounted for. Net replacement rates are evaluated for a prime-age worker (aged 40) with a "long" and uninterrupted employment record. They are averages over 12-months, four different stylised family types (single and one-earner couples, with and without children) and two earnings levels (67% and 100% of average full-time wages). Due to benefit ceilings, net replacement rates are lower for individuals with above-average earnings. See OECD (2007a) for full details.

Source: <http://dx.doi.org/10.1787/888932480275>

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In general, results from the OECD benefit models show Newstart Allowance is, compared to the OECD average:

- Less generous to a newly unemployed single person with a work history (such a person would receive a large proportion of their previous wage in many countries).
- More generous to a single person on Newstart who has been unemployed for several years or who has not worked before (although treatment of this group varies especially widely across the OECD).
- Slightly less generous for a newly unemployed couple with two children (our generous means-tested Family Payments largely offsets the lack of a social insurance payment).
- More generous to the same family who has been unemployed long term.

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Question Number/s: 5, 6, 7

Question: How does the department measure poverty?
How does the department measure deprivation and persistence?
How does the department measure income inequality?

Hansard Page/s: 9-11

Answer:

The Department of Social Services' mission is to improve the lifetime wellbeing of people and families in Australia. The department understands poverty and inequality within the above context as indicators of reduced lifetime wellbeing. To understand poverty and inequality, the department relies on established measures of poverty, deprivation and income inequality.

It is important to note that poverty measures that focus on absolute and relative incomes are not comprehensive indicators of the means of households or individuals. The most useful way to use these types of measures involves measuring the distributions above and below the threshold of interest (the distance or gap between the threshold and where individuals are placed), and considering these results in the context of other measures of personal means and changes in circumstances over time. More comprehensive measures of means and circumstances may take into account objective measures of wealth, social connectedness, financial stress and time for available leisure, and subjective measures of wellbeing like life satisfaction.

Measures commonly used are:

Absolute poverty

- the Updated Henderson poverty line using the consumer price index
- the budget standard approach – measuring the minimum income needed to purchase a specific basket of goods and services considered by experts to represent a basic standard of living
- the food ratio method – the proportion of an individual's budget spent on food and other essential items.

Relative poverty

- 50 per cent of median equivalised household income
- 60 per cent of median equivalised household income
- The Updated Henderson poverty line using an index of per capita household disposable income.

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Deprivation

The department uses longitudinal surveys, like Household Income and Labour Dynamics in Australia (HILDA), to measure the persistence of deprivation. HILDA uses self-report of:

- inability to pay electricity, gas or telephone bills on time
- inability to pay the mortgage or rent on time
- pawned or sold something
- asked for financial help from family or friends
- asked for help from welfare or community organisations
- inability to heat the home
- went without meals.

Income inequality

- Gini coefficient
- Lorenz curve
- 80/20 ratio – the ratio of the income of the top 20 per cent of individuals to the income of the bottom 20 per cent of individuals
- 90/10 ratio – the ratio of the income of the top 10 per cent of individuals to the income of the bottom 10 per cent of individuals
- Share of income – a general measure of the share of income received by a particular share of the population.

Equivalence scales

Equivalence scales are used to standardise the incomes and assets of individuals for household size. The equivalence scales commonly used in Australia are:

- the OECD-modified scale
- the square-root scale.

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Question Number: 8

Question: How does the Department measure Emergency Relief?

Hansard Page: 9

Answer:

Emergency Relief services support many families and individuals across Australia that require immediate assistance and support in times of financial crisis.

In 2011-14, under the Financial Management Program, the Department of Social Services provided over \$180 million for Emergency Relief (ER) services to approximately 700 organisations covering almost 1,400 outlets across Australia.

As part of funding agreement obligations, providers complete a 6 monthly or annual report which includes service delivery data on the clients they assist. The Department of Social Services Annual Report includes detail on the percentage and number of clients that have their immediate crisis needs met.

It is expected that the Department's new DSS Data Exchange, which is progressively being implemented across programmes, will enhance performance reporting with a focus on service delivery outcomes, rather than outputs.

The Data Exchange will provide a streamlined approach to reporting to reduce red tape for providers, whilst also providing a reciprocal sharing of data to help inform and enhance service delivery.

ER services will be required to transition to the DSS Data Exchange by 1 July 2015.

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Question Number: 9

Question: How do the Department's grants processes make allowance for collaboration? Include general principles around the approach to grants management and working with civil society.

Hansard Page: 10

Answer: The Department has introduced a *New Way of Working* for grants that includes streamlined grant programmes, with less prescriptive Programme Guidelines, providing greater freedom for service providers to develop solutions to community needs. A copy of this diagram can be retrieved from the DSS website at www.dss.gov.au/grants/grant-programmes/dss-grants-a-new-way-of-working.

The new grant arrangements bring together 18 grants programmes from five former Departments into seven broad banded programmes. These programmes aim to reduce administrative burden and provide civil society with greater flexibility to address the service needs of individuals, families and communities.

The new grants processes support the Government's deregulation agenda and will reduce red tape for service providers, provide longer term funding security, reduce inefficiencies and duplication and provide greater opportunity for innovation and collaboration in the delivery of services.

DSS is committed to supporting civil society and acknowledges that many organisations have networks and collaboration processes in place to support a client centred service offer. The Department does not prescribe the requirements or parameters for collaboration. Service providers should determine the value of collaboration to themselves and their clients when identifying opportunities.

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Question Number: 10

Question: With respect to some of the issues around poverty lines, a report was released on Monday by the Curtin University that talked about, in fact, absolute poverty and using the 30 per cent median line or 30 per cent of median income. It showed that one million Australians are below that line. Do you have any comments or work looking at that level of poverty?

Hansard Page: 11

Answer:

The department is aware of the research recently released by Curtin University. The main measure used by the report (people with less than 30 per cent of median income) was designed to identify people in “severe” poverty.

The department notes that this measure represents a measure of relative poverty, and that most other organisations (such as the OECD) generally focus on 50 per cent or 60 per cent of median income to provide a general indication of relative poverty in a society. An organisation’s choice of which measurement to use is often arbitrary and fit-to-purpose. The department does not use a measure of 30 per cent of median income to measure poverty

While useful, this measure has some limitations as an indicator of severe poverty. For example, the indicator does not consider a range of other factors (such as access to assets, persistence and so on) as is noted in the Curtin report.

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Question Number: 11

Question: Has the Department met with Treasury to discuss productivity and inequality?

Hansard Page: 11

Answer:

The Department of Social Services meets with Treasury regularly on a wide range of issues. Productivity and inequality are underlying themes in many of our policy interactions.