

Department of the Prime Minister and Cabinet
Submission to the Senate Finance and Public Administration Legislation Committee
Inquiry into the Social Security Legislation Amendment (Community Development
Program) Bill 2015

The Community Development Programme (CDP), introduced on 1 July 2015, aims to assist people to gain the skills, experience and commitment necessary to find paid work where it exists, and in absence of work enables people to participate in continuous CDP activities intended to benefit the community. Activities are flexible and tailored to suit individual and community needs. Job seekers have access to hosted placements and employment incentives and more funding goes towards developing enterprises in communities with the aim of supporting local business and creating jobs. CDP includes employment incentives, incentives to establish businesses and access to vocational training and support to address pre-employment barriers such as drug and alcohol problems.

Steady progress has been made in the last six months to reduce welfare dependency in remote communities. Around 60% of eligible job seekers are now placed in activities and being actively serviced by CDP providers, the reported rate of attendance has increased five-fold and job placements are rising.

Notwithstanding these changes, outcomes suggest that current incentives within the income support system need to be stronger for those in remote communities to drive the behavioural changes needed to get people active and into work. The reforms proposed in the Social Security Legislation Amendment (Community Development Program) Bill 2015 (the Bill) are intended to address this. The rights and obligations of job seekers will remain fundamentally the same. The proposed changes will however provide for a simpler, more immediate compliance framework with stronger incentives; income support arrangements tailored to address the unique challenges of employment in remote communities; and greater responsibility and key areas of decision making in the hands local organisations that know and understand the job seekers they work with, and the communities they belong to.

Introduction

The Social Security Legislation Amendment (Community Development Program) Bill 2015 (the Bill) proposes to amend the *Social Security Act 1991* and the *Social Security (Administration) Act 1999* to strengthen incentives for job seekers in remote Australia to actively engage with their income support activity requirements and provide more opportunities to participate and remain in paid work. The measures will apply to all job seekers who reside within remote income support regions across Australia.

This Bill will not change the eligibility criteria for income support, the maximum basic rate of income support a job seeker is entitled to receive, the hours of obligation they must undertake nor the substantive protections afforded to them under current review and appeals processes. These will remain consistent with the national framework and the existing rights and obligations provided under the social security law. The intent of these changes is not a reduction in current levels of service or financial saving to the budget. Rather, the proposed changes are designed to reinvest compliance penalties into communities, to increase employment and economic development opportunities.

The reforms will not increase complexity for providers and job seekers. Local service providers will be the primary point of interaction with the system for job seekers. They will work with the job seeker so that they clearly understand their income support payments, their activity requirements and the consequences of non-attendance; manage compliance and make relevant income support payments. With local understanding of job seekers, and the greater responsibilities afforded to them under the proposed reforms, local service providers will be better placed to assist jobseekers to navigate the system. Government will retain backroom responsibility for assessing eligibility for income support, setting entitlements and hours of mutual obligation, and adjusting entitlements based on earnings. Providers will only interact with one system, which will be simpler and more streamlined.

The Bill will establish a framework for remote Australia to enable:

- weekly income support payment arrangements for remote job seekers administered by local service providers with a permanent presence on the ground;
- simpler, more immediate compliance arrangements for remote job seekers which will also be administered by local CDP providers;
- job seekers to earn up to the minimum wage while continuing to have access to full income support contingent on their attendance at activities;
- money resulting from no show no pay penalties to be invested in economic and community development in remote communities through the creation of a Community Investment Fund; and

- the scheme to be phased in, on a region by region basis, with regions to be agreed by Parliament through a disallowable legislative instrument.

The Bill will not reduce the level of Parliamentary oversight in relation to the social security law or the protections that this provides to job seekers. Compliance arrangements will be determined in a legislative instrument subject to the usual rules for possible disallowance by either House of Parliament. In relation to the determination of remote income support regions, the Minister must consider service provider capacity and fulfil the consultation requirements under the Legislative Instruments Act before the relevant legislative instrument is made. Again, this instrument would be subject to disallowance by either House of Parliament.

The issue that will be addressed by the Bill

The Bill applies to remote areas of Australia currently serviced by the CDP. In total, this covers around 76 per cent of the geographical area of Australia but only around 5 per cent of Australia's job seekers. The provision of employment and participation services in remote areas is challenging. A high proportion of the communities in remote Australia have very weak or non-existent labour markets (in particular for full-time employment) and private investment, limited access to broader markets and often land tenure arrangements that restrict private investment and economic development. These conditions result in very few job opportunities. Even if all jobs in remote communities were filled by job seekers there would be a significant labour over supply. For example, in the larger remote communities in the Northern Territory, if every job was taken up by the job seekers in that community the employment rate would still only be half of the national average. In both Wadeye and Galiwinku, even if every current job went to local Indigenous jobseekers the Indigenous employment rate would still be under 35 per cent.

While some locations in remote Australia have high employment rates, the remote area covered by CDP has a greater concentration of regions with low employment than the rest of Australia. Over a quarter of the areas¹ within the CDP region have employment rates of 50 per cent or less. This is compared to 2.1 per cent of the rest of Australia.

As a result, many people in remote Australia are moving onto welfare payments at a young age and are staying in welfare for extended periods – sometimes for life. Over 20 per cent of CDP areas have 40 per cent or more of their working age population reliant on welfare. The equivalent proportion for the rest of Australia is only 2.4 per cent.

¹ 24 of the 93 Statistical Area 2s (SA2s) (25.8%) that cover the CDP region. The Statistical Area 2 is a geographic unit used by the Australian Bureau of Statistics for reporting Census and other data. These figures are from the 2011 census; the employment rate does not include Community Development Employment Program (CDEP) jobs.

There is evidence that welfare reliance impacts on:

- Community safety - Centre for Aboriginal Economic Policy Research studies show that, other things being equal, Indigenous people who are unemployed are more likely to be the victim of violence or to be arrested.
- Health - Modelling by the Australian Institute of Health and Welfare tells us that lower employment among Indigenous people accounts for around 20 per cent of the health gap between Indigenous and non-Indigenous Australians.
- Crime - According to the 2008 National Aboriginal and Torres Strait Islander Social Survey, 25.2 per cent of all Indigenous males aged 35 and above in remote areas and 24.0 per cent in very remote areas reported having been incarcerated at some time in their life.
- Disadvantage - According to Socio-Economic Indexes for Areas 2011 (SEIFA), of the most disadvantaged 1 percent of areas in the country, 95 per cent fall in parts of remote Australia that are serviced by the CDP.

The framework set out in the Bill will amend welfare arrangements so that there are more incentives for job seekers to take on the type of work that is available in remote communities, in particular part time and intermittent work. Where work is not available, the proposed changes will create a simpler set of incentives to encourage job seekers to participate in community activities through the CDP. These activities help job seekers gain the skills, experience and confidence needed to move from welfare to work as soon as possible, while at the same time making a positive contribution to the local community.

Current arrangements

On 1 July 2015, the Minister for Indigenous Affairs announced the introduction of the CDP. The CDP is designed to deliver better opportunities for remote job seekers and foster stronger economic and social outcomes in remote Australia. The programme provides job seekers aged 18-49 with opportunities as part of their mutual obligations to participate in a broad range of community activities, pre-employment training and support or work experience. Employment incentives are available to encourage demand for remote workers, as well as funding for commercially sustainable Indigenous Enterprises to start up or expand in remote communities. Financial incentives have been improved to ensure providers are genuinely meeting the needs of job seekers.

Since the introduction of CDP there has been a large increase in the number of job seekers engaged in activities. Quality Work for the Dole activities are designed in collaboration with communities to meet the aspirations, capacity and needs of individuals, and wherever possible, community priorities. The programme offers significant flexibility in the design of activities to be tailored to unique circumstances and to harness

local opportunities. Under the CDP, a job seeker can access activities that are tailored to their needs and builds a set of skills and experiences that provides them with a pathway to real employment. Support services such as language, literacy and numeracy programs are available to assist the job seeker to overcome vocational and non-vocational barriers to employment. This support can include individual and group activities, hosted placements in real workplaces and employment.

Before the introduction of the CDP only around 40 per cent of job seekers were placed in structured activities and regular attendance was estimated to be as low as 5 per cent. In the first six months of the CDP the number of job seekers placed in activities and being actively serviced by CDP providers has risen to 70 per cent. Communities are experiencing the benefit of having people engaged in projects such as community crafts, school beautification through to furniture making and constructing bus shelters. Job seekers will undertake training that is linked to a job or an activity, attend rehabilitation and participate in numeracy or literacy programmes that assist in addressing barriers to employment. While attendance rates have improved, the pattern of attendance is sporadic and remote job seekers are not receiving the full benefits that the CDP has to offer.

Tailoring employment and participation services in remote Australia

Effective employment services require tailored compliance schemes that create incentives for job seekers to engage with their mutual obligations in a way that builds individual skills and contributes to their community.

Job seekers in remote Australia are subject to the national job seeker compliance framework. This framework is designed to work in the circumstances that apply to the majority of Australians who live in cities and large regional centres. It is not well suited to the needs of remote job seekers.

There are 39 organisations delivering CDP across 60 regions in remote Australia. Over 60 per cent of these are indigenous organisations. The Department is committed to supporting the development and capacity of Indigenous organisations through the programme and works closely with providers and the communities that they service, on a day to day basis. The Department receives consistent feedback from communities and provider organisations that:

- The current national job seeker compliance arrangements are failing providers and their communities.
- Current arrangements are too complicated and not easily understood by remote job seekers which means that behavioural change happens slowly, if at all.

- The current compliance system lacks the necessary agility and immediacy to overcome the pervasive welfare reliance in remote Australia. Jobseekers experience long delays from having to interact with a compliance system that is run from major cities potentially thousands of kilometres away.
- Communities want arrangements that better combine income support with employment opportunities and community development projects, with sufficient community control to ensure participation can be maximised.

In practice, the three main issues with the current system are that remote job seekers do not immediately feel the impact of non-compliance, there are limited incentives to transition from income support into intermittent work and decision making is not made locally and feels inconsistent and removed from the local context.

The Bill makes changes to remote income support arrangements that build on the existing CDP model, while aiming to rectify these three critical shortcomings of the current system.

Weekly payments and simpler, more immediate compliance arrangements

Remote job seekers do not currently experience a tangible link between attending activities and receiving income support. Under the CDP, job seekers' mutual obligations are focused on engaging the job seekers in their communities through continuous work-like activities. Immediate and easy to understand financial penalties for non-attendance in activities are necessary if CDP mutual obligations are to be effective in assisting job seekers to build the skills, experience and confidence they need to move from welfare to work as soon as possible, and to actively and positively contribute to community life.

Financial penalties are an important tool in achieving attendance in appointments and activities. Currently, when no show no pay penalties are applied, the penalty cannot be deducted from the job seeker's next fortnightly income support payment and there is often a five week or more delay before the penalty is felt. In remote Australia, where contacting a job seeker is difficult for decision makers based outside the community, longer delays are the norm.

The Bill makes it possible for penalties to be applied in the same week by a locally based decision maker with direct and more immediate access to job seekers. This more immediate relationship between payments and attendance is designed to encourage job seekers to attend more of their activities so that they incur fewer penalties.

The delayed and unpredictable application of penalties can make it difficult for job seekers to plan and prepare for changes to their income support. The penalty framework in the current system too often creates

'flood and famine' in the family budgets, with many remote job seekers having little understanding of the reasons behind the variations. For many remote job seekers penalties feel arbitrary and unrelated to their behaviour.

As a result, behaviour is not changing. This is indicative of an historically high trend in non-attendance and disengagement with employment services in remote Australia. At end of June 2015, 22% of all financial penalties nationally were applied to Remote Jobs and Communities Programme participants. In early July 2015, less than 5 percent of the CDP caseload attended their activity. By the end of December attendance had improved but was still tracking low, at just under 25%. Despite the increase in application of penalties under CDP, attendance in activities remains disproportionately low.

The Bill introduces a framework to enable simpler payment and compliance arrangements to be determined under a legislative instrument to assist job seekers to more easily understand and comply with their requirements and to avoid financial penalties. Under the proposed arrangements, local providers will be ultimately responsible for compliance decisions and for making income support payments (including the basic rate and any associated supplements except for those paid quarterly or annually in lump sums) to job seekers on a weekly basis, removing delays and some of the current complexity of the system.

Income thresholds

In remote Australia, employment opportunities are often short term or intermittent because of weak and variable economic conditions, due in part to seasonal weather patterns and low population densities. Current social security arrangements are not designed to support job seekers to move in and out of this type of intermittent work. Without intermittent work, there are few opportunities for jobseekers to gain the experience and skills that could lead to ongoing employment.

The current system is very complex. This makes it difficult for job seekers with typically low levels of financial literacy to understand the impact that taking paid work will have on their income. Job seekers can earn \$102 per fortnight before their income support begins to reduce at a rate of 50 cents for each dollar above the threshold. There are different thresholds and rates at which income support is reduced for other types of payments and depending on whether the jobseeker has a partner and how many children they have. Work credits can increase the income thresholds temporarily but are difficult to track, making payments unpredictable. Taking a job also triggers regular and complex reporting requirements. Failures to report and delays in processing result in unpredictable dips or suspensions in payments, followed by long waiting periods before payments are restored. These reductions can occur weeks after wages have been received and spent. The result is that job seekers find it easier to stay on income support than take temporary work.

In remote Australia, around 30 percent of job seekers live in households with another income support recipient. Partnered jobseekers can have their income reduced if either one of them earns above the (partnered) income threshold for even a short period. If there is not agreement within the household about how income is to be shared, this can create conflict and further disincentives to work. For example, mothers may discourage their partners from working if this reduces the money they have to manage the family budget. Given Indigenous women in remote areas are much more likely to be hospitalised for assault than those in the major cities and regional areas² there are strong grounds for reducing women's financial dependency on their partners.

The current system creates other disincentives to work. Jobseekers who work even a small number of hours are no longer required to participate in community development activities but receive full income support. In remote Australia, where incomes are generally low, job seekers quickly discover that they can achieve the best income-for-effort by working just a few hours and being exempt from mutual obligations. They have little incentive to move off income support as they would have to work a lot more hours and would not be that much better off. Other options for increasing incentives to work, such as providing extra work credits, are also complex and create earning traps that mean there is little incentive to do additional work and come off income support.

The Bill will make it easy for job seekers to move between welfare and work. The Bill will increase the amount an individual can earn – up to minimum wage - before their income support payment starts to reduce. Jobseekers will also have an obligation to participate in community development activities so long as they remain on income support. This means that jobseekers will no longer have the option to stay on a few hours of paid work and receive full income support without any obligations to contribute to the community.

Together these changes mean that if a job seeker works instead of participating in a CDP activity on a particular day, then they will lose income support for the time missed. However the higher threshold means that jobseekers will continue to receive income supplements and managed income regardless of their participation in CDP activities. The higher threshold also means that jobseekers can do more paid work without this affecting their partner's income.

The result is an intuitive system that allows jobseekers to easily understand the income they will receive. Below the (high) threshold, the income support that a jobseeker receives will depend on their participation in community development activities. If a jobseeker participates for their full 25 hours they will receive their full income support, regardless of the number of hours of work they do as well. Jobseekers earning good

² 3 per 1,000 in major cities, 2.5 per 1,000 in inner regional, 8 per 1,000 in outer regional, 23 per 1,000 in remote, and 18 per 1,000 in very remote areas.

wages may decide to reduce their participation in CDP activities and receive less income support. Job seekers will be able to easily attribute any changes in their income to their hours of work or participation in a CDP activity. For earnings below the much higher threshold, remote jobseekers will no longer have their income support reduced by Centrelink in line with complex thresholds, work credits and taper rates.

Job seekers' take home pay will depend on their wage rate and whether they work on top or instead of their CDP activity. It will also depend on the compliance arrangements to be set out in the disallowable legislative instrument. In developing these arrangements, the Government will ensure that all job seekers have strong and comparable incentives to work, and that jobseekers' access to welfare is not eroded.

Local decision making

Under the proposed arrangements, the Australian Government remains responsible for the delivery of income support. The Department of Human Services (DHS) would retain responsibility for receiving, processing and determining claims for all aspects of a job seeker's payment. DHS would also retain responsibility for income managed payments. The Department of the Prime Minister and Cabinet would be responsible for reviewing CDP provider decision making on payments and compliance.

The proposed reforms enable the Government to engage local providers to make income support payments, investigate job seeker non-compliance, and to make and apply compliance penalties on behalf of the Government to remote job seekers. Currently, compliance and exemption decisions are ultimately made by government bureaucrats in offices far removed from remote communities. This means decisions can often be made without sufficient knowledge of local community matters or a real understanding of the individual circumstances of the job seeker. It can also contribute to long delays before the impact of any decisions are felt. Remote job seekers disengage from a system that does not respond efficiently or effectively to their needs and feels Canberra-imposed rather than rooted in the norms and expectations of their community. The new reforms will place decision-making responsibility in the hands of local people on the ground, who are available to discuss decisions with the job seeker and ultimately better placed to assess the circumstances impacting them.

The protections afforded to job seekers under current review and appeals processes will remain substantively the same as under the current national compliance framework. In the first instance, job seekers will have the right to have provider decisions internally reviewed. Existing escalation processes will be in place, with the Department responsible for reviewing provider decision making on payments and compliance (similar to current escalation processes within DHS). Other protections with respect to reviews of payment decisions and financial penalties, including recourse to the Administrative Appeals Tribunal,

would be retained. The phased approach to implementation of the reforms is designed to ensure providers and communities are capable and willing before they are transitioned to the new arrangements. Appropriate safeguards such as clear, consistent guidelines for providers and robust external review processes would be in place to ensure that decision-making does not lead to inconsistent treatment of job seekers.

Consultation and implementation

The Bill makes provision for the scheme to be phased in, on a region by region basis, with regions to be agreed by Parliament through a disallowable legislative instrument. Similarly, detail around the compliance framework will be provided to Parliament for consideration in legislative instruments under the Bill.

Additionally, under the legal requirements that govern the making of legislative instruments, there is a requirement to consult with those people likely to be affected by a legislative instrument. The Department is committed to consulting with CDP providers and communities to gauge interest and support and to explain the potential changes under the new scheme. There has been significant interest in participation in phase one of the reforms and the Minister and Department have so far met with providers in Queensland, New South Wales, Western Australia and the Northern Territory to explain the proposed model. All CDP service providers have been invited to attend a two-day meeting in February 2016 as part of ongoing engagement with providers. The meeting will include initial consultation and discussion of the proposed reforms and will provide an opportunity for the Department and providers to work together to ensure the successful continuation of current CDP arrangements.