

# CHAPTER 1

## INTRODUCTION

### Terms of Reference

1.1 On 19 June 2002, the Senate referred the following matters to the Committee for inquiry and report:

- (a) Consideration of the adequacy, effectiveness and fairness of proposed legislative participation requirements for parents and mature-age unemployed Australians; and
- (b) The Family and Community Services Legislation Amendment (Australians Working Together and other 2001 Budget Measures) Bill 2002, with particular reference to:
  - (i) the nature of the participation requirements proposed in the Bill for parents and older unemployed people, including how they compare to existing requirements for other workforce-age income support recipients,
  - (ii) the nature of penalty (breaching) provisions provided in the Bill for parents and older unemployed people, including how they compare to existing requirements for other workforce-age income support recipients, and
  - (iii) the fairness, efficiency and effectiveness of proposed legislative social security penalty provisions.
- (c) That in undertaking this reference, the Committee will consider the report of the Independent Review of Breaches and Penalties in the Social Security System (the Pearce Review) to determine whether implementation of its recommendations would improve the capacity of the participation requirement regime to provide effective and efficient support to workforce-age income support payment recipients while improving rates of compliance.

1.2 The Family and Community Services Legislation Amendment (Australians Working Together and other 2001 Budget Measures) Bill 2002 was introduced into the House of Representatives on 16 May 2002. The Bill was debated in the House on 29 and 30 May. The Bill passed the House on 30 May and was introduced into the Senate on 19 June 2002.

### Conduct of the inquiry

1.3 The inquiry was advertised in *The Australian* on 3 July 2002 and through the Internet. Submissions were also invited from a range of welfare and community organisations. Due to the tight timeframe for the inquiry, the closing date for

submissions was 19 July 2002, although the Committee continued to receive submissions throughout the course of the inquiry.

1.4 The Committee received 28 public submissions and three confidential submissions, together with an amount of additional material from witnesses. The list of submissions and other written material received by the Committee and for which publication was authorised is at Appendix 1. The Committee held public hearings in Sydney on 5 August 2002 and Melbourne on 6 August 2002. A list of witnesses who appeared at the public hearings is included in Appendix 2. Submissions that were received electronically and the Hansard record of the public hearings may be accessed through the Committee's website at [www.aph.gov.au/senate\\_ca](http://www.aph.gov.au/senate_ca).

## **Reform of the welfare system**

1.5 In September 1999, the Minister for Family and Community Services announced the Government's intention to review the Australian welfare system. The Government appointed a Reference Group on Welfare Reform, chaired by Mr Patrick McClure, Chief Executive Officer of Mission Australia, to consult with the community and provide advice to the Government on possible approaches to reform in this area. Members of the Reference Group were drawn from the community sector, business, academia and government.

1.6 The need for fundamental reform of the welfare system was seen as vital in the light of significant economic and social changes transforming Australia – including a growing divide between the 'job rich' and the 'job poor' households; changes in the balance between full-time jobs and part-time and casual work; increasing numbers of people relying on income support; and declining job opportunities for less skilled workers – and the need for the social support system to effectively respond to these changes.<sup>1</sup>

1.7 In March 2000 the Reference Group released an Interim Report that outlined a new framework for the fundamental re-orientation of Australia's social support system and sought input from the community on these proposals.

1.8 The Reference Group produced its final report *Participation Support for a More Equitable Society* in July 2000. It set out directions for reform over the short, medium and longer term through the introduction of a Participation Support System. Under this system the social support system would be judged by its capacity to help people participate economically and socially, as well as by the adequacy of its income support arrangements. The report identified a number of shortcomings with the current social support system including fragmented service delivery arrangements not adequately focussed on participation goals for all people of workforce age; a complex and rigid categorical array of pensions and allowances for people of workforce age;

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1 *Participation Support for a More Equitable Society*, Reference Group on Welfare Reform (McClure), July 2000, p.2.

and inadequate incentives for some forms of participation and inadequate rewards for some forms of work.<sup>2</sup>

1.9 The Reference Group proposed as its goal to minimise social and economic exclusion, with Australia's success in achieving this to be measured by three key outcomes:

- a significant reduction in the incidence of jobless families and jobless households;
- a significant reduction in the proportion of the working age population that needs to rely heavily on income support; and
- stronger communities that generate more opportunities for social and economic participation.<sup>3</sup>

1.10 The main aspects of reform proposed in the report were the promotion of the following mutually reinforcing features regarded as integral to the Reference Group's vision of a Participation Support System:

- individualised service delivery focussed on meeting the needs of individuals and on helping them to identify and achieve participation goals;
- a simpler income support structure that is more responsive to individual needs, circumstances and aspirations;
- incentives and financial assistance to encourage and enable participation;
- mutual obligations underpinned by the concept of social obligations with governments, businesses, communities and individuals all having roles; and
- social partnerships for building community capacity to increase opportunities for social and economic participation.<sup>4</sup>

1.11 The Reference Group argued that the Government should develop a mutual obligations framework for the Participation Support System which incorporates the respective roles of government, business, communities and individuals. The Reference Group also argued that the model for mutual obligations should emphasise the expectations on recipients to undertake some form of economic or social participation, consistent with individual capacities and life circumstances; and that it be implemented in a way that maximises voluntary compliance and provides that alternative approaches to sanctions are considered before financial penalties are imposed. The Group argued that a mutual obligations framework be developed for mature age jobless people, which requires some form of participation with a priority on economic participation where appropriate. The Group also suggested that parents of high school aged children (13 years and over) be required to enter into a

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2 McClure, p.3.

3 McClure, p.4.

4 McClure, p.6.

Participation Plan, including part-time job search, part-time employment or part-time preparation for paid employment.<sup>5</sup>

1.12 The Government's response to the report was the *Australians Working Together – Helping people to move forward* (AWT) package announced in the 2001-02 Budget. The package provides funding of \$1.7 billion over four years for employment and community services to improve the assistance available to people looking for work, including parents, mature aged people, indigenous Australians and people with disabilities. The Government considers that the package is consistent with the five areas for action identified in the McClure report, that is, individualised service delivery, a simpler income support structure, incentives and financial assistance, mutual obligations and social partnerships. The package of measures is the first stage of the Government's response to the McClure report.<sup>6</sup>

## **The Bill**

1.13 The Family and Community Services Legislation Amendment (Australians Working Together and Other 2001 Budget Measures) Bill 2002 provides the legislative changes required to implement the AWT package announced as part of the 2001-02 Budget. The major measures included in the Bill are: participation requirements for parents; participation requirements for mature age newstart allowance recipients; closing off mature age allowance and partner allowance; Personal Support Programme; Working Credit; and Language, Literacy and Numeracy Supplement. A detailed discussion of these measures is in Chapter 2.

## **Independent Review of Breaches and Penalties in the Social Security System**

1.14 An Independent Review of Breaches and Penalties in the Social Security System (the Pearce Review) was established in August 2001 by nine leading charities and other organisations, including ACOSS, National Welfare Rights Network, the Brotherhood of St Laurence and Mission Australia. The purpose of the Review was to identify factors affecting, and the consequences of, recent changes in the incidence of breaches and penalties relating to unemployed people receiving income support payments; and to recommend improvements in the effectiveness and fairness of the system.

1.15 The Review was established because of concerns that the system for achieving compliance with obligations imposed on people receiving Newstart or Youth Allowances was not operating equitably and effectively in regard to all recipients. That system includes a process of designating certain conduct on the part of the recipient of an allowance as being a breach of the obligations that must be complied with in order to receive the allowance. If a recipient is in breach, penalties

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5 McClure, pp.32-33, 56.

6 *Budget Measures 2001-02*, Budget Paper No.2, May 2001, p.120.

must be imposed. These penalties involve reducing or fully withholding for a period the allowance that would otherwise be payable.

1.16 The organisations were aware from their own activities that the penalties being imposed as a result of a dramatic increase in the incidence of breaching were having a significant adverse impact not only on the recipients of benefits but also on their families. This in turn was leading to a marked increase in requests for assistance in the way of food, accommodation, clothing and money to those organisations and government agencies that help the needy and destitute members of the community.<sup>7</sup>

1.17 In establishing the Review, the organisations indicated that they accepted breaches and penalties as an inevitable part of a compliance regime in an active, employment-oriented social security system for unemployed people. They were primarily concerned at the changes in the incidence of breaches and penalties in recent years and the consequential impact on individuals, families, welfare agencies and other organisations.<sup>8</sup>

1.18 These issues of the extent of breaching, inappropriate breaching, the level of penalty imposed and the impact of the penalty upon individuals and families provided the major focus of evidence to the Committee during this inquiry.

1.19 The Review found that the income support system has concentrated excessively on achieving high breach rates and penalties rather than on encouraging active efforts to find work. The review made 36 recommendations aimed at achieving:

- better processes for interviewing, assessing and communicating with jobseekers;
- better decision-making when imposing obligations on individual jobseekers and referring them for assistance;
- stricter procedures for investigating potential breaches and ensuring that breaches are not imposed unlawfully;
- more help for jobseekers who are trying to comply with their obligations;
- removal of excessive pressures and incentives to impose breaches and penalties; and
- fairer and more effective penalties.<sup>9</sup>

1.20 With regard to the imposition of breaches, the Review stated that the breach system should be designed and administered principally to assist and reinforce compliance rather than focusing mainly on identifying and punishing non-compliance. The Pearce Review and the action taken by Government in response to its recommendations is discussed in detail in Chapter 3

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7 *Making it work*, Report of the Independent Review of Breaches and Penalties in the Social Security System (Pearce Review), 2002, pp.1-2.

8 Pearce Review, p.1.

9 Pearce Review, pp.10-18.

