Social Security and Other Legislation Amendment (Income Support and Other Measures) Bill 2012

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Social Policy Section

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Social Security and Other Legislation Amendment (Income Support and Other Measures) Bill 2012

Date introduced: 9 February 2012

House: House of Representatives

Portfolio: Education, Employment and Workplace Relations

Commencement: Sections 1 to 3 and Schedules 4, 6 and 8 commence on Royal Assent; Schedules 1, 2, 5 and 7 commence on 1 July 2012; and Schedule 3 commences on 1 January 2013

Links: The links to the Bill, its Explanatory Memorandum and second reading speech can be found on the Bill’s home page, or through http://www.aph.gov.au/bills/. When Bills have been passed and have received Royal Assent, they become Acts, which can be found at the ComLaw website at http://www.comlaw.gov.au/.

Purpose

The Social Security and Other Legislation (Income Support and Other Measures) Bill 2012 (the Bill) amends social security law and the Indigenous Education (Targeted Assistance) Act 2000 to implement a number of measures announced in the 2011–12 Budget, including:

- changing the age eligibility criteria for Youth Allowance (Other), Newstart Allowance and various other payments and supplements
- changing the qualifying age for the youngest child of certain Parenting Payment recipients
- changing the income tests for Youth Allowance (Other) and some Newstart Allowance recipients
- making small amendments to the way penalties are applied under the compliance framework for income support recipients with participation requirements, and
- providing additional funding for the Student Education Trusts measure, part of the Cape York Welfare Reform Trials.

Basis of policy commitment

2011–12 Budget

In the 2011–12 Budget, the Government announced a broad suite of measures under the policy Building Australia’s Future Workforce. The policy included measures aimed at building levels of participation in the workforce amongst certain groups with low participation rates: young people, single parents and vulnerable income support recipients. The Treasurer, Wayne Swan, outlined the Government’s intentions in his Budget speech:

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...better training is essential for the workforce our economy needs, as is encouraging, rewarding and insisting on the participation of more workers.

Providing opportunity, demanding responsibility.

We believe in extending the benefits of work to every capable Australian—single parents and jobless families, young Australians, the very long-term unemployed, the disabled, and older workers whose experience we need and value.

Measures announced in the Budget aimed at increasing participation within these groups included:

- extending 'Learn or Earn' participation requirements to unemployed 21 year olds
- raising the age of eligibility for Youth Allowance (Other) to 21, while allowing those receiving this payment to earn more than twice as much in income as previously allowed before their payments are reduced
- funding for Job Services Australia providers to develop the skills of school leavers through the Transition Support for Early School Leavers program
- lowering the taper rate for principal carer parents on Newstart Allowance to allow them to earn more income from work before their payment is affected
- amending eligibility for Parenting Payment recipients who were previously protected from changes to the age criteria and providing additional support through Job Services Australia for those who are forced to move from Parenting Payment to Newstart Allowance, and
- funding to improve compliance assessments, communication and information sharing between Centrelink and job services providers and aligning penalty amounts with working days so that job-seekers are not penalised for being unable to undertake required activities on a weekend.

Targeted groups are among the most disadvantaged job-seekers

The groups being targeted by these Budget measures are among the most disadvantaged in the labour market and typically have lower levels of education, are lacking in literacy and numeracy skills, have little or no employment experience, and suffer from health problems and social isolation. The Budget measures were aimed at reducing incentives to remain on welfare through changes to eligibility for particular payments, increasing the financial benefits of taking up work and providing increased assistance and skills training to those seeking employment. While the measures

2. A taper rate is the rate at which a person’s payment is withdrawn as a result of their earnings. A portion of an individual’s income support payment is deducted for every dollar earned over a certain limit until the payment ‘tapers’ off.

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identify these particular groups as being in need of more focused assistance, the measures themselves are expected to result in significant savings over the forward estimates.⁴

Background

Youth Allowance

Youth Allowance is an income support payment paid to a number of different groups of young people, particularly students and job-seekers. Youth Allowance is paid primarily to:

- full-time students and Australian Apprentices aged 16–24 or students who are temporarily incapacitated for full-time study aged 21–24⁵
- students and Australian Apprentices aged 25 and over who were getting Youth Allowance immediately before turning 25 and remaining in the same course of study or Apprenticeship, and
- job-seekers aged under 21 looking for work or combining part-time study with job search, undertaking any other approved activity, temporarily incapacitated for work or study or exempt from the activity test.

Payment to this last category is referred to as Youth Allowance (Other) to distinguish the payment targeted at students from that targeting unemployed young people. Different kinds of means tests apply to the student and job-seeker categories of Youth Allowance recipients, but both are subject to the parental income test unless they are considered independent.⁶ Youth Allowance (Other) recipients are required to undertake certain job-seeking or training activities to remain eligible and, if they are considered an Early School Leaver, certain educational activity requirements.

New measures follow on from 2009–10 Budget measures and changes to age of Independence

The Youth Allowance measures contained in the Bill follow on from related measures contained in the 2009–10 Budget which made eligibility for Youth Allowance for unemployed young people aged 15 to 20 dependent on them having a year 12 certificate, or its equivalent, or being engaged in full-time education or training, unless an exemption applies.⁷ The measures in this Bill will extend

⁵ From 1 January 2012, dependent young people undertaking full-time study cannot apply for Youth Allowance until they turn 18 unless they become ‘independent’ (see next footnote), are required to live away from home to study or are determined by Centrelink as not benefiting from Family Tax Benefit being paid to their parents.
⁷ See P Yeend, Social Security Amendment (Training Incentives) Bill 2009, Bills Digest, no. 164, 2008–09, Parliamentary Library, Canberra, 2009, viewed 15 February 2012,
these education and participation requirements to unemployed young people aged 21. It will also extend parental means testing for dependent young people to include those aged 21.

The measures follow on from changes to the age of independence for Youth Allowance recipients following the 2009 Bradley Review of Australian Higher Education. The age at which a young person is automatically considered Independent has been gradually reducing since April 2010 and is 22 as of 1 January 2012. Those considered Independent are not subject to parental means testing which will typically mean a higher rate of payment. Currently, the one year gap between being eligible for Newstart Allowance and the age of independence offers a significant financial incentive to move to Newstart Allowance and look for work rather than remaining on Youth Allowance and undertaking full-time study. As a result of the changes proposed by this Bill, 21 year olds will no longer have the ability to move onto the higher rate of Newstart Allowance, removing the disincentive to undertake full-time study.

**Parenting Payment**

Parenting Payment is an income support payment intended to help with the costs of caring for children and is paid to the person considered to be the main carer of a child. It can only be paid to one member of a couple. Parents or carers must have a child of a certain qualifying age to be considered eligible (see below).

Recipients are subject to activity requirements such as work, or looking for work or training, when their youngest child reaches a certain age. This age depends on relationship status and whether Parenting Payment was being received prior to July 2006. Grandfather provisions in the 2006 changes to Parenting Payment

As part of the Howard Government’s Welfare to Work reforms, changes were made to the eligibility and participation requirements for Parenting Payment. Those receiving Parenting Payment prior to July 2006 were not subject to some of the changes, particularly changes to the duration for which a

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person could receive the payment (in respect of the age of their youngest child) due to 'grandfather' provisions. The following changes to eligibility took effect in July 2006:

- single people claiming Parenting Payment Single after 1 July 2006 could receive the payment while their youngest child was aged less than eight years. However, they would have participation requirements once that child turned six years of age.
- partnered people claiming Parenting Payment Partnered after 1 July 2006 could receive the payment while their youngest child was aged less than six years.
- people receiving Parenting Payment before 1 July 2006 could continue to receive the payment until their youngest child reached 16 years of age, provided they did not change their relationship status or have their payment cancelled. They would have participation requirements once their youngest child reached the age of seven years, but not before 1 July 2007, and
- the participation requirements could include a requirement to look for work of at least 15 hours a week. Failure to comply could result in payment suspension for a period of time, unless an exemption was granted.

The measures proposed in the Bill will affect those who were previously covered by the grandfather provisions (except those whose youngest eligible child was born before 1 January 2000). This will result in a reduction of the duration for which they are entitled to Parenting Payment. The effect of amendments contained in the Social Security Amendment (Parenting Payment Transitional Arrangement) Act 2011 was that only those children who were born or came into the principal care of a parent before 1 July 2011 (being a parent who had continued to receive Parenting Payment since July 2006) were exempt, under the grandfathered provisions, from the changes introduced in 2006. The provisions of that Act, in effect, drew a line under the group covered by the grandfather provisions. Prior to these 2011 amendments, any new children born or coming into the care of a person who was receiving Parenting Payment prior to July 2006 would have extended that person's eligibility for Parenting Payment until the child turned 16.

Committee consideration

The Bill was referred to the Senate Community Affairs Legislation Committee for inquiry and its report was tabled in the Senate on 19 March 2012. Details of the inquiry and a copy of the report are at:

\[\text{(Footnotes)}\]

11. 'Grandfather provisions' refers to provisions that exempt certain people or groups from the full impact of a change to rules, laws etc. on the basis of pre-existing arrangements.
12. Thereafter, most would be eligible to move onto Newstart Allowance or other income support payments.
13. Thereafter, most would be eligible to move onto Newstart Allowance or other income support payments.
   http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=id%3A%22legislation%2Fbillsdgs%2FGB6i6%2
2

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The Committee recommended that the Bill be passed and it made a further recommendation for the Government to monitor the implementation of the changes proposed in Schedule 7 of the Bill, relating to the application of penalties under the compliance framework. The Committee considered that it 'would be useful to see how the application of this system works in practice; whether or not it will result in greater net penalties being withheld from job seekers' payments'.

The Committee's report noted the concerns of a number of submissions that the proposed measures contained in the Bill would disadvantage certain groups such as young people and single parents and underlined pre-existing concerns with the adequacy of payment rates. The Committee reported that most submissions approved of the proposed changes to the income tests for Youth Allowance and Newstart Allowance, but some submissions from welfare groups questioned whether the measures would offer a significant incentive for increased workforce participation.

The Greens tabled a dissenting report. Their concerns with the Bill are summarised in the next section.

Policy position of non-government parties/independents

Coalition

The Coalition does not oppose the Bill.16

Greens

Greens MP Adam Bandt stated in his second reading speech on the Bill that it should not be supported. Mr Bandt stated:

Let us be clear about one thing: this bill is a budget cutback. It is not a measure to improve the job prospects of sole parents on income support...

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...If adopted, this bill would cut the social security payments of 100 000 sole parents and young people over the next four years. These are people who deserve our support, who do not deserve to be attacked by this government.\textsuperscript{17}

The Greens are concerned that the groups affected by this Bill are already vulnerable and that the income support payments they receive are inadequate. Mr Bandt underlined the Greens concerns with regards to the rate of payment for Youth Allowance:

The main argument in favour of this measure is that the gap between lower student payments, youth allowance, Austudy payments and higher unemployment allowance—Newstart—discourages participation in education. This may be true but the solution is surely to increase the low level of student payments for people living independently of their parents, not to close off access to the higher unemployment payments.\textsuperscript{18}

Senator Rachel Siewert stated her opposition to the measures in the Bill affecting single parents in a dissenting report on the Senate Community Affairs Legislation Committee's inquiry into the Bill. The dissenting report stated that 'using punitive measures to attempt to force single parents into work has not been shown to be effective and creates savings by targeting one of the most vulnerable groups in Australia'.\textsuperscript{19} Senator Siewert argued that the removal of the grandfather provisions for some Parenting Payment recipients would mean increased hardship and would not address their employment prospects. The dissenting report also stated that the changes to Youth Allowance age eligibility would negatively impact already disadvantaged young people, and that the proposed changes to the way penalty rates are applied under the compliance framework are unfair.

Senator Siewert recommended that schedules 1, 6 and 7 be removed from the Bill.\textsuperscript{20}

Financial implications

The financial impact of this Bill is set out in the Explanatory Memorandum. Schedules 1, 2 and 5 (the changes to age requirements for Youth Allowance, income testing and working credit balances) are expected to generate savings of $186.4 million over four years from 2011–12. Schedules 3, 4 and 6 (the changes to Newstart Allowance and Parenting Payment) are expected to cost $26.7 million over the four years. Schedule 7 (which amends the daily penalty rates applied for reconnection failures) is expected to cost $1.2 million over the four years. The extension of the Student Education Trusts component of the Cape York Welfare Reform Trials will cost $681 000 in 2012.

\textsuperscript{18} Ibid.
\textsuperscript{19} R Siewert, Dissenting report, Senate Community Affairs Legislation Committee, op. cit., p. 25.
\textsuperscript{20} R Siewert, Dissenting report, Senate Community Affairs Legislation Committee, op. cit., p. 29.

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The financial implication of the Bill, as reported in the Explanatory Memorandum, is a net saving of around $157.8 million over four years.

Main issues

The Bill contains seven schedules proposing amendments to the eligibility criteria for and operation of various social security payments and one schedule providing for the further funding of a component of the Cape York Welfare Reform Trial and to make a minor technical amendment to social security law.

Schedule 1—Age requirements for social security payments

Schedule 1 of the Bill amends the eligibility criteria for the two main unemployment benefits: Youth Allowance (Other) and Newstart Allowance. The amendments to the Social Security Act 1991 (SS Act) proposed by Schedule 1 raise the current age at which a person can become eligible for Newstart Allowance from 21 to 22 and raise the maximum age at which a person not engaged in full-time study can receive Youth Allowance from 20 to 21. The proposed provisions contained in Schedule 1 also adjust eligibility for other payments and supplements to maintain consistency with the new Youth Allowance and Newstart Allowance age requirements. The qualifying age for Sickness Allowance, Youth Disability Supplement and the Long Term Income Support rate of payment for students will be raised from 21 to 22 years.

Comparison of Youth Allowance and Newstart Allowance

There are significant differences between Youth Allowance and Newstart Allowance, in terms of the rate of payment and applicable means tests, as well as the educational and participation requirements of Youth Allowance (Other). The table below outlines some of the differences in payments rates (rates differ depending on family and living circumstances).

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21. Newstart Allowance is an income support payment intended to support people who are unemployed and looking for work. It is paid to those over the age of 21 who are under age pension age. Recipients are required to look for work, take up suitable work and meet other activity requirements such as participating in training or development programs in order to remain eligible. An income and asset test applies.

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Table 1: Comparison of selected fortnightly rates of payment for Youth Allowance and Newstart Allowance

<table>
<thead>
<tr>
<th>Family/relationship situation</th>
<th>Youth Allowance ($p/f)</th>
<th>Newstart Allowance ($p/f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single, no children</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- aged 18 and over, away from home</td>
<td>402.70</td>
<td>486.80</td>
</tr>
<tr>
<td>- aged 18 and over, at home</td>
<td>265.00</td>
<td></td>
</tr>
<tr>
<td>Single, with children</td>
<td>527.50</td>
<td>526.60</td>
</tr>
<tr>
<td>Partnered (each)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- no children</td>
<td>402.70</td>
<td>439.40</td>
</tr>
<tr>
<td>- with children</td>
<td>442.10</td>
<td></td>
</tr>
</tbody>
</table>


Youth Allowance recipients not considered Independent\(^{22}\) are also subject to a parental income test, family assets test, family actual means test or personal income test. The test which produces the lowest rate of payment is applied. Newstart recipients and Independent Youth Allowance recipients are only subject to a personal income and assets test.

Under the parental income test a recipient can have their Youth Allowance payment reduced if their parent’s income exceeds the threshold amount of $46,355 per annum. The payment rate reduces at 20 cents for every dollar earned by parents over that threshold. Under the family assets test, no payment can be made if family assets exceed $619,500. The family actual means test is used to assess families whose taxable income (assessed under the parental income test) may not be a good indication of their actual means. This test assesses a family’s financial resources in terms of their spending and savings and is usually applied where parents have interests in trusts or private companies, are partners in a company or are self-employed.\(^{23}\) The threshold limit under the family actual means test, beyond which payment is reduced, is the same as that for the parental income test.

While Newstart and Youth Allowance (Other) recipients have similar participation requirements in terms of looking for and taking available work, as well as undertaking certain training and development activities, Youth Allowance (Other) recipients who are considered ‘early school leavers’ have different obligations. Early school leavers are currently defined under the SS Act as anyone under the age of 21 who has not completed year 12 (or an equivalent certificate) and is not undertaking full-time study. Youth Allowance (Other) recipients who meet this definition must participate full-time (for at least 25 hours a week) in part-time study or training as well as other approved activities until they complete Year 12 (or its equivalent).

\(^{22}\) See footnote 6.


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COAG National Participation Requirement

The school completion requirement for eligibility for Youth Allowance was introduced by the Social Security Amendment (Training Incentives) Act 2009 and arose from the Council of Australian Governments’ 2009 agreement on ‘Jobs, Training and Youth Transitions’.²⁴

In order to support one component of this agreement, the National Youth Participation Requirement, the Commonwealth agreed to make education and training a precondition for obtaining Youth Allowance (Other) and Family Tax Benefit A. The states and territories agreed to a mandatory requirement that all young people who have completed year 10 participate full-time (at least 25 hours a week) in education, training or employment (or combination of these activities) until, at least, age 17. As part of the same agreement, COAG also committed to reaching a 90 per cent year 12 or equivalent national attainment rate by 2015 for young people in the 20–24 year old age group.

Comment

The Bill will disadvantage 21 year old unemployed people who have not completed their schooling up until Year 12 by denying them access to a higher income support payment rate through Newstart Allowance. As such, it offers an effective incentive for young people who may be in need of income support to complete their schooling. Aligning the age of qualification for Newstart Allowance with the current age of independence is a logical step and it removes any significant financial incentive for those aged 21 to not undertake full-time study. However, there are widespread concerns with the adequacy of the payment level for both Newstart and Youth Allowance and the way that the level of payment can actually hinder the ability of jobseekers to look for work and undertake relevant vocational activities.²⁵ The related measures in the Bill allowing for Youth Allowance (Other) recipients to earn more income before their payment is affected under the income test as well as an increase in working credit limits (detailed below) will go some way to improve the financial situation of some payment recipients but this depends on being able to find paid work. In 2010, only around 15 per cent of Youth Allowance (Other) recipients earned income over $31 a week.²⁶

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²⁵. The report of the Australia’s Tax System Review (the Henry Review) recommended an increase in the base rate of participation and student assistance payments (Newstart and Youth Allowance) and the OECD’s recent Economic Survey of Australia recommended the Government raise the rate of Newstart Allowance. Other proponents of an increase in these payment rates include the Australian Council of Social Service, the Australian Council of Trade Unions, board members of the Business Council of Australia including John Denton and Robert Millner, as well as economists Judith Sloan and Jessica Brown.


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In January 2012 there were 37,080 Youth Allowance (Other) recipients. Around 30,800 were aged 18–20 years—the group who will be affected the most by these changes to eligibility taking place from 1 July 2012.

**Schedule 2—Income test for Youth Allowance**

**Schedule 2** of the Bill amends the Youth Allowance Rate Calculator in the SS Act (at paragraphs 1067G–H29(b), 1067G–H32(c) and 1067G–H33(c)) to amend the income test applied to Youth Allowance (Other). The items to be amended in the rate calculator are the two threshold amounts at which different taper rates kick in and reduce a recipient’s payment amount. Currently, a person receiving Youth Allowance (Other) will start to have their payment reduced by 50 cents for every dollar earned above $62 a fortnight. If income earned in a fortnight exceeds $250 then this will reduce the payment by 60 cents in the dollar. The amendments proposed in the Bill will raise the $62 threshold amount to $143 and the second threshold amount will remain at $250.

**Difference in personal income tests**

Different personal income tests apply to Youth Allowance recipients who are full-time students, apprentices or job-seekers. Currently, for full-time students and apprentices, fortnightly income between $236 and $316 reduces a fortnightly payment by 50 cents in the dollar and income above $316 reduces the fortnightly payment by 60 cents in the dollar. The difference in tests is due to different rationales behind the tests. Students and apprentices are given more generous income test as they may undertake part-time work to support themselves while studying; but they are deterred from undertaking full-time work. Unemployed young people receive Youth Allowance as a support while they make a transition to employment—it is not intended to be a source of ongoing support.

Youth Allowance (Other) recipients are currently subject to the same personal income test in terms of threshold and taper rates as Newstart Allowance recipients, although Newstart base payment rates are generally higher and therefore allow for more income to be earned before cutting out completely. The proposed changes will allow Youth Allowance (Other) recipients to earn more income than Newstart recipients before the 50 cent taper rate kicks in. However, the income test for students and apprentices receiving Youth Allowance will remain significantly more generous compared to that applied to job-seekers on income support.

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27. See footnote 2.

28. Currently, income earned from zero dollars to $62 does not affect a person’s payment rate and is known as the ‘income free area’. A person’s payment is reduced by 50 cents in the dollar for any dollar above the income free area, up to a maximum of $188 above the income free area (so that this threshold is $62 + $188 = $250). Income over this threshold is reduced by 60 cents in the dollar. The Bill proposes to lift the income free area to $143 for Youth Allowance (Other) recipients but maintain the $250 threshold amount. This means a change to the part of the SS Act referring to the $188 amount and the Bill proposes to amend this to $107 so the $250 threshold remains ($143 + $107 = $250).


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Comment

The proposed changes to the income test for Youth Allowance (Other) offer a significant boost to the earning potential of those receiving this payment. The changes to the taper rates and the raising of the tax-free threshold from $6000 to $18,250 a year (starting July 2012 as part of the carbon tax compensation measures) will significantly reduce the effective marginal tax rates on payment recipients with part-time or casual work earnings. However, as noted above, only a small number of Youth Allowance (Other) recipients (15 per cent) had earnings above the existing threshold. The Department of Education, Employment and Workplace Relations estimates that 17,000 recipients will benefit from this measure with an increase in their payment in any given fortnight throughout the year.

Schedule 3—Income test for Newstart Allowance

Schedule 3 of the Bill amends the Benefit Rate Calculator for Newstart Allowance in the SS Act (at points 1068-G1 (method statement, step 10), 1068—G14 (heading) and 1068-G14 and new section 1068-G17 to amend the taper rate applied to Newstart Allowance recipients who are single and the principal carers of a child. The amendments will mean that single parents receiving Newstart Allowance will not be subject to the same personal income test as other Newstart Allowance recipients. As described above, Newstart recipients currently have their allowance reduced by 50 cents in the dollar for fortnightly income earned between $62 and $250; for fortnightly income above $250, their allowance is reduced by 60 cents in the dollar.

Rather than being subject to the 50 and 60 per cent taper rates for income over the threshold amounts of $62 and $250 respectively, single parent recipients will have a blanket 40 per cent taper rate applied to income over the $62 threshold (with no applicable upper threshold). This means that single parent Newstart recipients will have their payment reduced by 40 cents for every dollar of income earned over $62 a fortnight.


31. Department of Education, Employment and Workplace Relations (DEEWR), Submission 3, op. cit., p. 3.

32. See footnote 2.
Comment

This measure offers some compensation to those single parents moving from Parenting Payment onto Newstart Allowance as a result of the measures proposed in Schedule 6 of the Bill (see below). The earning potential for single parents on Newstart Allowance will be supplemented by the raising of the tax free threshold (from $6000 to $18,250 per year starting from July 2012), significantly reducing effective marginal tax rates on these income support recipients. The combined effect of the changes to taper rates and raised tax free threshold offers single parents a much more effective incentive to work than one or the other measure on its own. These measures benefit not just those gradually moving from Parenting Payment to Newstart Allowance but also existing single parent recipients of Newstart Allowance.

Schedule 4—Claims for Newstart Allowance

Schedule 4 of the Bill proposes technical amendments to Schedule 2 of the Social Security (Administration) Act 1999 (SSA Act) which affect the determination of what day a person claiming Newstart Allowance is considered to have made the claim. The amendments are relevant to those who make an early claim for Newstart Allowance; that is, they make a claim in the period before they are actually qualified to receive the payment.

Currently, Newstart claimants cannot make early claims in the same way as most other social security payments (which allow for claims to be made up to 13 weeks before a person becomes actually qualified for the payment). Those who are already receiving Youth Allowance or Austudy can make a claim up to four weeks prior to the day they will become qualified for Newstart and their start day will be considered as the day they became qualified.

The proposed provisions will amend the SSA Act and repeal subclause 4(5) of Schedule 2 of the SSA Act so that those applying for Newstart, whether or not they are already receiving Youth Allowance or Austudy, will be allowed to make their claim up to 13 weeks prior to becoming qualified unless they are serving a liquid assets waiting period (that is, using up their available cash assets prior to becoming eligible for Newstart). The starting date for receipt of the payment will be considered as the day they became qualified. Note, there are some exceptions for those who are in gaol or undergoing psychiatric confinement and to those in special circumstances set out elsewhere in the SSA Act.

Comment

The measures proposed in this Schedule bring the rules relating to claims for Newstart Allowance into line with other income support payments, to make it easier for those expecting to require welfare assistance to make an early claim. The measure does not benefit Newstart recipients in the sense of granting earlier access to payments, as the starting day for the payment will remain the day they become qualified. However, it brings some coherency and harmony to the system for those applying for a payment in the weeks prior to becoming eligible—either because they are expecting

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to lose eligibility from another payment (for example, those Parenting Payment recipients affected by the amendments in Schedule 6) or they have lost a source of financial support.

**Schedule 5—Working credit balances**

**Schedule 5** of the Bill proposes amendments to sections 1073E and 1073F of the SS Act to increase the Working Credit limit for Youth Allowance (Other) recipients. Working Credit allows certain social security recipients to earn a notional credit during periods when they earn little or no income so that in periods when they earn a higher income they will not lose as much of their payment under the income test. Youth Allowance (Other) recipients who earn less than $48 in a fortnight earn 1 credit for the difference between their income and $48. Each credit earned allows for an extra $1 to be earned over the income free area before their payment is reduced (the income free area will be $143 if amendments in Schedule 2 of the Bill are passed).

Currently, Youth Allowance (Other) recipients can, over time, collect up $1000 worth of credit. The proposed amendments will increase this limit to $3500. The increase will primarily benefit those who undertake temporary or casual work or those with Working Credit who take up employment. The increase will mean that those who have earned enough credits prior to taking up employment will be able to receive most of their Youth Allowance (Other) payment as well as their wage in the first weeks of their employment period.

Note that the changes will only affect those receiving Youth Allowance (Other). Other payments with Working Credit arrangements (most payments for working age people) will have the credit limit maintained at $1000.

**Comment**

Together with the changes to the income test, these measures will provide a significant financial incentive for Youth Allowance (Other) recipients to undertake some form of work. It can be hoped that the effect of these two measures will boost the employment participation rates of those receiving Youth Allowance (Other).

**Schedule 6—Parenting Payment transitional arrangements**

**Schedule 6** of the Bill will add new subsections at the end of section 500F of the SS Act, amending the application of transitional arrangements that currently apply to some Parenting Payment recipients. The Parenting Payment recipients who will be affected will be those who were 'grandfathered' under the 2006 changes (see above). **Schedule 6** outlines the circumstances in which these people will cease to be covered by the transitional arrangements granted to those who were receiving Parenting Payment prior to the changes in 2006. The effect of **Schedule 6** of the Bill is that these people will only be eligible to continue receiving Parenting Payment until their youngest child turns 16, if that child is aged 13, 14 or 15 on 31 December 2012. Grandfathered Parenting Payment

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recipients whose youngest child is aged 12 on 31 December 2012 will lose their eligibility for the payment when the child turns 13. All other grandfathered Parenting Payment recipients will lose eligibility for the payment when their youngest child turns 12.

The effect of the proposed amendments is to speed up the process by which those with older children receiving Parenting Payment are moved off the payment, either on to another social security payment such as Newstart or into paid employment. Combined with the effect of the Social Security Amendment (Parenting Payment Transitional Arrangement) Act 2011, which drew a line under the group of saved Parenting Payment recipients, the measures proposed in the Bill will mean that by the first half of 2023 there will no more Parenting Payment recipients under the transitional arrangements. DEEWR estimates that 10000 Parenting Payment Single recipients would no longer be eligible for the payment in the latter half of 2012–13 as a result of the measures, and a further 9000 recipients would lose eligibility in each of the 2013–14 and 2014–15 financial years. Also, DEEWR estimates between 1000–1100 Parenting Payment Partnered recipients will no longer be eligible in each of those years as a result of the changes.

Comment

The accelerated winding down of the transitional arrangements for Parenting Payment recipients could be seen primarily as a savings measure were it not for the expenditure on lowering the taper rates for single parent Newstart Allowance recipients. The changes to the transitional arrangements are, according to the Budget statements, expected to save $152.2 million over four years. However, the taper rate changes will cost around $178.9 million over the forward estimates leaving a net cost to the Budget of $26.7 million over four years.

The Government’s intention is to boost the employment participation of single parents by reducing the financial incentive to remain on welfare and requiring these parents to meet the stricter participation requirements of Newstart Allowance once their youngest child reaches the relevant age limit. This follows on from the original intention of the Welfare to Work changes in 2006, which were premised on the conviction that those who could support themselves through work, should. The Budget measures provide both a carrot and stick to this select group of parents. The effectiveness of these measures will be dependent on whether this disadvantaged group can overcome their other significant barriers to employment, including the need for flexible working arrangements, child care expenses, the lack of recent or relevant work experience and discrimination.

Schedule 7—Penalty for reconnection failures

Schedule 7 of the Bill proposes to repeal current subsection 42T(3) of the SSA Act and insert a new subsection that changes the limit on penalty amounts for reconnection failures. 'Reconnection

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33. DEEWR, Submission 3, op. cit., p. 6.

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failures’ are one of a number of possible failures that can apply to income-support recipients who fail to meet their respective participation requirements. Participation requirements include attending appointments with Centrelink or a Job Services Australia provider, attending job interviews, not behaving in such a manner during a job interview that results in the job-seeker not receiving an offer, meeting job-search requirements and accepting suitable job offers. There are four types of failure to comply with activity or participation requirements and different penalties apply for the different failure types. The following table details the failures and penalties as at 1 July 2011:

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Table 2: Failures and penalties for those who do not meet their participation or activity test requirements

<table>
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<tr>
<th>Failure Type</th>
<th>Conduct</th>
<th>Consequence</th>
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| 'No Show, No Pay' Failure | Fail to participate in a compulsory activity required by an 'Employment Pathway Plan',
                        | Fail to comply with a serious failure requirement (Compliance Activity).
                        | Fail to behave appropriately while participating in an activity.
                        | Fail to attend a job interview.
                        | Behave in a manner during a job interview that results in the job seeker not receiving a job offer. | Loss of one-tenth of the job seeker’s fortnightly participation payment. |
| Connection Failure | Fail to attend an appointment,
                        | Fail to enter into an Employment Pathway Plan, or
                        | Fail to meet job search requirements. | Reconnection Requirement. Three connection and/or reconnection failures can result in serious failure if, following a Comprehensive Compliance Assessment, the job seeker is found to have been persistently non-compliant. |
| Reconnection Failure | Fail to meet reconnection requirement. | Loss of one-fourteenth of the job seeker’s fortnightly participation payment per day until the job seeker meets a further reconnection requirement. |
| Serious Failure    | Refusing or failing to accept an offer of suitable employment. Persistent non-compliance (as determined following a Comprehensive Compliance Assessment). | No payment for eight weeks |


34. Jobseekers negotiate an individually tailored Employment Pathway Plan with their Job Services Australia provider or with Centrelink. The plan identifies the mix of vocational and non-vocational activities that job-seekers will need in order to gain employment. An Employment Pathway Plan is a legal document which details activities that the job-seeker must undertake or face penalties.

35. Jobseekers can avert or end a no payment period imposed for a 'serious failure' if they undertake what are known as compliance activities. Compliance activities generally involve undertaking Work for the Dole for 25 hours per week, over eight weeks. Parents and those with a partial capacity to work are required to do 15 hours a week Work for the Dole. Compliance activities can, in some cases involve other activities such as part-time work or training. See '3.1.13.60 Compliance Activities' of the Guide to Social Security Law, viewed 20 March 2012, [http://www.fahcsia.gov.au/guides_acts/ssg/ssguide-3/ssguide-3.1/ssguide-3.1.13/ssguide-3.1.13.60.html](http://www.fahcsia.gov.au/guides_acts/ssg/ssguide-3/ssguide-3.1/ssguide-3.1.13/ssguide-3.1.13.60.html)

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As detailed in the table above, ‘no show, no pay’ failures result in the loss of one-tenth of a job seeker’s fortnightly participation payment for each day they fail to participate or comply with requirements. The penalty applied in respect of this kind of failure is equivalent to a working day’s worth of the person’s fortnightly payment.

Reconnection failures, on the other hand, currently result in a penalty of one-fourteenth of a fortnightly payment for each day a person fails to meet a reconnection requirement such as attending an appointment with Centrelink or a Job Services Australia provider. This means that a person penalised for a reconnection failure will lose a calendar day’s worth of their fortnightly payment for each day considered to be part of the failure period (usually up to the day before the person meets their reconnection requirement). The changes proposed in Schedule 7 of the Bill will mean that the same rules used to determine ‘no show, no pay’ penalties will be used for reconnection failures. This means that the penalties that apply for reconnection failures will be equal to a tenth of the penalised person’s fortnightly payment. In his second reading speech, the Minister stated that ‘this will simplify the compliance framework and ensure jobseekers are not penalised because a weekend happens to fall before they can re-engage’.36 However, for penalties to apply only in respect of weekdays, the Minister will need to also amend the relevant determination which sets out which days are taken into account in the calculation of penalty amounts.37

Comment

The current ‘no show, no pay’, connection and reconnection arrangements were introduced from 1 July 2009. In September 2010, the Independent Review of the Job Seeker Compliance Framework (chaired by Professor Julian Disney) published its report into the impact of the arrangements over their first 12 months. The independent review considered the issue of the different penalty arrangements for ‘no show, no pay’ and reconnection failures and found there was considerable scope for harmonising and simplifying the nature and sequencing of sanctions.38 The report recommended, however, that ‘no show, no pay’ failure penalties should be determined in the same way as reconnection failure penalties and be one-fourteenth, not one-tenth, of a job-seeker’s fortnightly entitlement.39 The report did not set out its reasoning for synchronising the two penalties in this way rather than the method proposed in the Bill, but it described the one-tenth penalty as ‘an attempted linkage with the ten working days in [the payment] period’.40

39. Ibid., p. 85.
40. Ibid., p. 66.

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The measures proposed by Schedule 7 of the Bill run against the independent review’s specific recommendation but do achieve a harmonisation of the two penalties. The changes are logical in that job-seekers will only be penalised for reconnection failures in respect of the days on which they would normally be able to reconnect: weekdays. The measures place a slightly higher penalty than previously for failures on individual weekdays but will remove the unfair burden of applying a reconnection penalty in respect of weekends, when it will often be impossible for job-seekers to meet their reconnection requirements.

Schedule 8—Other amendments

Schedule 8 of the Bill makes two minor amendments to two Acts. Item 1 will amend the Indigenous Education (Targeted Assistance) Act 2000 to provide additional funding for Student Education Trusts, a component of the Cape York Welfare Reform Trial. The proposed measures amend subsection 148(1)(table item 4) which details the appropriations for non-ABSTUDY payments under the Act during the 2009-2012 period. The Student Education Trusts program is funded from these appropriations and provides a financial management service so that parents and carers in the Cape York communities participating in the trial are supported to save and provide for their children’s education costs. The measure will provide an additional $681 000 for the program to continue running in 2012.

Item 2 of Schedule 8 of the Bill makes a technical amendment to point 1068-B1B in the SS Act, which provides that certain children can be treated as dependent children for the purposes of determining the maximum basic rate for Newstart Allowance, Mature Age Allowance and Sickness Allowance. Point 1068-B1A provides for certain young people over the age of 16, who are receiving particular income support payments, to be treated as dependent children of single-parent payment recipients. Point 1068-B1B allows a recipient, in some circumstances, to qualify for the ‘with dependent child’ rate of payment where they do not have a dependent child, but do have 14 per cent care of a child. However, while point 1068-B1B provides for the maximum basic rate of payment to a person as if they had a dependent child, in all other respects, the person should not be considered to have a dependent child. Currently, point 1068-B1B, is expressed as applying ‘for the purposes of point 1068-B1A’.

The amendment proposed by item 2 will mean that point 1068-B1B will no longer be linked to point 1068-B1A.

Comment

It is unclear why point 1068-B1B of the SS Act is currently expressed as applying for the purposes of point 1068-B1A of the SS Act. It appears that these two provisions have always intended to specify
the circumstances in which a person's benefit will be calculated as if they had a dependent child when that child does not come within the definition of 'dependent child' in section 5 of the SS Act. **Point 1068-B1A** sets out the situation in relation to children aged 16 and 17 while **point 1068-B1B** relates to children who are under 16. The amendment proposed by **item 2 of Schedule 8** of the Bill will clarify the independent operation of these provisions.

### Concluding comments

The various amendments proposed in this Bill offer effective incentives for young people to finish their schooling, undertake study or find employment. The faster phasing out of transitional arrangements for some Parenting Payment recipients combined with more generous income tests for single parent Newstart Allowance recipients offer much stronger financial incentives for this group to find employment. This is in line with the original intention of the 2006 changes to Parenting Payment as well as the Gillard Government’s push for higher levels of employment participation among single parents. The changes will mean that all Parenting Payment recipients will soon be subject to the same conditions and obligations.

The specific proposals in the Bill have received little criticism. The targeting of particular groups of disadvantaged job seekers has, however, caught the attention of welfare groups, the Greens and various other groups, concerned with the adequacy of the Newstart and Youth Allowance rates of payment. At issue here is not whether there are enough incentives for payment recipients to seek out employment built into the conditions for these payments, but whether the payments offer enough basic support for individuals to carry out job search and training activities as well as meet their basic living requirements.

The other amendments proposed in this Bill are sensible and help to harmonise aspects of the compliance regime and ensure the SS Act functions as intended.

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