



# Submission to Independent Inquiry into Insecure Work in Australia

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# 1. The prevalence of insecure work

## Australia's changing labour market

Since the 1990s, the labour market in Australia has experienced a change from a platform of secure full-time employment to a two-track market comprising secure, full-time employment and insecure, casual, part-time or contract employment. According to research conducted by the Australian Council of Trade Unions, up to 40% of the workforce is in insecure forms of employment, including independent contracting; fixed term contracts; labour hire; and casual employment.<sup>1</sup> Certain types of employment have a high rate of insecure workers, including construction, retail, and community and health care. Once a worker has commenced insecure employment, it is difficult to move to secure employment.

The ACOSS Submission to Fair Work Australia on Minimum Wages, March 2011 includes an analysis of Australia's changing labour market:

The reality of labour market restructuring over the longer term in Australia is more complex than a simple story of reduced demand for low skilled labour. Employment growth has not been biased exclusively to high skilled jobs. Instead, it appears that employment growth has hollowed out, with employment growth concentrated on low and high skilled positions rather than middle level jobs. Over the 1990s full time jobs growth was biased towards the high skilled, but part time jobs growth was concentrated in low skilled occupations especially in service industries... Australia is exceptional in its incidence of part time and casual employment: 30% of employees are employed part time and a similar proportion is employed casually. Compared with other OECD countries, Australia's incidence of part time employment is second only to the Netherlands and its incidence of casual work is second only to Spain. There is a high incidence of low pay in both part time and casual employment. This suggests that the Australian labour market operates as a dual labour market in which higher skilled employees have access to full time jobs, while lower skilled employees are to a large extent confined to part time jobs<sup>2</sup>.

Aside from differences in the supply of part time and full time workers (the greater reliance of mothers and students on part time jobs), one possible explanation for this 'two track' labour market is that employers have been prepared to engage lower skilled workers on a part time or casual basis because they are perceived to be more productive when employed in this way. For example, many part time and casual

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<sup>1</sup> ACTU (2011): *Insecure work, anxious lives: the growing crisis of insecure work in Australia*. Melbourne.

<sup>2</sup> For an empirical analysis of labour market segmentation in Australia, see Song & Webster 2003, *How segmented are skilled and unskilled labour markets?* *Australian Economic Papers* 42:3.

employees (such as shop assistants and bank tellers) are brought in to work only during times of peak activity.<sup>3</sup>

If there has been a long term bias in favour of skilled employment in Australia, this has been tempered by strong growth in low skilled part time employment. That is, the bias lay in the distribution of working hours rather than the distribution of jobs.<sup>4</sup>

## Leave entitlements

According to the Australian Bureau of Statistics, in November 2010, there were approximately 11.3 million employed persons aged 15 years and over<sup>5</sup>. Of these, 7.0 million (62%) were employees with paid leave entitlements, that is, they were entitled to paid sick and/or paid holiday leave, commonly used as a predictor of insecure work. Of the remaining employed persons:

- 19% were employees without paid leave entitlements (24% of all employees);
- 10% were independent contractors; and
- 9% were other business operators.

Other findings from the ABS Forms of Employment data show that there is a strong correlation with part-time work and no entitlement to paid leave:

- Most employees who were full-time workers in their main job, had paid leave entitlements (90%). By comparison, of the 2.8 million part-time workers, less than half (45%) had paid leave entitlements. There is considerable variation by gender as well, with overall females less likely to have any leave entitlements than males.

There are differences by industry:

- The industry division with the lowest proportion of males and females with paid leave entitlements was Accommodation and food services (42% and 29% respectively).
- The industry which employed the largest number of females was Health care and social assistance (955,300 employees). Over one third of these female employees worked part-time and of these, nearly one third had no entitlement to paid leave.

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<sup>3</sup> Most part time jobs are casual, and vice versa, so that employers have the flexibility of 'daily hire' in addition to the flexibility of working people for only part of the week. On the other hand, many casual jobs are actually long term jobs, albeit without job security. See Watson et al 2003, *Fragmented Futures*, Federation Press; Wooden & Warren (2005): *The characteristics of casual and fixed term employment*, Melbourne Institute Working Paper 15/03..

<sup>4</sup> Keating 2002, Watson et al 2005.

<sup>5</sup> Australian Bureau of Statistics (2011): *Forms of Employment, Australia, November 2010*. Cat. No. 6359.0

There is a strong correlation between lower skilled occupations and a lack of paid entitlement:

- For both males and females, the occupation group with the highest proportion of employees with paid leave entitlements was Managers (95% and 90% respectively). This was followed by Professionals for both males and females (92% and 88% respectively). The occupation group with the lowest proportion of males with paid leave entitlements was Labourers (57%). By comparison, the occupation group with the lowest proportion of females with paid leave entitlements was Sales workers (45%).

**Table 1: Females with no leave entitlements by status and occupation**

Occupation	Full-time	Part-time	Total
Sales workers	19%	71%	55%
Community & personal service workers	19%	53%	40%
Labourers	27%	65%	50%
All occupations	10%	50%	28%

**Table 2: Males with no leave entitlements by status and occupation**

Occupation	Full-time	Part-time	Total
Sales workers	10%	77%	38%
Community & personal service workers	13%	75%	35%
Labourers	27%	77%	43%
All occupations	11%	69%	20%

## Insecure work in the community services sector

The under-funding and insecurity of funding for non-government community services contributes to the high incidence of insecure employment in that sector.

The community services sector reports a high share of part-time and casual workers. The Productivity Commission has estimated that the not-for-profit sector generated \$41 billion in 2006-07.<sup>6</sup> It noted that this was larger than the communications sector and comparable to the measured contribution to national income of the wholesale trade, transport and storage and government administration and defence industries combined. It is a sector that grew at more than twice the real growth rate of the national economy and provided 8.5% of total Australian employment.

Community services make up a significant proportion of these figures, as the largest employer base within the broader not-for-profit sector. Moreover, as stated above, the

<sup>6</sup> Productivity Commission (2010): Contribution of the Not-for-Profit Sector: Research Report. Australian Government Productivity Commission, Canberra.

industry which employed the largest number of females was health care and social assistance. Over one third of the nearly one million female employees worked part time and of these, nearly one third had no entitlement to paid leave.

Despite the significant economic contribution of this sector, severe underfunding of community services in Australia, and insecure funding arrangements, including of government-funded programs, has had a significant impact on the sector’s capacity to attract and retain the workforce it requires to deliver effective services.<sup>7</sup> The Productivity Commission found that governments themselves tend to fund only 70% of the costs of the services that they contract community organisations to provide.<sup>8</sup> Government contracts have grossly undervalued inflation and so have driven a decline in funding in real terms, even as demand for services in many areas has increased. Inadequate funding has also led to workforce challenges in attracting and retaining qualified, experienced community workers to deliver effective services. As governments have increasingly outsourced the provision of those services to community organisations, the drive for government savings has left the sector under-funded and facing increasing challenges to sustain the support they provide.

Key indicators of this trend include the striking pay disparities between community service workers and comparable roles in the government and business sectors; and the increasing difficulties faced by the sector in attracting and retaining staff. In ACOSS’ annual survey of community organisations, we have repeatedly found that capacity to attract and retain workers is the single greatest challenge facing organisations.<sup>9</sup> Evidence to the equal pay case before Fair Work Australia indicates that there is still much work to be done to ensure that community sector wages enable qualified, experienced workers to support effective, viable service. While the equal pay case has the potential to increase award - and therefore *minimum* - rates of pay in parts of the country, that is still a far cry from the sector’s capacity to pay ‘market-based’ wages as recommended by the Productivity Commission in 2010.

The persistent failure to pay adequate indexation has resulted in the erosion of government funding for community services over many years.

**Table 3**

<b>Average rates of indexation (%), government funding for community services, 2011</b>	
<b>Commonwealth government</b>	1.30
<b>State or territory government</b>	2.32
<b>Local government</b>	1.05

Source: Australian Community Sector Survey 2011, ACOSS

<sup>7</sup> For further information, see ACOSS Budget Priorities Statement 2012-13 (available at: [http://acoss.org.au/images/uploads/2012-13\\_ACOSS\\_Budget\\_Priority\\_Statement\\_Final.pdf](http://acoss.org.au/images/uploads/2012-13_ACOSS_Budget_Priority_Statement_Final.pdf))

<sup>8</sup> *Op cit*

<sup>9</sup> see for example Australian Community Sector Survey (ACSS) 2011 and ACSS 2010, available at: [www.acoss.org.au](http://www.acoss.org.au)

These averages are significantly lower than basic CPI, much less the pressure of rising wage and utility costs that are increasingly undermining the viability of services. Moreover, the Commonwealth Government does not have a consistent or adequate approach to indexation for community services even within its own departments, further undermining the capacity of services to budget and plan properly. The Productivity Commission concluded the short term nature of many funding agreements also contributes to turnover as staff move to find more secure employment. They concluded that ‘substantial reform of the ways in which governments’ engage with and contract NFPs is urgently needed’.

Available evidence also indicates that, in some parts of the community sector, insecure work is more common for frontline workers with fewer qualifications. The Carson, Maher and King<sup>10</sup> survey of South Australian community sector organisations found that on average 40% of direct service roles were performed by staff with insecure tenure in comparison to only 17% of indirect service ‘back office’ roles.

In late 2011, the South Australian Council of Social Service (SACOSS) performed a small survey of member organisations on job insecurity and other workforce issues, replicating some of the questions from Carson, Maher and King’s work. The SACOSS survey data is not representative, but a number of community sector organisations surveyed report a clear distinction in job security based on roles performed. In these cases, professional, management and administration staff are employed in secure, permanent full-time or part-time roles and direct support roles are performed by workers with insecure tenure, either casual or subcontracted.

One example noted from the survey data is an established organisation (existing for over 20 years) providing personal care, respite, counselling and other services to support older people and people with a disability. This organisation has nine staff in management, professional and administration roles only two of which are insecure (two admin staff are on contracts that are less than 12 months in duration). Alternatively, the direct client services, personal caring and other in home supports, which are the organisation’s core business, are provided by over 100 subcontracted workers.

The benefit of operating in this way for the worker providing care is not obvious. However there may be some advantage to the agency directing the service, in not having to pay for any more than the fraction of time required, and because of this, there may also be a flow on benefit for the person receiving care, in that they may be able to receive more time and support as necessary. In a number of cases arising from the survey data, it was also unclear

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<sup>10</sup> Carson, E, Maher, C, King, P (2007) *Careers at The Coal-Face? Community Services in South Australia: Workforce Development*, South Australia Policy Research Group & SACOSS, Adelaide, Australia, 88.



whether the labeling of this work as subcontracting is in fact accurate, given that the work is directed from one source, but this would need to be tested in an industrial court.

Qualitative data from Carson, Maher and King's<sup>11</sup> research indicates that subsectors may differ in their hiring practices. For example, in focus groups employers and workers from aged care reported an established pattern of employing workers in direct support roles on a casual basis, whereas participants from disability services report efforts to create permanent part-time positions for workers in these roles, recognising 'people like tenure, and casual work is unpredictable'. Still figures from the survey show a higher than average concentration of insecurity in the disability sector, specifically in personal support services (independent and community), as well as in community centres, transitional and crisis accommodation, information, advice and referral and support for carers.<sup>12</sup>

Job insecurity has effects beyond that on workers and organisations. High staff turnover and a lack of continuity means experiential knowledge and expertise can be lost from the agency. Staff turnover in direct support roles may also undermine important personal relationships and trust with service users, diminishing the service quality.<sup>13</sup> Longer term relationships of familiarity and trust as well as worker's knowledge of the intricacies of individual client's circumstances can not easily be transferred to new workers, making it necessary for service clients to start over each time a staff member leaves.

Resources directed at recruitment and training of staff members in organisations that experience workforce churning detracts from funds available for service provision. This is particularly frustrating in a context where waiting lists and turn-aways are on the rise.

Beyond addressing the significant underfunding that undermines the sector's capacity to ensure secure work for community workers, there is a need to incorporate the community sector within workforce development programs and policies. Workforce development is a clear example of a current national process, funded by the Commonwealth, that is not adequately engaging with the community sector. Incorporating the community sector more fully within the programs already underway provides a vital low cost opportunity to support the significant contribution of this sector. Examples include:

- workforce mapping across major program areas to identify areas of skills shortages and their potential impact;

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<sup>11</sup> *Op Cit*, 159.

<sup>12</sup> *Op Cit*, 89.

<sup>13</sup> Ogle, G and Bowling, K (2010) *Alternative Employment Models for the South Australian Community Sector: Towards a Sustainable Workforce*, South Australian Council of Social Service, Adelaide, 3.

- improving access to affordable training for people seeking to work in community services, such as supporting community organisations in vocational education and training as registered training organisations;
- scholarships for under-represented groups including those with Aboriginal and Torres Strait Islander and Culturally and Linguistically Diverse backgrounds to increase employment opportunities in the community sector; and
- seed funding to develop short training products that will potentially enhance practice in key areas such as cultural competency, collaboration and outcome measurement.

## Casualisation

The Brotherhood of St Laurence states in its submission to this Inquiry:

Labour force data reveals the following about casual employment in Australia:

- The density has increased over the past two decades
- The density is one of the highest across the OECD
- The density has expanded across most occupational and industry classifications
- The density is greater for women and young workers
- The density is greater for part-time workers
- The casual share is increasing for male and for full-time workers (Burgess et al. 2008).<sup>14</sup>

Research by William Mitchell and Riccardo Welters at the Centre of Full Employment and Equity shows highly casualised industries can have the effect of trapping workers in casual employment.<sup>15</sup> Based on analysis of the Households, Income and Labour Dynamics in Australia (HILDA) dataset 2001 to 2006, they found that:

- only one quarter makes the transition from casual to non-casual employment
- around 55-58% of casual workers do not move out of casual work
- there is striking stability for those in non-casual employment – around 90% remained there.

Mitchell and Welters conclude that:

- a) “highly casualised industries trap casual workers in casual employment as predicted by dual labour market theory;
- b) larger firms provide greater social networks for casual workers to transit to non-casual employment;

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<sup>14</sup> Brotherhood of St Laurence (2011): Decent sustainable work for all in a global economy: submission to the Independent Inquiry into Insecure Work in Australia. Brotherhood of St Laurence, Melbourne.

<sup>15</sup> Mitchell, William and Welters, Riccardo (2008): ‘Does casual employment provide a “stepping stone” to better work prospects? Working Paper No. 08-11, Centre of Full Employment and Equity, November 2008.

- c) unfavourable local labour market conditions do not appear to intensify the role of signalling in hiring decisions;
- d) employment rich metropolitan labour markets enhance the transition rate towards non-casual employment; and
- e) once we control for non-individual factors, individual characteristics have little influence on the transition rate.”

However not all large companies are moving to increased casualisation. In fact, Woolworths have reversed the trend to casualisation over the past seven years. According to their Retention and Engagement Manager Catherine Flynn, *“Between 2004 and 2011, casual workers are down from 41% to 33%; permanent part-time have increased from 29% to 37%; and full-time is steady at 30%. Overall turnover has decreased from 35% to 26.4% in the same period and 32% of our workers have been with them from more than five years.”*

Secure employment of staff can provide benefits to employers. These benefits include increased productivity and a reduction in the costs caused by excessive turnover, and are especially important in an ageing demographic and tightening labour market.

The incidence of ‘ongoing’ casual employment is of concern both from the standpoint of the well being of employees and the efficiency of workplaces. Many casual employees are in effect permanent workers, engaged by the same employer for a number of years without the benefits of job security or leave entitlements. On the face of it this is an inefficient way to employ long-standing workers as it probably increases staff turnover and hiring costs and reduces the employee’s commitment to the job, to that employer and to relationships in the workplace. The reasons for large scale employment of people on this basis should be explored to establish how incentives to use permanent contracts instead might be strengthened.

## **Underemployment**

In addition to lack of paid leave, another indicator of insecure work is that of under-employment. The latest ABS data on underemployed workers, defined as part-time workers who would like to work more hours and full-time workers who could not work their usual full-time hours for economic reasons, shows that of those working in November 2011, 873,500 or 7.6% of all who were employed, were seeking more work.<sup>16</sup>

For females, 21% of sales workers, 19% of labourers and 16% of community and personal service workers, wanted more hours. For males, 12% of labourers wanted more hours, as

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<sup>16</sup> Australian Bureau of Statistics (2012): Australian Labour Market Statistics, January 2012. Cat. No. 6105.0. Available: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6105.0Jan%202012?OpenDocument>

did 12% of community services and health workers and 10% of sales workers. Again these tend to be the lower skilled occupations.

Accommodation and food services, and Retail were the industries with the largest proportions of under-employed workers.

The extended labour force underutilisation rate is another indicator which may be relevant to insecure work. This is defined as the under-employed and people who are willing and available to work but have become discouraged and stopped looking for work; and people actively looking for work, not available to start work in the reference week, but available to start work within four week. Some of the factors contributing to this extended under-utilisation may be poor quality of work or unsuitability of hours offered. In August 2010 (the latest date for which figures are available) the extended labour force underutilisation rate was 13.2%.

## **In-work poverty**

An increasing number of Australian households live in income poverty while at least one member of that household is in paid employment. This is known as 'working poor'. There were approximately 389,600 Australians living in these conditions in 2005-06, an increase of 9.4% since 2003. 59% of working poor households are couples with children<sup>17</sup>. While some of these households had a member working full-time, most have only part-time employment.

Casual and other forms of insecure employment can lead to material deprivation even where the wages are significantly above poverty levels. One reason for this is that people with irregular and uncertain incomes are often unable to smooth their consumption by borrowing or saving. That means they are harder hit when a family crisis hits, such as an illness. Further, and importantly, people with insecure incomes are often unable to finance the purchase of assets such as a home which shield them from financial hardship in future.

## **2. Social security payments and insecure work**

ACOSS and the COSS Network are concerned about how unemployed people fare when they move into employment (including whether they move later fall back onto income support); and the extent to which the social security system (including income support and family payments) buttresses the incomes of those in low paid and insecure employment.

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<sup>17</sup> ACOSS (2008): Poverty in Australia, update on those affected. Available: [www.acoss.org.au](http://www.acoss.org.au). The poverty line used was 50% of median household disposable income.

## **Transitioning between income support and paid work**

The ACOSS Submission to Fair Work Australia on minimum wages states that:

Many people cycle between joblessness and employment – especially low paid employment - within a given year. People also move from low paid employment to higher paid jobs and vice versa. Therefore, when considering the well-being and living standards of low paid employees, their job mobility should be taken into account. If employees are stuck in low paid jobs for many years, this will have a greater adverse effect on their well-being than one short bout of low paid employment. Evidence as to whether low paid jobs are ‘stepping stones’ from unemployment to higher paid or more secure employment should also be considered. The evidence on the job mobility of low paid employees is mixed. Jobless people are more likely to be able to secure low paid jobs – especially casual jobs – than they are to move straight into higher paid, more secure jobs. Low paid workers have roughly an equal chance of progressing within two to three years into a higher paying job on the one hand, or either remaining in low paid employment or leaving employment on the other. The table below shows results from a recent study of job mobility among low paid workers.

**Table 4: Changes in the labour market status of low paid workers (2001-2004)<sup>18</sup>**

Labour market status in 2001	Labour market status in 2004		
	Higher paid employment	Low paid employment	Not employed
Low paid fulltime employment	58%	32%	11%
Low paid part time employment	43%	25%	30%

These results are similar to those previously obtained by Dunlop in respect of transitions from low paid employment and the Productivity Commission is respect of transitions from casual employment. However, Dunlop found that low paid former jobseekers were less likely that workers continuously in employment to progress from a low paid to a higher paying job, suggesting that unemployment may have had a scarring effect on future employment prospects.<sup>19</sup>

Kuehnle and Scutella’s study also revealed mixed evidence: while casual work significantly increases the probability of returning to income support for their sample of former income support recipients, it does not appear that those employed in lower quality jobs are any more or less likely to return to income support than those in higher quality jobs.<sup>20</sup>

The Department of Education, Employment and Workplace Relations (DEEWR) regularly surveys Job Services Australia (JSA) clients on outcomes. Each survey measures outcomes three months after job seekers participated in employment assistance in the previous 12 months. At June 2011, less than 50% of all JSA Stream 1-4 obtained employment, and of these, 60% were employed part-time (less than 34 hours per week). Of those who found employment, more than half was casual, temporary or seasonal. Of those who did find employment, there was a significant proportion (44.5%) who would like more work, and were seeking it – especially those who were employed part-time. The following diagram presents a schematic of the DEEWR data for job seekers.<sup>21</sup>

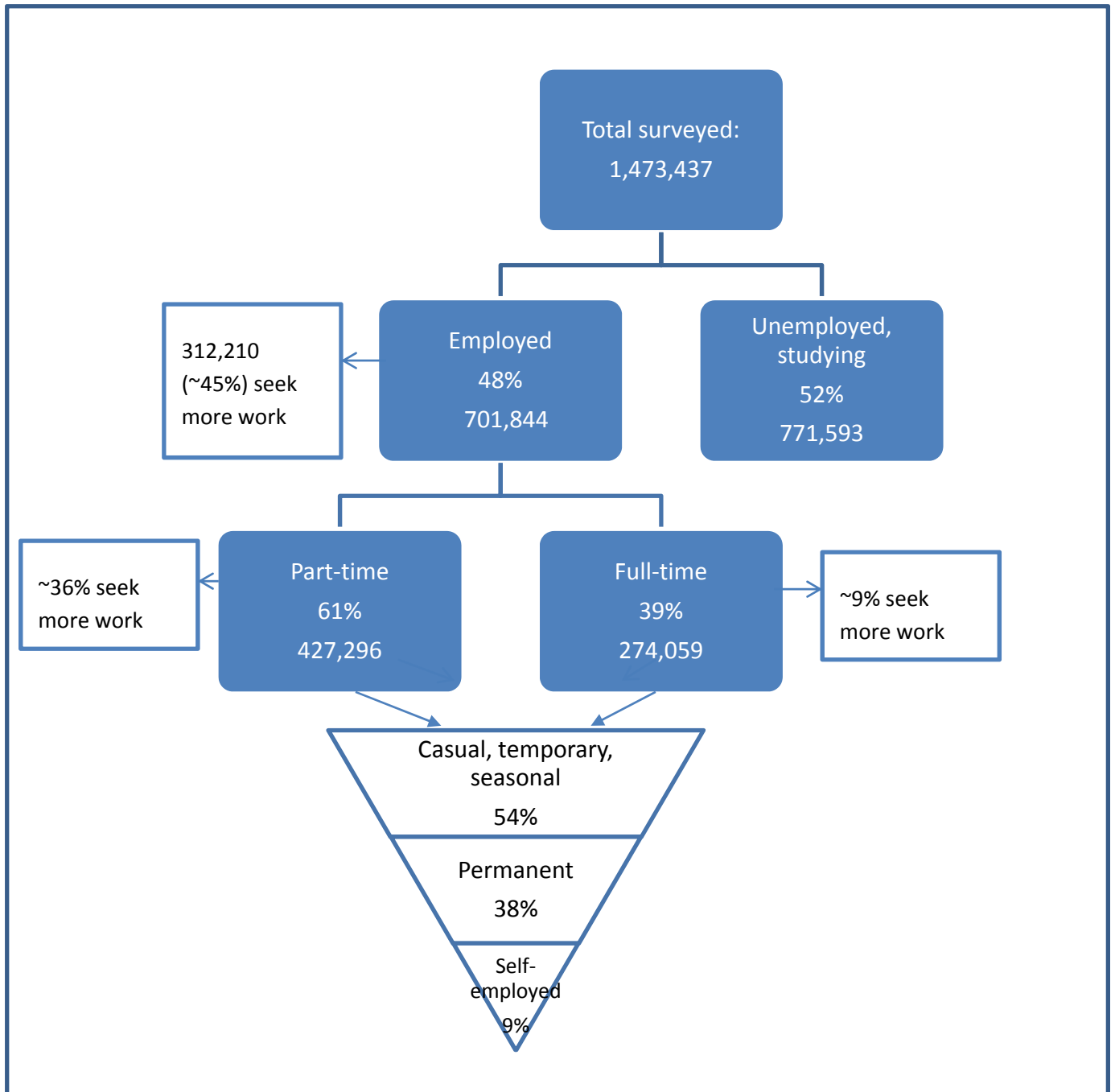
<sup>18</sup> McGuinness et al (2006): Characteristics of minimum wage employees.

<sup>19</sup> Productivity Commission (2006): The role of non traditional work in the Australian labour market; Dunlop 2001, Low paid employment in the Australia labour market in Borland et al, Work Rich Work Poor, Victoria University; Kalb 2000, Are part time jobs a stepping stone to full time employment?

<sup>20</sup> Employment retention in the economic downturn, Daniel Kuehnle and Rosanna Scutella, Melbourne Institute of Applied Economic and Social Research, July 2011.

<sup>21</sup> Derived from DEEWR Labour Market Assistance Outcomes June 2011.

Figure 1: Employment outcomes JSA clients, June 2011



The following table provides a breakdown of those who found employment by type and by JSA Stream.

**Table 5: Breakdown of employment outcomes from Job Services Australia (June 2011)<sup>22</sup>**

Job outcomes 3 months after assistance	Permanent employee	Casual, temporary or seasonal employee	Self employed
Stream 1 (least disadvantaged)	38.7%	52.3%	9.0%
Stream 2 (more disadvantaged)	39.9%	51.4%	8.7%
Stream 3 (more disadvantaged)	30.1%	61.0%	8/9%
Stream 4 (most disadvantaged)	35.5%	54.4%	10.0%
<b>TOTAL</b>	<b>37.5%</b>	<b>53.6%</b>	<b>9.0%</b>

Research cited in the Half a Citizen report<sup>23</sup> found:

The nature of current casual employment is that employee can rarely be assured of regular, consistent work; often they are expected to be on call. Kelly, a young woman with a degree in special education, worked part-time as an after-school care worker while receiving Newstart. The work was irregular, a *“couple of shifts a fortnight, or no shifts a fortnight, or no shifts a month.”* But Centrelink expected her to find full-time work. *“Which doesn’t happen, because you don’t do full-time with after-care. So you end up doing two part time jobs or something similar.”* (Kelly, aged 29, Newstart).

The researchers found that moving into paid work after a long period of unemployment was often perilous for many of the 150 participants in the study:

<sup>22</sup> This refers to job seekers who participated in employment assistance in the 12 months to March 2011, with outcomes measured three months later. Source: DEEWR (2011), Labour Market Assistance Outcomes, June 2011.

<sup>23</sup> John Murphy, Suellen Murray, Jenny Chalmers, Sonia Martin, Greg Marston (2010): *“Half a citizen”*: Life on a low income in Australia.



In the first round of interviews, of the 44 Newstart recipients, ten had some part-time paid work, and 31 had no paid work (the others did not disclose). Of the 31 Newstart recipients who were re-interviewed about a year later, only two had full-time paid work and twelve had part-time paid work.

‘Permanent casual’ work is also prevalent amongst job seekers. The Brotherhood of St Laurence states in its submission to this Inquiry:

In our research, interviews with disadvantaged jobseekers and entry-level workers, when we ask people about their current or previous employment status, we often receive the reply ‘permanent casual’. Not only does this response suggest a lack of awareness about employment conditions and rights—but it also points to the long-term nature of some casual employment. This anecdotal observation is supported by research indicating that more than half of all casual employees have been in their job for twelve months or more (Burgess, Campbell & May 2008).<sup>24</sup>

## Lone parents and underemployment

Lone parents are of particular interest in the analysis of underemployment in Australia. A high percentage of lone parent families experience some form of poverty. In 2006, the latest period for which figures are available, 16% of lone parent families were living under the 50% of median income poverty line, and 33% lived under the 60% of median income poverty line (the two most commonly used poverty indicators).<sup>25</sup> Similarly, 49% of lone parent families were experiencing multiple deprivation in 2006,<sup>26</sup> and were more likely to have more than three indicators of financial stress according to the ABS’ Household Expenditure Survey of 2011.<sup>27</sup> Almost 1/3 of all lone parent families suffered housing stress in 2007-08.<sup>28</sup>

Analysis of the Household Income and Labour Dynamics in Australia (HILDA) survey by the Australian Institute of Family Studies examined the differences in transitions to work for lone and couple mothers between 2001 and 2008 and was published in 2011.<sup>29</sup> The AIFS analysis

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<sup>24</sup> John Murphy, Suellen Murray, Jenny Chalmers, Sonia Martin, Greg Marston (2010), *Op Cit*

<sup>25</sup> ACOSS (2008): Poverty in Australia, update on those affected. Available: [www.acoss.org.au](http://www.acoss.org.au)

<sup>26</sup> Davidson, Peter (2008): Who is missing out? Hardship among low income Australians. ACOSS Info paper. Data drawn from Peter Saunders, Yuvisthi Naidoo and Megan Griffiths (2007) Towards New Indicators of Disadvantage: Deprivation and Social Exclusion in Australia.

<sup>27</sup> ABS 2011: Household Expenditure Survey, Australia: Feature Article: Government Pension and Allowance Recipients. Cat no: 6530.0. Available:

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6530.0Feature%20Article12009-10?opendocument&tabname=Summary&prodno=6530.0&issue=2009-10&num=&view=>

<sup>28</sup> Yates, Judith; Kendig, Hal; Phillips, Ben (2008): Sustaining fair shares: the Australian housing system and intergenerational sustainability. National Research Venture 3: Housing affordability for lower-income Australians. Research Paper No. 11. Australian Housing and Urban Research Institute

<sup>29</sup> Month-to-month employment transitions of lone and couple mothers are examined using the employment calendar data from Waves 2 to 8 of the Household Income and Labour Dynamics in Australia (HILDA) survey, covering the period from 2001 to 2008.

found that the vast majority of not-employed lone mothers are remaining out of work rather than transitioning between non-employment and employment<sup>30</sup>

However employed lone mothers were more likely than couple mothers to be in casual employment, and to have entered or exited employment during the year. This concurs with previous research has found that employed lone mothers are often in jobs that are short-term, unstable and low paid, which can lead to “churning” into and out of employment and reduced prospects for improved employment conditions in the longer term (Cancian, Haveman, Kaplan, & Wolfe, 1999; Chalmers, 1999; McHugh & Millar, 1996).

The AIFS study concluded that the couple and lone mothers entered employment at similar rates but that lone mothers exited more frequently. This was in line with a UK study looking at employment transitions in the UK (Evans, Harkness, & Arigoni Oritz, 2004), which found that in 2002–03 lone parents were moving into employment at similar rates to couple parents. However, they were almost twice as likely to leave their job as couple parents.

## **Combining income support and paid work**

The role of the social security system is not confined to supporting people out of paid work. It also plays a crucial role in supporting the incomes of low paid and insecure workers.

Australian policy makers have sensibly avoided providing a general subsidy (such as a working tax credit) for low paid fulltime jobs generally, on the grounds that this would lower wages and ultimately shift much of the benefit of the subsidy to employers at significant cost to taxpayers. Instead, we have looked to adequate minimum wages to provide an adequate income for low paid workers. Nevertheless, the social security system provides relatively high levels of income supplements for low paid families with children (via Family Tax Benefits) and for the partners of low paid fulltime workers (via individualised income support payments with income tests that ignore a large part of the working partner’s income). In these ways the system boost the incomes of low paid families while strengthening work incentives at the same time. For example, if an unemployed family moves into a low paid fulltime job, it retains all of its Family Tax Benefit entitlements.

Key problems with the present system for those combining wages and social security payments include the inadequacy of key payments and the complexity and stringency of income tests.

A significant proportion of income support recipients are combining work with welfare payments. Buddelmeyer et al examined data over the period June 2006 to April 2008 and found that close to 40% of Youth Allowance and Parenting Payment Single combined

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<sup>30</sup> J Baxter and J Renda (2011): Lone and couple mothers in the Australian labour market: exploring differences in employment transitions. Research Paper no. 48, Australian Institute of Family Studies, Melbourne.

earnings with income support, around one quarter of Newstart Allowees, and less than 10% of DSP recipients.<sup>31</sup>

For the fortnight ending 18 November 2011, 21% of Newstart and Youth Allowance jobseekers reported income from earnings.<sup>32</sup> A number of sole parents receiving Parenting Payment Single are also working and receiving income support – at June 2010, 34% had earnings from employment and partners of unemployed people (Parenting Payment Partnered) also work, often intermittently, and 40% of these recipients at June 2010 had income from earnings.

As ACOSS states in its Budget Priorities Statement 2012-13:

The Allowance income test reduces payments by 60 cents per dollar earned above \$70 per week. This makes part time employment uneconomical in most cases (especially when child care costs apply), which particularly disadvantages those whom the system expects to undertake part time employment – sole and partnered parents whose youngest child is of school age and people with a partial work capacity. The Henry Report recommended that consideration be given to easing the Allowance income test, at least for these groups. In the 2011 Budget, the Government announced an easing of the income test for sole parents on Newstart and Youth Allowance payments where their youngest child is of school age. However, this was not extended to partnered parents who are principal carers of such children or to recipients with a partial work capacity. The income test should also be eased for those groups, reducing it from 60% to 50%.

## **Unintended consequences of combining income support and paid work**

The National Welfare Rights Network (NWRN) has found that the highly-targeted, means-tested social security system is so complex that income support recipients face considerable difficulties meeting, or knowing how to comply with, their reporting requirements. Mistakes and errors – by both Centrelink clients and staff – happen far too frequently.

The main reason for debt is under or non-declared earnings. The Australian National Audit Officer Report into Centrelink Fraud Investigations reports that in 79.1% of those successfully prosecuted in 2007-08 were for employment-related offences.<sup>33</sup> These included under-declaring casual earnings; failure to declare part-time and full-time earnings;

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<sup>31</sup> Combining Income Support and Earnings, Hielke Buddelmeyer, Lixin Cai and Rezida Zakirova, Melbourne Institute of Applied Economic and Social Research, June 2009 (Updated April 2010).

<sup>32</sup> DEEWR, Labour market and Related Payments (a monthly profile), November 2011.

<sup>33</sup> Australian National Audit Office, *Centrelink Fraud Investigations*, Performance Audit Report No. 10, 2010-11, p. 63.

and failure to declare partner income. NWRN argues that the current system where earnings must be reported to Centrelink when the income is earned, rather than when the income is paid or received, places a significant number of people at risk of overpayment.

NWRN has found that

- It is not uncommon for a person to be employed by a number of employers.
- Debts can often occur because people have limited or no understanding of what is required to ensure they receive the correct amount each fortnight. Centrelink letters and correspondence which attempt to explain individual obligations and requirements to recipients are often difficult to understand, particularly for people with limited literacy, with limited formal education or whose first language is not English.
- Simple errors and misunderstandings – like confusing declaration of gross and net amounts, or wrongly guessing the amount of earnings because employers do not provide pay slips, or having to juggle multiple jobs paid at varying rates of payment with multiple allowances, having earnings pay periods unaligned with Centrelink payment periods – can lead to large debts for income support recipients. In the worst case scenario it can result in prosecution for Social Security fraud.
- Earnings declaration can be made more problematic if a person is not provided with regular payslips. This is increasingly more common, as reported in the University of Wollongong study undertaken with NSW Legal Aid.<sup>34</sup>

ACOSS and the COSS Network share these concerns, which are detailed in a 2009 paper: Redressing the Balance of Risk and responsibility through active debt prevention strategies.<sup>35</sup>

A key problem with the operation of social security income tests for casual employment is the volatility of income from fortnight to fortnight. Even in cases where the income test is relatively liberal (for example the pension income test), people are often discouraged from taking on casual work because of the uncertainty of the impact on their social security payments. This undermines the income stabilisation role of the social security system as well as work incentives. The earnings credit was designed to ease these problems by in effect allowing people to average their casual earnings over a longer period than a fortnight. However, the earnings credit is unnecessarily complex and poorly understood. It would be simpler, for example, to increase income test 'free areas for allowance payments and then allow people to 'store up' their 'free area' over longer periods than a fortnight. Administrative reforms such as the British 'better off in work' calculations could also make the system easier to understand and negotiate for casual employees.

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<sup>34</sup> Hui, F, et al (2011): Centrelink Prosecutions at the Employment/Benefit Nexus: A Case Study of Wollongong, Social Accounting and Accountability Research Centre, Report No. 1.

<sup>35</sup> Available at: [www.welfarerights.org.au](http://www.welfarerights.org.au)

## Adequacy of Allowance payments

Since they provide a buffer against poverty for people in insecure jobs, the adequacy of income support payments is important for these workers.

Unemployment payments (Newstart and Youth Allowances) were originally designed to tide people over a short period of unemployment. However, at times of relatively low and falling unemployment such as the present, those who remain on income support are among the most disadvantaged in the labour market. The aggregate unemployment rate was 5.3% at November 2011. There are still over 635,000 unemployed people in Australia, as measured through the ABS November labour force survey, and 616,574 Newstart and Youth Allowance recipients. A majority of recipients of unemployment payments are now unemployed long-term (over 12 months). In November 2011, 61% of all Newstart and Youth Allowance recipients had done so for more than 12 months, and the majority for over two years.<sup>36</sup>

Among all unemployment payment recipients, 60% lack a Year 12 education or above, around one in six (100,000) have a disability that prevents them from working fulltime and around one third (200,000) are over 45 years old.<sup>37</sup>

As ACOSS states in its Budget Priorities Statement 2012-13:

The maximum single rate of Newstart Allowance in December 2011 was just \$241 per week. The payment for unemployed young people living independently of their parents is \$194 per week. This is not enough to meet the most basic essential costs such as housing, food, clothing and transport costs to search for a job. Research into financial hardship indicates that unemployed people and sole parents face a much higher risk of hardship than most other groups in the community. For example 57% of Parenting Payment recipients and 28% of Newstart Allowance recipients could not afford to pay utility bills on time compared with 12% of all Australians. Over 40% of both groups could not afford dental treatment when needed.<sup>38</sup>

The real value of Allowance payments has not increased since the early 1990s, and they were not included in the \$32 per week in pensions announced in 2009. As a result, Newstart Allowance is \$131 per week less than the pension and Youth Allowance is \$178 less. As the Henry Report noted, there is room to increase these payments without significantly weakening work incentives. A single adult on Newstart Allowance who obtains a full-time job at the minimum wage *would double their disposable income*.

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<sup>36</sup> ABS *Labour force, Australia, November 2011*, cat. no. 6202.0, ABS, Canberra. and DEEWR *Labour Market*

<sup>37</sup> ACOSS 2010, *Beyond stereotypes*.

<sup>38</sup> ACOSS 2008, *Missing out, hardship in Australia*, ACOSS Info Paper – see [www.acoss.org.au](http://www.acoss.org.au).

ACOSS has long argued that allowance payments for single people should be increased by \$50 a week, following the recommendation outlined in the Henry Report, as stated in our Budget Priorities Statement 2012-13:

The gap between base rates of allowances and pensions for single people should be reduced by increasing allowance payments for single people to the same proportion of the married couple rates as applies to pensioners. Single rates of Newstart Allowance and other Allowance payments including Austudy Payment, Abstudy Payment, the away from home rate of Youth Allowance, Widow Allowance, Partner Allowance and Special Benefit should be increased by \$50 per week, and the single Allowance rate for those with a dependent child should also be raised to this level, from 1 January 2013.

### **Adequacy of Family Tax Benefit**

Australian family payments for low income families are high by OECD standards, and we welcome the Government's recent decision to increase them for low income families with teenagers. However, the decision in the 2009 Budget to sever the historical link between family payments and wages undermines a long standing commitment – initiated by the Hawke Govt in the late 1980s - to maintain parity between family payments and community living standards in order to reduce child poverty. That decision means that the value of family payments relative to wages will decline over time, so that they will play a diminishing role in supplementing the incomes of low income families whether employed or out of work. That decision should be reversed and the original family payment benchmarks (expressed as proportions of the married rate of pension) should be restored and enhanced in respect of older children.

### 3. Employment assistance and skills

The growth in insecure employment in Australia is largely concentrated in low skilled jobs, and insecure jobs are often the only jobs available to unemployed people on income support. Policies that improve people's prospects of moving into higher skilled jobs will be critical to reducing the incidence of insecure work. These include skills development policies and improvements in employment services especially the Job Services Australia system.

Detailed analysis of skills development policies and programs for low skilled workers is beyond the scope of this submission. However, people with limited work skills and formal qualifications would be assisted to move up the career ladder into secure employment by a well resourced and responsive VET sector to provide second chance education and training, investment in foundation skills for those at risk of economic exclusion (at all age levels), and better integration between mainstream education and training and employment assistance and social support services for those most disadvantaged in the labour market. For example, it is important that a substantial proportion of places in the new national skills development program announced in this year's Federal Budget is allocated to jobseekers.

Prolonged joblessness is socially corrosive, leading to severe health problems, family breakdown and the entrenchment of social exclusion in the worst affected communities. As ACOSS stated in its Submission to Fair Work Australia on minimum wages:

To overcome the barriers to work for long term jobless Australians, more investment in programs that improve their skills, work capacity, health and personal circumstances is likely to be needed. Better education of employers about the capabilities of people that many are currently reluctant to employ - especially people with disabilities, mature age workers and indigenous people - could also make a difference, especially as growth in the supply of labour falls in the coming years due to population ageing.

ACOSS's recent Budget Priorities Statement 2012-13 restates our long advocacy for intensive, high quality employment assistance for long term unemployed people. As well as improving their immediate job prospects, this could help them progress into more secure jobs:

A major weakness of the new system is that after 12 months of unemployment, most people will be offered a very low level of assistance because the Work Experience phase of the new system is seriously under-resourced. This is counterproductive, given evidence that suggests that the impact of intensive investment in employment assistance on employment prospects is greater on average for people experiencing long-term unemployment. Each unemployed person entering work experience attracts just \$500 in Employment Pathway Funds to purchase six months of work experience or training, together with funding for an interview every two months (up to \$700 per year). In its last Budget, the

Government doubled this amount to \$1,000 for people unemployed for two years, but this will now have to finance 11 months of compulsory activity (up from 6 months previously - an average funding level of \$100 a month). This investment is inadequate to overcome the barriers to work of people unemployed long-term.

We propose that fees for the 'work experience phase' be approximately doubled, to the same level that applies to Stream 3 jobseekers in their first year of unemployment, as a first step to rectifying this problem. This means that the level of provider resourcing for long term unemployed people would be roughly equivalent to that for those assessed as most at risk of long term unemployment. In this way, assistance would be targeted to the most disadvantaged without incentives to providers to delay assistance until later in the unemployment spell.

The Budget submission also proposes that a paid work experience programs be expanded to give disadvantaged jobseekers direct experience of a mainstream job and employers a chance to test the capabilities of long term unemployed people. The employments services system should also assist employers to engage with and employ a more diverse workforce, which is in the long-term interest of employers given projections of slower growth in the labour force as the population ages:

A period of paid work experience in regular employment can significantly improve the job prospects of long term unemployed people. It can do so by reassuring employers that the jobseeker is capable of undertaking the work, and in the case of more disadvantaged jobseekers, by boosting their confidence, essential on-the-job skills and job search networks. One problem with previous programs of this kind is that they emphasised the filling of program quotas rather than employment outcomes. A further difficulty is that insufficient attention was paid to the transition from subsidised to unsubsidised employment. The most effective paid work experience programs are carefully targeted towards long term unemployed people (whose job prospects are relatively poor without assistance of this kind); and designed to transition them into mainstream employment and keep them engaged in job search rather than simply providing temporary work.

Employment assistance should not end once a jobseeker has obtained a job. The past policy emphasis on moving unemployed people as quickly as possible into any job, rather than finding a job that is suited to them and improving their skills and capacity to compete in the relatively secure end of the labour market, was misplaced. While it is important to keep jobseekers active in the labour market, greater emphasis should be placed on skills development and employment retention. That, in turn, requires more intensive work with employers to assist them to train and employ a more diverse workforce.