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**KEYNOTE ADDRESS TO THE COMMITTEE FOR ECONOMIC
DEVELOPMENT OF AUSTRALIA (CEDA)**

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***** CHECK AGAINST DELIVERY*****

Thank you Lisa for that very warm welcome

Thank you for having me with you at today's luncheon.

I acknowledge distinguished guests including Dr Peter Shergold AC and Professor Stephen Martin.

Case for Reform

The case for real reform – not just tinkering at the edges – has been evident for some time.

My own perspective comes not only from the corridors of Canberra where responsibility for the national economy is always a consideration.

But also from my many years working at the grassroots with community organisations where I have seen at first hand the sheer despair of people who get caught in the welfare web.

Put simply, our welfare system now fails to achieve its intent.

All too often, the system is creating, indeed nurturing, cycles of poverty rather than assisting people out of poverty.

I wonder if the architect of the modern welfare state, Britain's Lord Beveridge, foresaw the potential for failure when he noted in his seminal 1942 report:

The state in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum it should leave room and encouragement for each individual to provide more than that minimum for himself and his family.

The problem is that the system has become stifling.

It can actually rob people of incentive, opportunity and responsibility.

Ad hoc and piecemeal changes over decades has left a system that is too complex.

When I tell you that the system now includes around 20 income support payments and 55 supplementary payments you will understand what I mean.

These payments are worth more than \$100 billion a year.

Increasingly, the ICT system is becoming more and more expensive to administer and technologically-antiquated.

Moreover the present system fails to provide clear incentives, opportunities and rewards for working age Australians wanting to leave income support, even among those who desperately wish to do so.

Our current system, as many of you will attest, is also out of step with current labour market realities and cannot meet community expectations in this regard.

And it is certainly not up to coping with future labour market challenges.

Some of Australia's most destitute families are those on or at risk of long-term welfare dependence.

The system does not identify and support in a timely way those groups.

On the contrary, perverse incentives have grown over time, encouraging people to take actions that are detrimental to their own long term interests.

The \$260 a fortnight gap in the rate of payment between the Disability Support Pension and the Newstart Allowance, for example, has created a perverse incentive for people on unemployment benefits to test their eligibility for the DSP which has historically had no requirements to look for a job.

Today, the largest single cohort of DSP recipients are those with a psychological or psychiatric injury which has overtaken those with physical disabilities.

The DSP is a payment we should be reserving for people with severe and persistent incapacity who may never have the option of self-reliance through work.

The Government is strongly committed to maintaining a safety net for those who need help and cannot support themselves.

But, for most people, welfare is most effective if it is only ever a short term support on the way to employment.

The benefits of work are well catalogued.

People who work have better general health and social outcomes and are more likely to report higher levels of overall wellbeing.

Children who grow up in employed households have better outcomes in terms of social, emotional and physical development, and learning.

Children who grow up in jobless households where they learn to rely on income support are more likely to suffer poor health, including poor mental health, and to repeat the cycle themselves when they become parents.

Worryingly, one in eight, or 12.3 per cent, of children under 15 in Australia live in a jobless family.¹

And these are persistent figures.

As individuals benefit from being off welfare and in work, so too does the community at large when more of its members work.

Higher employment boosts general economic growth.

It means less social security costs for government – the sheer inefficiency of our present welfare scheme adds enormously to administrative costs for government.

Higher employment also increases government's tax receipts of course and consumer demand across the economy.

These are issues a responsible government cannot ignore.

Development of the Report

So this was my rationale for appointing a review of Australia's welfare system when I became Minister for Social Services.

Both to give hope to Australians caught in the web of welfare despair.

And to take a more responsible view of the effect of the welfare bill on the national economy.

The aim is to create a system that is sustainable, effective and coherent.
And which encourages people to work.

Because work, as the Prime Minister most succinctly puts it, is the best form of welfare.

I asked Patrick McClure to chair the review – a man with extensive experience in the field and who had reviewed the system under the previous Howard Government.

Patrick was joined on the Reference Group by Sally Sinclair and Wesley Aird.

¹ ABS Cat 6224.0.55.001 here (tab 5, cell B25):
http://www.abs.gov.au/AUSSTATS/subscriber.nsf/log?openagent&6224_summary_table.xls&6224.0.55.001&DataCubes&0A9E4FCD0204836ECA2579180012C136&0&Jun_2011&28.09.2011&Latest

I released their Interim Report - *A New System for Better Employment and Social Outcomes* - in late June this year.

The Interim Report proposed an integrated approach to reforming the social welfare system based around 'four pillars of reform'.

Essentially, these pillars involve:

- making the income support system simpler and more sustainable
- strengthening individual and family capability to maximise social and economic participation and to help people achieve self-reliance
- working with employers who have a key role to play in employing people who are disadvantaged in the labour market, while realising the benefits to business of employing a diverse workforce
- working to better the capacity and resilience of communities to improve employment and social outcomes for jobseekers and disadvantaged Australians.

On payments, the Reference Group suggested streamlining the current 75 payments, supplements and allowances into four main categories – a child payment, disability pension, age pension and a tiered working age payment.

As the Interim Report explains it, the aim is to produce a simplified system that supports those Australians who are unable to work, whilst providing a more identifiable pathway to employment for those who can work.

I expect to have the review group's final report by the end of the year.

It is likely to expand on the themes of the interim report and provide recommendations for a way forward.

I am keenly anticipating reading these findings and considering the recommendations.

Consultations

The Reference Group has consulted extensively in preparation for its final report.

Roundtable meetings in each capital city have involved peak welfare, business and union bodies, community organisations, corporates, small and medium enterprises, jobs services providers and academia.

Carers, people with disability, jobseekers, single parents and students on income support have all met with the Reference Group.

Review members visited services' sites in each state to view best practice models and have received some 275 public submissions.

So there has been a very comprehensive input.

What I have already found reassuring is the broad support for reform that has showed up in the consultations.

Australians across the country have indicated that they want the income support system simplified.

And there was a strong interest in the investment approach similar that that being undertaken in New Zealand.

The Investment Approach

The New Zealand investment approach is about efficiency in successfully getting people onto trajectories that lead to employment and off those that lead to long term welfare.

The New Zealand approach uses actuarial valuations to establish the lifetime liability of both the income support system and of specific groups within the system.

Intensive support is then targeted where it is likely to give the best outcomes.

Here in Australia we too need to effectively target resources up front to prevent social problems and reduce long-term liabilities.

If we adopt the investment approach, we would be looking to put in place strategies and programmes to assist those groups who are most at risk of long-term welfare reliance

Employers have a role to play

The reforms I have outlined will make many more people available and ready for work.

And this is where I come to my most important message this afternoon.

Some of these people will be from disadvantaged backgrounds.

Others may have a disability or caring responsibility that places limits on their capacity to work.

Helping these people become job ready is of little avail if the jobs are not there for them.

You can't move from welfare to work if there is no work.

The Australian Government is committed to a strong economy that makes it easier for employers to employ and for potential employees to become employed.

Most of you here today are employers.

Your role is vital to the reform process.

I would ask that you think about how you can employ people who are marginalised or disadvantaged, people whom you might consider to be 'non-traditional staff'.

There is a range of services providing information to support businesses employing people disadvantaged in the labour market.

Job Access for example is a one stop shop delivering information and advice and coordinating adjustments in the workplace for people with disability.

The National Disability Recruitment Coordinator works with employers to develop the tools, knowledge and resources needed to increase the number of people with disability they employ.

Similarly, the Diversity Council of Australia is a workplace diversity advisor offering expertise in employing people from diverse backgrounds.

Post-placement support is also available.

And, among businesses who have gone down this path, there are some outstanding precedents.

The interim report mentions in-house initiatives by Westpac and IBM for example.

An estimated 12.1 per cent of Westpac employees have a disability and 49 per cent of employees are carers, with 15 per cent of those caring for someone who is elderly or has a disability.

IBM considers that its inclusive recruitment practices and its commitment to creating accessible workplaces give it access to a talent pool not available to other employers.

The Australian Chamber of Commerce and Industry has encouraged small to medium sized businesses to 'employ outside the box'.

That is a great phrase – to 'employ outside the box'.

That is the creative, lateral thinking we need.

It indicates a concerted, imaginative, effort to employ people with disabilities, mature aged workers, Indigenous Australians and women returning to work among other groups.

ACCI has not proposed doing this simply to be socially responsible, as important as that is.

Like IBM and Westpac, the Chamber has established a sound business case for embracing diverse recruiting practices.

For one, it points to the benefits of ensuring an adequate labour supply into the future - an issue of heightened importance given the impact of the aging population on labour supply.

The Chamber notes that a wider pool of talent will help relieve wage pressures. And it provides evidence that many disadvantaged groups make more loyal and productive employees.

The costs to business of absenteeism and sick leave for employees with disability can be as low as 34 per cent of the cost incurred by their colleagues.

Furthermore, both mature-aged employees and people with disabilities are more likely to stay in their job longer – reducing re-hiring and re-training costs.

ACCI points also to the benefits of a diverse workplace reflecting the diversity of the customer base and providing access to new segments of the marketplace.

Both Australian and US research shows that the benefits of employing a person with disability far outweigh the cost of any initial workplace adjustments.

The research also found that, contrary to common misconceptions, these adjustments were not exorbitantly high.

There are also jobs emerging that use new technology offering employers greater flexibility which means staff need not be in the office or workplace all the time.

This flexibility means a business doesn't have to pay high city based rents to house such staff – they work from home, receive their work over the internet and process it on your corporate systems.

These types of jobs can be ideal for people with mobility issues – people who might otherwise have considerable difficulty getting in to an office because of their disability but who are perfectly able to work at home.

It would also suit people with caring responsibilities who might choose to work non-standard hours around their caring responsibilities.

"Business-led" covenants and industry-led employment initiatives

Another option I would urge you to explore is the employment covenant option.

The Reference Group found a strong interest in employment covenants in its consultations.

The Australian Employment Covenant began in 2008 as a national and industry-led initiative to secure 50,000 sustainable jobs for Indigenous Australians.

The covenant is a tripartite commitment between employers, the Australian Government and Indigenous Australians.

It works quite simply:

- employers guarantee employment to Indigenous Australians
- the Australian Government, through employment services, provides training to the specifications of these employers
- Indigenous Australians commit to accept and remain in employment once trained.

And the results have been very encouraging.

More than 335 employers are now committed to roll out more than 60,000 job opportunities to Indigenous Australians across the country through this initiative.

By the end of January this year over 18,000 jobs committed had been filled by employers.

The Welfare Review Reference Group's Interim Report suggests that further business-led covenants could be created to improve the employment outcomes for people with disability and mental health conditions as well.

Two points strike me as particularly relevant here.

Firstly, the underlying concept is sound – industry-led employment initiatives are already showing they can generate positive outcomes for business, unemployed Australians and the wider community.

Secondly, the specific Australian Employment Covenant model is demonstrably succeeding and, I believe, could be equally successful if applied to other groups of disadvantaged Australians.

Incentivising social service delivery and new models of service

Today, you are also discussing incentivising social service delivery and strategies to address entrenched disadvantage.

There is a strong role for service systems that work directly with people to help them regain employment.

Critically, they need to intervene early.

The research is very clear - early intervention helps to stop social problems and breaks the cycle of intergenerational disadvantage.

The approach is widely recognised across the Organisation for Economic Co-operation and Development and the European Union

Current service models need to be reviewed and evaluated to make sure they intervene early and help people who are able to do so, get back into work.

Strategies to address areas of entrenched disadvantage

Unfortunately, our task is very challenging indeed in areas where there is entrenched disadvantage.

Certain areas of Australia are characterised by perpetually low economic opportunities.

And, as I mentioned earlier, we have our share of intergenerational disadvantage where the poor outcomes of parents are passed on to children who themselves grow up to in turn become parents with poor outcomes.

There are neither simple solutions nor easy answers to this.

The Government supports a range of programmes and policies directed at ensuring family wellbeing.

Within my Department we have developed a new Families and Communities Programme with a strong focus on prevention and early intervention.

The Communities for Children Facilitating Partner programme which sits under the new Families and Children Programme for example promotes strong family frameworks in which children have the essential social and emotional foundations on which to build their lives.

All the evidence shows that children nurtured in strong, loving families are less likely to need welfare support as adults themselves.

Conclusion

In conclusion, I hope I have made it clear that the Government is determined to build a welfare system that is simplified, more nimble and more targeted in its supportive interventions.

Because it needs to be for both taxpayers and recipients.

I fear if we do not grasp this opportunity in the next few years we will fall behind comparative countries such as New Zealand and the United Kingdom.

Instead of a world-class social security net, Australia will be offering an antiquated system at serious risk of being too cumbersome and unsustainable.

I hope I have also made it clear that we will not achieve our goals without a whole of community effort.

One in which the role of business will be crucial.

The Government has a role to play in assisting civil society prepare people for work. But business must provide the jobs.

Australian business has a reputation for initiative, entrepreneurship and good corporate citizenship.

I hope you can put those great qualities to helping us reform our welfare system.

Reform will bring better social outcomes for individuals and communities alike.

It will also bring a better chance of prosperity for the nation as a whole.

Thank you.

Ends.