Australian Government
Australian Social Inclusion Board

Dr Ken Henry
Chair, Australia's Future Tax System Review Panel
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Dr Henry,

As you may be aware, the Australian Social Inclusion Board recently met with Mr Rob Heferen of the tax review team to discuss the tax review and its social inclusion impacts. The Board is eager to ensure that social inclusion issues are brought to the attention of the tax review panel and is grateful to have had the opportunity to be briefed on the review process and to comment on some of the issues under consideration.

The Board is aware that the review's scope needs to be limited in some way to be achievable, however, considers it important to view social expenses and expenditure as more than a simple cost and revenue equation. Over the long term, social expenditure should be recognised as an investment in the future wellbeing of our population. The size and the proper targeting of this investment can generate social and economic returns that increase productivity and reduce social costs in the long term.

Following discussions and questions posed by Mr Heferen, the Board identified a number of early issues for further consideration by the Panel:

The value and nature of a progressive **tax** system

The Board supports a progressive tax system, including in-principle support for the inclusion of wealth in tax assessments. Varied treatment of income, as well as exemptions, deductions and concessions available in the existing system provide opportunities for people to pay less than their share of tax. Consideration of how to make the tax system equitable, both vertically and horizontally, is important. We note that the inclusion of the family home in asset testing raises significant complexities.

One area of the tax system with regressive impacts is the favourable tax treatment of superannuation. While the Board notes that the Government wants to encourage people with sufficient means to contribute to the costs of their retirement, the Board would like to see further consideration in this area. The existing system privileges high income earners who have more capacity to invest in superannuation and make use of favourable superannuation tax concessions than those on low and middle incomes.

While we note they have regressive impacts, the Board does support taxes on harmful behaviour such as alcohol and tobacco consumption. This type of taxation has long-term benefits for both individuals and the community. The Board supports consideration of additional opportunities to encourage behaviour with positive health and social outcomes.

The broad relationship between pensions and allowances

The Board has a view that allowances and benefits should be treated equally for all able-bodied people, with additional coverage for people with additional costs, such as carers and people living with a disability. Existing indexation arrangements for pensions and allowances add additional complexity, with pensions indexed to average weekly earnings, and allowances indexed to the consumer price index. As wages typically grow faster than prices, rates of payment diverge over time, creating inequitable favourable treatment of pension holders.

The right incentives for working, especially for the more income disadvantaged

Unemployment benefits need to be pitched at an appropriate level so that recipients are able to maintain an adequate quality of life as well as having sufficient resources to look for work. Insufficient unemployment benefits and higher differential indexation arrangements for pension holders can create a perverse incentive for people to move on to pensions rather than look for work. The shift to carer payments is also complex and needs closer examination.

Adequate unemployment benefits need to be structured, along with other allowances and concessions, to ensure people entering the workforce do not go backwards financially. Where work options are short-term or insecure, job-seekers risk losing entitlements to income support or benefits such as concession cards. There is a particular disincentive for those on higher pension payments to re-enter the workforce for fear of losing their pension eligibility and moving onto a lower paid allowance if their job does not work out. Income testing can also discourage mothers from re-entering the workforce.

The impact of the economic downturn also needs to be considered. One of the main factors in bringing people off payments into work is economic and jobs growth, however, in the current economic downturn, there is a risk of long-term non-participation of some people as a result of job losses. The future economy will need maximum participation in its recovery as indicated by labour and skills shortages in various industries and locations through the recent growth cycle. There needs to be in place appropriate support for people to be ready to move back into work when vacancies appear.

Incentives to work in certain areas, such as locations or professions in high need

Favourable tax incentives to encourage take-up of employment in locations and professions of high need to meet the needs of disadvantaged communities (for example, in rural and remote communities) should be further considered.

Use of insurance models

The Board strongly supports further investigating use of social insurance models, for example, to support life events such as having a child (child care and paid maternity leave) or disability (to support access to services and enable participation). Such a scheme would need to be compulsory and support those who have not had the opportunity to work. Examples from OEeD countries could serve as potential models for Australia. A key issue would be an insurance risk manager who could ensure a longer-range, early intervention approach is taken to reduce long term costs.

Key transitions in people's lives where the system needs to be more focussed

Complexities in the tax system at key transition points can make transitions difficult, particularly for disadvantaged groups and may mean that they are not able to make optimum decisions. Critical transition points often relate to the transition into and out of work and include:

- having a child;
- migration;
- diagnosis of a disability or serious health condition, including mental health;
- moving into or out of formal out of home care;
- homelessness;
- entering the workforce;
- moving from benefits into work; or
- retirement.

Incentives to encourage philanthropy

There are opportunities for the tax system to encourage philanthropy, for example, where individuals can refuse a tax concession on donations and the Government pays the concession to the recipient. The Board considers there would be value in investigating this further, noting that the Government has already identified the United Kingdom's Gift Aid as a potential model for consideration in the tax review along with other tax concessions provided to not for profit organisations. We also note that Treasury has work underway improve the integrity of Prescribed Private Funds and that it will be important for these processes work together.

A socially inclusive approach

The review presents an important opportunity for the Government to create a tax system that is both equitable and efficient, and is based on principles and concepts of social inclusion. The Government's recently endorsed principles for social inclusion (attached for your information) may be useful to identify relevant social inclusion issues. The aspirational principles, in particular, reinforce that to support social inclusion, the tax system needs to be fair and equitable, structured to support both social and economic participation, and simple enough that individuals are able to make informed decisions about life events such as having a child or retirement.

The Board is keen to progress these issues further, in particular, examination of the value of social insurance models and implications for groups vulnerable to social exclusion. We would appreciate receiving further updates as the review progresses and would be pleased to consider and advise on any other social inclusion issues you encounter.

Yours sincerely
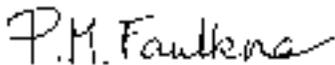
Patricia Faulkner, AO
Chair - Australian Social Inclusion Board
15 April 2009

cc Deputy Prime Minister

Australian Government

Social Inclusion Principles for Australia

Aspirational Principles

1   Reducing disadvantage

Making sure people in need benefit from access to good health, education and other services

Funding and service delivery should promote equitable access to universal benefits and services for Australians in all their diversity, and invest more intensively in those at risk of, or experiencing, social exclusion.

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2   Itlcreasingsocial,civil and ecortotnic participation

Helping everyone get the skills and support they need so they can work and connect with community, even during hard times

Maximum participation in economic, social and community life is a defining characteristic of an inclusive society. Achieving this outcome for all Australians means delivering policies and programs which support people to learn and strengthen their ability to participate actively in the labour market and in their communities.

Over time people's opportunities and capabilities are formed through their experience of family life and their participation in the communities, economies and institutions around them. People with well-established social networks and institutional connections are more likely to deal successfully with personal crisis and economic adversity. Policy design should be mindful of costs and benefits and the evidence about returns for investments. Resources should be weighted towards tailored approaches for those most in need while maintaining universal access and participation in services and community life. Services should be responsive to the diverse attributes, circumstances and aspirations of their clients.

A key aspect of boosting participation is capacity building - supporting individuals' personal capacity to address the issues that arise over the course of their lives, and supporting people to take independent decisions and to negotiate priorities through participation in their workplaces, their neighbourhoods and their communities. This is especially true for communities struggling with intergenerational disadvantage.

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3   A greater voice, combined with greater responsibility

Governments and other organisations giving people a say in what services they need and how they work, and people taking responsibility to make the best use of the opportunities available

Achieving social inclusion depends on the active involvement of the entire community. Providing opportunities for citizens and communities to identify their needs and give feedback about the design and delivery of policies and programs will be important.

Individuals and service users must have a say in shaping their own futures and the benefits and services that are offered to them. Detailed feedback from users and community members and genuine and inclusive consultation are important sources of information to improve policy settings and service delivery.

Where people are part of a democratic community and able to access opportunities, benefits and services, they also have an obligation to use their best efforts and take personal responsibility for taking part and making progress.

Organisations-both government and non-government-also have responsibilities to listen and respond, and to make sure their policies, programs and services help to build social inclusion.

Principles of Approach

4   Building. on· individl.lal and community strengths

Making the most of people's strengths, including the strengths of Aboriginal and Torres Strait Islander peoples and people from other cultures

Taking a strength-based, rather than a deficit-based, approach means respecting, supporting and building on the strengths of individuals, families, communities and cultures. Assuming, promoting and supporting a strong and positive view of Aboriginal and Torres Strait Islander identity and culture will be particularly important ways to reduce social exclusion for Indigenous Australians, working in parallel with specific initiatives to improve their health, education, housing and employment prospects. Recognising the varied and positive contributions of people from culturally and linguistically diverse backgrounds will also be an important feature of the social inclusion approach.

5   Building partnerships with key stakeholders

Governments, organisations and communities working together to get the best results for people in need

All sectors have a role to play in building a more socially inclusive Australia and the approach will rely on encouraging and supporting the diverse contribution of all. Strong relationships between government and these other stakeholders are key to achieving the joined up approach required for sustainable outcomes and to sharing expertise to produce innovative solutions.

Building effective partnerships to tackle shared priorities is essential to improving social inclusion over time. Whether in forming city wide plans to reduce homelessness, or strengthening service provision in parts of the community sector, or jointly investing in new social innovations, policy on social inclusion needs to advance work through a diverse range of cross sector partnerships.

6   **Developing** tailored services

Services working together in new and flexible ways to meet each person's different needs

For some members of the Australian population experiencing, or at immediate risk of, significant exclusion, mainstream services may not be sufficient or appropriate to mitigate against exclusion.

Deep, intensive interventions tailored at an individual, family or community level are one way to support those experiencing deep and complex social exclusion, by helping them tackle their actual problems. Different service providers may need to link together to do this. For example, linking health and family support services may make the most difference to parents of children at risk. Linking employment preparation effectively with drug or alcohol treatment may be necessary as a pathway out of homelessness.

Successfully overcoming social exclusion may also involve learning to change deeply held attitudes and behaviours, for example through anger management or family counselling, in order to access new opportunities.

Overcoming the fragmentation of government service systems for people at high risk of social exclusion, and in relation to important milestones in the lifecycle, such as transitions from adolescence to adulthood or the end of working life, is a priority.

7   **Giving a highpriorityto early** intervention and **prevention**

Heading off problems by understanding the root causes and intervening early

It is important to tackle the immediate problems of social exclusion that many face, such as homelessness. But in the longer term it is clearly preferable to prevent such problems arising in the first place.

Identifying the root causes of disadvantage and the connections between different types of disadvantage allows interventions to be designed to prevent the occurrence of problems and provide more effective support to those who are vulnerable before the disadvantage becomes entrenched. This is particularly important in preventing intergenerational transmission of disadvantage. Universal services such as schools and hospitals provide a range of opportunities to identify those at risk of disadvantage at an early stage. Giving priority to early intervention and prevention means focusing on children and young people, on the early identification of potential problems, and on taking effective action to tackle them.

8   **Buildingjoined-up services and whole of governmer1t(s) solutions**

Getting different parts and different levels of government to work together in new and flexible ways to get better outcomes and services for people in need

The multifaceted nature of social exclusion means that the services offered by anyone agency can only go so far in meeting the complex needs of a person or groups of people. Separate silos of funding, policy-making and service delivery can be systemic barriers to providing effective support.

Flexibility and cooperation across agencies, both between Commonwealth agencies and across levels of government, is one key to comprehensively address social exclusion. Integration, transparency and collaboration between Commonwealth, State and Territory governments are particularly important. Priorities include:

- taking a 'people-first' view of what people and communities need, using evidence about their actual experiences and life outcomes;

- developing policy through integrated, problem-solving projects which draw together all relevant agencies and knowledge; and

- developing programs within a comprehensive social inclusion framework, researching and understanding the links between programs operating on the ground, and working across all levels of government, including through the Council of Australian Governments, to join up service delivery in strategic as well as practical ways.

9   Using evidence **and integrated data to inform policy**

Finding out what programs and services work well and understanding why, so you can share good ideas, keep making improvements and put your effort into the things that work

Progress towards social inclusion must be accompanied by better information, faster learning and better use of knowledge to improve outcomes. As far as possible, interventions should draw on:

- practical experience of community and other delivery organisations;

- existing research and the evidence base on what works; and

- monitoring and evaluating strategies as they develop, focusing on outcomes as well as processes,

To the extent that interventions are experimental, they should be designed and evaluated in a way which builds on this evidence base.

It will also be important for government to report regularly on progress in social inclusion, using clear indicators and reporting from the perspective of the individual, the family, the neighbourhood or the community affected. Indicators should be responsive to effective policy interventions and identify the essence of the problem and have a clear and accepted interpretation.

10   Using locational. approaches

Working in places where there is a lot of disadvantage, to get to people most in need and to understand how different problems are connected

Evidence show that different kinds of disadvantage can be concentrated in particular locations in Australia.

Focusing effort on building social inclusion in particular locations, neighbourhoods and communities can ensure that they are not left behind, and help us learn how planning, economic development, community engagement and service delivery can be integrated to achieve better overall outcomes,

11   Planning forsustainability

Doing things that will help people and communities deal better with problems in the future, as well as solving the problems they face now

Policies and programs should be focused on long-term sustainable improvement. To do this, it is important to ensure that interventions build an individual's capacity and develop protective factors that will enable them to self-manage through life-course events.

For the government, it will be important to establish benchmarks and adopt formal quantified targets that are ambitious but attainable, measurable and time specific, focus on long term policy goals, and integrate long term social inclusion objectives in broader reform efforts, such as budgetary reform and reforms being pursued through the Council of Australian Governments.