

Simon Schwab

9th September 2008

Dr Ken Henry
Secretary of the Treasury
Submissions
Australia's Future Tax System
AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Dr Henry,

Thank you for the opportunity to contribute to *Australia's Future Tax System*. This submission addresses State based transfers to people with disabilities and focuses on the benefits of reform to individuals and national productivity.

The review, *Australia's Future Tax System*, identifies that the States make very limited use of direct transfers, relying mainly on indirect welfare transfers, like concessions or funding organisations to provide services to individuals.

These State based indirect welfare transfers are jointly funded under the Commonwealth State Territory Disability Agreement (CSTDA), which provides funding to more to more than 9000 welfare organisations, who then support individuals.

Although CSTDA funding grew to more than \$4 billion last year, almost 70% of people eligible for a State based disability service missed out.¹ Growing levels of unmet demand logically require an increasing supply of goods and services to meet the diverse needs of recipients. Expanding the supply of support requires investment to complement current government spending.

The disability sector has developed in a fragmented way, reflecting the investment choices of State Governments rather than the demands of individuals. The historic transition from institutional care to community based alternatives was not accompanied with sufficient support and many people have missed out on essential material goods and supportive services, which if available would allow people with disabilities to live in the community independently.

¹ Productivity Commission, Review of Government Services, 2008.

Reform to State based welfare payments, moving from indirect to direct transfers, like in Britain, can contribute to the required increase in supply and greater autonomy for individuals. Direct transfers provide individuals with personal budgets, which results in financial discretion and the ability to choose goods and service. This in turn encourages suppliers to invest in a supply that meets the unique needs of consumers.

Funding individuals, rather than service providers, allows for a predictable regime for complementary investment in social infrastructure, adding to the supply options currently funded by government. Direct transfers also give governments more flexibility over welfare budgets because funding is targeted at individual need, rather than meeting the costs of service providers. This is significant in the broader context of projected increases in public health spending required to support Australia's ageing population.

Innovative supply is possible if consumers have financial discretion and service providers are encouraged to invest in flexible options. This could include innovation and growth in traditional services, like home care, supported accommodation and respite but also in new options, like appropriately designed financial services, where people can decide to use a portion of their personal budget for savings or superannuation. This is a critical component in the long term care of individuals or their carers, who are often women and miss out on the financial security of regular paid employment.

The Federal Government is well placed to support direct transfers at a State level and to help the sector expand, with tax concessions, for investors who wish to build social infrastructure or supply new goods and services. The *National Rental Affordability Scheme* is a good example. Direct funding would create the market dynamic required to grow the services sector. In this new regime, Federal Government assistance, like the Family Tax Benefit, currently available for childcare, could subsidise fluctuations in consumer prices, while other welfare provisions including the Age Pension, Carer Payment and Disability Support Pension are available to supplement more substantial direct State transfers.

Extending a market to assist people with disabilities, the elderly and their carers, could help unify a fragmented service system, bringing transparency, accountability and choice to the provision of social care. To ensure standards and quality are maintained, governments could extend current accreditation systems to monitor new and existing service providers.

Getting the mix right, between indirect and direct transfers, and realising the benefits for individuals and national productivity, requires a coordinated approach, which the Council of Australian Governments, who review similar reforms as part of the broader National Reform Agenda, are well placed to lead.

Thank you for the opportunity to contribute to *Australia's Future Tax System*.

Yours Sincerely

Simon Schwab