1.3 Understanding welfare

Welfare and wellbeing

In the broadest sense, welfare refers to the wellbeing of people—the state of ‘faring well’; for example, being secure, happy, healthy and safe. Hence, the terms ‘wellbeing’ and ‘welfare’ are often used interchangeably (Econlib 1999–2012). The Organisation for Economic Co-operation and Development (OECD) (2015a) states that ‘well-being is multidimensional, covering aspects of life ranging from civic engagement to housing, from household income to work-life-balance, and from skills to health status’.

A range of interdependent factors can affect wellbeing. At the individual level, these include a person’s knowledge, attitudes, behaviours and responses to life events. Factors on a broader scale might include access to education, employment, secure housing, the environment, community networks and safety.

‘The circumstances under which people grow, live, work and age, and the systems put in place to deal with illness’ (CSDH 2008) help to determine an individual’s health, and are important contributors to wellbeing. Many of these elements are shaped by social and economic forces; they are also shaped by government direction (CDSH 2008). Policies at all levels of government can substantially influence the wellbeing of individuals and, hence, the broader population.

Australia’s federated governing system sees responsibility for policy, services and assistance shared between different levels of government (see Figure 1.3.3). Adding to this, these government agencies face a range of complex challenges in trying to meet the needs of the population. Challenges include changing population demographics (such as population ageing and decreasing family size), the changing nature of the Australian workforce, housing affordability issues, and government fiscal constraints.

Given this context, welfare support provided or funded by governments in Australia is complex and broad in nature. Some may see ‘welfare’ as primarily income support and tax concessions. But government policies and programs for wellbeing extend well beyond this. Universal services (such as education and health) and those more specifically focused on support for housing, employment, disability, ageing and aged care (among others) are, together, often critical to the wellbeing of an individual and their family. Mindful of this, governments are increasingly moving toward more comprehensive policies and programs to improve wellbeing overall. This requires coordinated efforts to address the factors that cause disadvantage and inequality (Buckmaster 2009).

Conceptual framework for Australia’s welfare

The concepts of welfare can be organised in many different ways. Figure 1.3.1 presents the conceptual framework used for this report. It shows the complexity of welfare as a concept—and that wellbeing, in general, results from the interplay of many interrelated factors. See also Chapter 9 ‘Indicators of Australia’s welfare’, which presents indicators underpinning this conceptual framework.
The framework acknowledges that welfare services and assistance—a large focus of this article—are not the only policy and program areas that governments and others (including non-government and for-profit organisations) adopt to improve wellbeing. Other policy and service areas, such as health and education services, interact with and influence the need or demand for welfare services.

The framework recognises the overarching importance of contextual factors—such as sociodemographic trends (for example, population ageing and immigration patterns), policy settings and general economic conditions (for example, Gross National Income and labour market efficiency)—which can influence the allocation of welfare expenditure and workforce availability. Contextual factors can help to enable or inhibit people’s ability to meet their everyday needs. For example, a neighbourhood with good footpaths and close access to parks, open spaces or recreational facilities can promote healthy behaviours, such as walking and physical activity (NHFA 2009), that affect wellbeing.

The need and demand for services are mediated by informal supports and the availability of welfare and other services—both at the individual and community level. For example, programs that help people with disability to maintain their housing tenancy can lead to more secure long-term housing arrangements and greater independence, and thereby lessen demand for informal and other formal support services.
Determinants play a central role in the framework (Figure 1.3.1). These are factors that can positively or negatively affect a person's wellbeing, and thus increase or decrease the likelihood that he or she will need welfare assistance. For example, a person's health status affects their ability to work, earn an income or contribute to their community. These are all factors that research shows are closely linked to wellbeing. Another example is family functioning: strong family functioning and cohesion contribute directly to wellbeing, and may also protect family members from needing welfare services because the family is a source of support (physical, emotional, financial, and so on). Loss of this support due to family breakdown may lead to a family member's requiring welfare assistance, such as shelter or income supplementation.

For many determinants, the action can be in both directions. For example, having access to social networks is associated with positive benefits like enhanced self-esteem, and access to emotional support; however, negative social interaction is also associated with outcomes such as poorer mental health and psychological wellbeing (Lincoln 2000).

Health, welfare and wellbeing

Health, welfare and wellbeing are strongly interrelated. The World Health Organization (WHO) defines health as 'a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity' (WHO 1948). This definition recognises that being in 'good health' is linked with having positive wellbeing, and that, conversely, health status is closely linked with an individual's wellbeing status. More recently, the WHO defined positive mental health as being 'a state of well-being in which the individual realizes his or her own abilities, can cope with the normal stresses of life, can work productively and fruitfully, and is able to make a contribution to his or her community' (WHO 2001). This later definition recognises the fundamental role of social contribution and engagement to wellbeing (see Chapter 4.1 ‘The changing nature of work and worker wellbeing’; Chapter 7.1 ‘Community factors and Indigenous wellbeing’; Chapter 8.2 ‘Participation in society by people with disability’, and Chapter 9 ‘Indicators of Australia’s welfare’).

Welfare services and assistance

Many people do not need support, or their need for support may vary as their circumstances and life stage change. If support is needed, it can come from a variety of sources—both formal (government and other organisations) and informal (family, friends and community groups)—and vary in nature and extent. This support in times of need can bolster a person's wellbeing. In fact, for people facing major challenges or suffering from long-term hardship, support in the form of welfare services and assistance is likely to be fundamental to wellbeing (see Chapter 1.6 ‘Persistent disadvantage in Australia: extent, complexity and some key implications’ for more information).

As already noted, welfare services and assistance (income support, tax concessions and welfare services) are just one part of a larger network of services and assistance provided by governments and non-government organisations to improve the wellbeing of individuals, groups and, thus, the Australian population.
This report presents a comprehensive picture of available information on welfare services and assistance, with reference to closely related policy and program areas, such as health and education. To begin, a brief overview is provided of the key types of welfare services and assistance in Australia today.

### Income support and tax concessions in Australia

Australia’s income support payments are financed from government revenue, with no separate social security contributions. This differs from what occurs in many other OECD countries, where employers and employees partly finance the system, and some benefits are tied to past earnings; for example, in parts of Europe, the United States and Japan, people who have earned relatively higher incomes receive more if they need to access benefits (Whiteford 2015).

The income support system redistributes income via the tax system (from people who are well-off to people who are most disadvantaged), and acts as a ‘safety net’ for people not able to support themselves (DSS 2017b). In Australia, income support payments are subject to means testing, a process used to determine eligibility for benefits. Means testing helps to ensure that resources are focused on supporting people with relatively lower incomes and fewer assets. It plays a more prominent role in Australia than in other countries, particularly in continental Europe. In fact, Australia is the highest means testing country in the OECD, with around 80% of spending on cash benefits (for example, age pensions and veterans’ payments) determined by means testing (OECD 2014) (Figure 1.3.2).

Australia’s transfer payment system also differs from those in the majority of other OECD countries. Australian Government transfer payments are financed solely from general revenue, rather than relying on contributions via a social security system financed by employers and/or employees. Australia’s compulsory superannuation contributions also work to reduce the reliance on the Age Pension over time (Productivity Commission (Australia) 2015) (see also Chapter 1.4 ‘Welfare expenditure’). Because cash benefit payments in Australia are at a flat rate (not based on prior earnings) and generally means tested, Australia’s spending on these benefits is comparatively low compared with spending in other OECD countries. (Australia was the 6th lowest spender in 2014, at 8.6% of Gross Domestic Product, or GDP (Whiteford 2015)).

As well, in 2011, around 42% of social benefits in Australia went to the lowest (or most disadvantaged) quintile of households. This compares with slightly more than 20% of benefits, on average, going to the lowest quintile of households across all OECD countries. Further, only 3.8% went to the highest 20% of households in Australia—the lowest figure of all OECD countries and well below the OECD average of 20% (CEDA 2014; OECD 2014).
Major income support payments

The most commonly accessed income support payment types are the Age Pension, Newstart Allowance and Youth Allowance. The Age Pension is by far the largest income support payment, with the most recipients (2.6 million eligible senior Australians, as at December 2016) (DSS 2017a). However, 2 in 5 (42%) people who received the Age Pension in 2015–16 were on a part rate. This means, that due to means testing, they receive only part of the payment. The proportion of the population receiving a part rate has been increasing over time. This is mostly due to new retirees who reach pension age having higher levels of income and assets than retirees before them, which, in turn, can be largely attributed to the design of Australia’s compulsory superannuation system (Productivity Commission (Australia) 2015; DSS 2016b).

There is also a range of supplementary payments. These comprise various additional long- or short-term payments, including those made during transitional periods to help with particular life situations or costs. The Family Tax Benefit A is the supplementary payment type with the largest recipient group (1.5 million families received assistance with the cost of raising children, as at December 2016) (DSS 2017a). Other types of supplementary payment include Paid Parental Leave and the Carer Allowance. There are also many payments accessed less often for people in time of need, such as the Crisis Payment (a one-off payment for people in severe financial hardship), the Bereavement Allowance and the Double Orphan Pension.
Tax exemptions and concessions

Various tax exemptions, deductions, offsets, concessional rates and deferral of tax liabilities are provided for welfare purposes. For example, a taxpayer may be entitled to claim a tax offset when they support a close family member receiving a disability support pension. Offsets are also available for eligible taxpayers who are seniors or pensioners, low-income earners, or beneficiaries of particular payments and allowances (ATO 2016). Governments at all levels, and some private organisations, also issue concession and health cards to eligible Australians. These provide access to discounts—mainly for medication and health services (DHS 2017).

Based on modelled tax expenditures (which are underpinned by a set of assumptions, and may exclude some alternative tax arrangements), tax expenditures in 2015–16 accounted for around 30% of welfare expenditure—up from 27% in 2014–15 (AIHW welfare expenditure database). The Treasury estimated that tax expenditure or concessions by the Australian Government for welfare amounted to $47 billion in 2015–16 (for more information on tax concessions and welfare expenditure, see Chapter 1.4 ‘Welfare expenditure’).

Welfare services

Welfare services (often referred to as ‘community services’) are provided to vulnerable individuals and families of widely differing ages and social and economic circumstances. As well as helping individuals and families directly, services may also indirectly help others in need. For example, they may help to develop community networks and infrastructure that help to access services.

Some services (such as those for health and education) help to enhance wellbeing for individuals throughout their life. There are also those specifically seen as ‘welfare’ or ‘social’ services. These services respond to need across people's lives, aim to encourage participation and independence, and assist in creating a cohesive society (DSS 2015).

Figure 1.3.3 presents a summary of the major welfare service types provided in Australia that are discussed in more detail in this report, together with income support and supplementary payments (described above). These service types closely align with the outcome priorities of the Department of Social Services: social security (financial support), families and children, ageing and aged care, disability and carers, and housing (DSS 2015).
### Welfare services

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<th>Youth justice</th>
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<td>Information and assessment services</td>
<td>Advocacy, information and alternative forms of communication</td>
<td>Community-based youth justice supervision</td>
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<td>Home care and support services</td>
<td>Accommodation support</td>
<td>Detention-based youth justice supervision</td>
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<td>Residential care services</td>
<td>Community support services</td>
<td>Youth justice group conferencing</td>
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<td>Flexible care services</td>
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<th>Homelessness services</th>
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<td>Specialist homelessness services</td>
<td>Community-based youth justice supervision</td>
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<td>Detention-based youth justice supervision</td>
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<th>Main government responsibility</th>
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### Delivery of welfare services

The responsibility for funding and managing these services mainly lies with Australian or state and territory governments; however, arrangements for the delivery of welfare services are complex. In many cases, services are delivered by non-government organisations, or NGOs (profit and not-for-profit). These NGOs are predominantly ‘approved providers’—meaning they have been formally authorised, contracted and/or funded by government to provide particular services. Further, service delivery can be shared between these NGOs or local governments and state and territory governments. The relative involvement of organisations varies from program to program, and between states and territories. Private investment in welfare services is also a relatively new and growing area (see ‘Social investment approaches’ later in this article).

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**Note:** The services listed under ‘services for people with disability’ are based on current National Disability Agreement categories. The current transition to the National Disability Insurance Scheme, taking place over a 5-year period, will transform the type and nature of disability services, as well as the overall government responsibility (which moves to the Australian Government).

**Source:** Adapted from SCRGSP 2016.

**Figure 1.3.3:** Major welfare service types in *Australia’s welfare*, by main government responsibility
It is also worth noting that beneath the high-level services described in Figure 1.3.3 are services that can and do cross service types and sectors. For example, respite care provides a formal break for clients and their families in the context of out-of-home care, disability support services, aged care services, and for young informal carers. Similarly, support for family, domestic and sexual violence may be delivered in specialist homelessness and other service settings, as well as being provided through family support services (see Chapter 2.7 ‘Family, domestic and sexual violence’: Figure 2.7.4). There are also other services that foster wellbeing in, or across, other sectors.

Note that while this report discusses areas of policy and program interest outside of these specific welfare services, its focus is generally on welfare outcomes (for example, entering employment, readiness for school, or attaining school qualifications).

Current and future reforms

Reforms to the delivery of Australian welfare services in recent years have aimed to introduce a more person-centred approach in providing welfare services. The National Disability Insurance Scheme, which is being rolled out at a national level between 1 July 2016 and July 2020, is one example of how this approach has been adopted in the disability sector (see Chapter 8.1 ‘People with disability’; Chapter 1.7 ‘Understanding health and welfare data’).

Another trend emerging among governments responsible for social policy—both nationally and internationally—is developing new and innovative ways to fund and deliver welfare services.

Social investment approaches

Over recent years, there has been growing interest in a ‘social investment’ approach to complex welfare issues. In its most general sense, social investment involves spending on programs up front to provide better long-term outcomes for a given population. This has the added benefit of achieving future savings for government, as better outcomes mean reduced future reliance on government services and/or income support. For example, a United States study estimated that the long-term benefits of an early childhood program focused on vulnerable families yielded a return on investment of over 13% per annum, while showing substantial and sustained improvements in outcomes for the families, including in health, education, employment and contact with the criminal justice system (Garcia et al. 2016).

Research in the United Kingdom has also shown benefits from prenatal interventions for ‘at risk’ mothers, with regular visits from a family nurse before and after the birth of a child (and continuing to the child’s second birthday) showing a wide range of positive outcomes for both mother and child (EIF 2017).

The major principles behind social investment have been established for some time, with their application expanded in recent years. Internationally, this includes the European Commission’s establishment of a social investment package in 2013. It incorporates the development of a strong evidence base to determine what interventions work when aimed specifically at children. This social focus has now been transformed into the European Pillar of Social Rights, which sets out an ambitious agenda across three major reform areas—equal opportunities and access to the labour market, fair working conditions, and adequate and sustainable social protection (European Commission 2016, 2017).
Social impact bonds
The expansion of ‘investment’ to incorporate privately-funded bonds is relatively new but a rapidly growing initiative. First developed in 2010 by the United Kingdom Government, these ‘social impact bonds’—also known as ‘social benefit bonds’—are offered to private investors, who provide capital to fund specific projects in return for a future financial return paid on delivery of specific social outcomes.

Australian governments have begun to introduce social impact bonds, with some early successes evident.

- Australia’s first social impact bond was the Newpin Social Benefit Bond—a program to reunite families and prevent entry into statutory out-of-home care. The program restored a total 130 children to their families in New South Wales between 2013 and 2016, while delivering an above-target return to investors of 12.2% in 2016 (OOSII 2017).
- In early 2017, the South Australian Government launched Aspire—Australia’s first social impact bond to focus on the homeless population. It aims to improve health, employment, justice and housing outcomes for up to 600 individuals over a 4-year period (SVA 2017).
- The Victorian Government has announced its intention to develop its first social impact bond in 2017. It will work collaboratively with an NGO consortium in focusing on improved outcomes for young people leaving out-of-home care (Premier of Victoria 2017).

Welfare investment approaches
Alongside the expansion of social investment has been the introduction of Australia’s Priority Investment Approach, modelled on the New Zealand welfare investment model. While ‘social investment’ and ‘welfare investment’ are increasingly being used interchangeably, in an Australian and New Zealand context, the latter is more narrowly focused.

Welfare investment refers to specific programs that use detailed actuarial modelling to provide a baseline estimate of individual lifetime welfare costs to guide the targeting of packages of services at the group or individual level. They are set up to project and track actual government savings over the long term, providing information that feeds back into better targeting and more effective services. They also allow innovative approaches to reduce long-term welfare dependency to be tested (OECD 2015b, 2017) (see also Box 1.3.1).

The adoption of welfare investment principles is proving to be applicable at state level. The Victorian Government has drawn on the principles from the New Zealand and Australia-wide models to establish the Victorian Social Investment Integrated Data Resource. This Data Resource—a large, integrated state-wide data set—is intended to be used to identify priority groups for early intervention, create a model of expected future costs, and apply this to develop packages of services that better support people in these groups.
Box 1.3.1: Investment approaches to welfare

A welfare investment model aims to reduce the reliance of a population on government welfare payments. This is done by estimating—via statistical modelling—how many people will be likely to rely on these payments into the future (and for how long), and then developing interventions (investments) to reduce this contact as much as possible.

New Zealand model

New Zealand’s welfare investment model introduced a world-first approach by estimating lifetime costs of the working-age population who are, or are likely to be, reliant on social security payments (Taylor Fry 2016). In late 2011, the New Zealand Government announced a welfare package coupled with a baseline valuation report (Taylor Fry 2011), with an overall target of reducing future government liabilities by $NZ 13 billion by 30 June 2018 (SSC 2016).

Australia’s Priority Investment Approach

The development of an Australian welfare investment model was a major recommendation of the McClure report into Australia’s welfare system (Reference Group on Welfare Reform 2015). It cited the New Zealand model as having substantial potential in an Australian context. In 2015–16, the Australian Government announced funding to implement the Australian Priority Investment Approach. This included an initial actuarial valuation of the Australian Government’s social security system. The total future lifetime cost of providing social support for the whole model population was estimated to be $4.8 trillion as at 30 June 2015 (DSS 2016c).

In 2016–17, a further $96.1 million was committed to creating a ‘Try, Test and Learn Fund’ to finance the development and implementation of innovative targeted early intervention programs. The first tranche (round) of the ‘Try, Test and Learn Fund’ is focused on three priority groups:

- young carers aged under 25 who started receiving the Parenting Payment at age 18 or under and who are still receiving an income support payment
- young parents aged under 25 who are receiving a Carer Payment or are at immediate risk of going onto the payment
- young students aged under 25 who have moved, or are at risk of moving, from study to an extended period on an unemployment payment.

Trials of new policy responses, which will be developed from a shortlist of ideas, are scheduled to be rolled out in the second half of 2017 (DSS 2016a). The Australian approach differs from the New Zealand model in that it has not set specific targets for cost or recipient reduction. Rather, its overall goals are to: improve lifetime wellbeing through targeted interventions to increase the capacity of people to live independently of welfare (especially through employment), manage the risk of intergenerational welfare dependency, and reduce long-term social security costs. The Australian model also projects future welfare use for the entire Australian resident population, including both current recipients and people not currently in the system.

Some concerns have been raised about the potential of the investment approach to produce unexpected or perverse outcomes. It has been noted that reducing eligibility for some types of benefits could result in the emergence of other social issues (for example, an increase in homelessness) (Productivity Commission (New Zealand) 2015; Taylor Fry 2011). In an Australian context, the Australian Council of Social Service has also noted concerns that the initial focus on young people does not consider the immediate needs of other sections of the population; for example, older jobseekers (ACOSS 2014).
What is missing from the picture?

Many welfare-related data sources are restricted by their focus on a single, specific area, often related to the receipt of a single service at a defined point in time. This limits the ability to analyse and report meaningful information about an individual’s wellbeing.

Linking data from multiple sources (data linkage) can provide more information about an individual or institution than one data source alone. In certain cases, this can provide a time sequence, helping to show a ‘pathway’ (for example, the sequential contact an individual makes with services across systems) and provide insights into cause and effect. The AIHW has undertaken several data linkage projects—for example, linking data from youth justice, child protection and specialist homelessness services to better understand the characteristics of vulnerable young people across all three sectors (see ‘Where do I go for more information?’). Further linkage may provide more meaningful data on health and welfare service requirements and outcomes at an individual level (see Chapter 1.7 ‘Understanding health and welfare data’ for further discussion on current data gaps).

Where do I go for more information?

Up-to-date information on payments and allowances for all income support programs, including eligibility criteria, can be sourced from the Department of Social Services and Department of Human Services websites. A guide to Australian Government payments is available on the Department of Human Services website.

Access the DSS website for information on government support for families and children, seniors, communities and vulnerable people, homeless people, people with disability and carers.

AIHW reports on welfare service usage and clients can be found at www.aihw.gov.au. Topics of interest may include:

- Housing assistance: www.aihw.gov.au/housing-assistance/

The linkage report: Vulnerable young people: interactions across homelessness, youth justice and child protection 1 July 2011 to 30 June 2015 is available for free download.

References


