

The Impact of Breaching and Financial Penalties on Income Support Recipients¹

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Abstract

'Breaching', or the imposition of financial penalties for infringing income support rules and obligations, has been highly controversial in recent years. This is mainly because of a large increase in the number of breaches imposed between 1999 and 2002 in the context of an intensified 'mutual obligation' regime. Welfare advocacy groups have argued that these penalties are unnecessarily harsh and tend to fall most heavily on the more vulnerable income support recipients. However, there has been little systematic examination of the impact of breaching, either in terms of hardship or in terms of its effect on future compliance with obligations. This article discusses the results of the first large-scale study of these impacts, commissioned by the Department of Family and Community Services and carried out by the Social Policy Research Centre in 2002/03. The research involved a review of existing literature, a national telephone survey of breached income support recipients, together with in-depth interviews with a small number of survey respondents, and a national postal survey of welfare agencies.

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Introduction

In Australia there have always been financial penalties attached to non-compliance with unemployment benefit job search or other requirements. These penalties have become controversial in recent years mainly because of a massive increase in the volume of what is called 'breaching' towards the end of the 1990s, amounting to a rise of around 340 per cent between 1997 and 2001 (see Table 1). This stemmed from the intensification of requirements placed on unemployed beneficiaries as part of the Coalition Government's 'mutual obligation' and 'welfare to work' policies. It reflects how income support has shifted from being an entitlement for all those in a specified benefit category to a payment contingent on compliance with individualised, contractual agreements (Eardley 1997; Carney and Ramia 2002). Centrelink was required during this period to be more vigilant in enforcing income support rules, while within the new employment services quasi-market (the Job Network), agencies came under contractual obligation to report non-compliance with participation plans.

Table 1. Number of breaches, 1995 to 2002-03, by breach type

Year	Activity breaches imposed (number) (a)	Admin breaches imposed (number)	Activity breaches as a percentage of total	Total breached imposed (number)	Index
1995 (Apr-Dec)	36,916	41,457	47	78,463	-
1996-97	47,400	65,700	42	113,100	100
1997-98	60,981	59,737	51	120,718	107
1998-99	n/a	n/a	n/a	212,900 (b)	195
1999-00	177,759	124,735	59	302,494	267
2000-01	294,747	92,199	76	386,946	342
2001-02	226,446	43,457	84	269,903	239
2002-03	93,260	40,979	69	134,239	119

Notes:

a. Instances of breaching, not persons breached.

b. Actual figures for the activity and administrative components of total breaches imposed in 1998-99 are not reported here because of a Centrelink computer error which was corrected for July 1999 onwards (Moses and Sharples, 2000, Table 4)

c. Total imposed breaches 2000/01 also reported by Senate Community Affairs Legislation Committee (2002) as 391,478. Not known which is correct.

Sources: Mullins and Raper (1996), Moses and Sharples (2000, Table 4); Senate Community Affairs Legislation Committee (2002); Department of Family and Community Services (2004)

How far greater enforcement of requirements is actually expected to improve recipients' chances of gaining employment is unclear. Evaluation of similar sanctions in the UK and the US suggests that they tend to fall on the more disadvantaged recipients, but that their circumstances make them the least likely to comply (Vincent 1999; Goldberg and Schott 2000; Burke and Falk 2001; Saunders, Stone and Candy 2001; Britton 2002). In some States in the US at least, there has been some evidence that sanctions may be more effective where a return to compliance immediately reduces the penalty (Schnurer and Kolker 2002).

Whatever the intention, penalties involve significant financial losses for recipients. For a single adult in Australia in June 2002, these ranged from \$384 for one administrative breach to a total of \$3491 where three activity test breaches were incurred within a two-year period.² The proportion of all breaches that were imposed under the more heavily penalised activity test rules also doubled during the period up to 2002.

Welfare organisations mounted a successful media campaign against breaching from the late 1990s onward, drawing on small-scale surveys and case studies of clients suffering harsh impacts (eg., Australian Council of Social Services 2000a; 2000b; 2001). They supported the establishment of an independent review of breaching which recommended substantial structural and procedural changes (Pearce, Disney and Ridout 2002), and in response to public disquiet the Government made a number of changes to policy and practice that brought the numbers of breaches back down in early 2003 to pre-1997 levels.

Breaching was also one of the main issues that led to the delaying of legislation for the Australians Working Together package, first introduced in the July 2002 Budget, as this included subjecting new groups of beneficiaries, particularly some sole parents, to activity testing and thus, potentially, to the penalty regime. Following negotiations between the Government and the Senate (with intense lobbying by the welfare sector), the legislation was eventually passed in March 2003 with amendments that significantly reduced the scope and severity of penalties. The Government also agreed to establish a Breaching Review Taskforce, which reported to Ministers in December 2004. Subsequently, the 2005 Budget foreshadowed a revised system of penalties based on a partial suspension of payments until compliance is re-established. Final details of the new system were still being negotiated at the end of 2005, but welfare sector groups remained unconvinced that the initial proposals addressed all the problems identified with previous arrangements (Welfare Rights Centre 2005).

When the study on which this article draws (Eardley et al. 2005) was commissioned (in 2002) there was little systematic evidence either on the effectiveness of breaching as a compliance tool or on its wider impacts. The findings of the study were amongst the range of evidence provided to the Taskforce. This article discusses the main results, drawing particularly on the survey of breached recipients.

Research aims and methodology

The research focused on examining how far initial breaches resulted in actual penalties, which groups of recipients were disproportionately affected by breaching, whether breaching increased compliance and what overall impacts it had on recipients.

Methods included:

- a review of existing data and research on breaching;
- a national telephone survey of income support recipients who had recently been breached, undertaken at the end of 2002, with an achieved sample of 1005;
- a national postal survey of welfare agencies, representing a broad cross-section of community services dealing with breached clients, with usable responses from 99 agencies; and
- in-depth interviews with 20 people who had recently experienced breaches, including recipients in a range of disadvantaged groups.

Full details of the survey methodologies can be found in the main report (Eardley et al. 2005). It should be noted here that reliance on telephone contact for the recipient survey inevitably meant some degree of bias towards people with more stable lives and housing circumstances. The sample turned out to be reasonably representative of breached beneficiaries as a whole, based on characteristics recorded in administrative data sets, but probably underestimated to some extent the level of disadvantage. To address this potential bias, some of the people recruited for the in-depth, qualitative interviews were contacted through organisations assisting homeless people and those with psychological health problems.

How far do initial breaches result in financial penalties?

A large percentage of all potential breaches are initiated as a result of reports to Centrelink from Job Network agencies, but the proportion of these that actually resulted in an incurred breach fell during our observation period from just over half in 1999 to one-fifth in 2002-03 (ACOSS 2001;

Department of Family and Community Services 2003). This suggests an increasing tendency for reports to be issued on incorrect grounds or with insufficient information (or possibly a relaxation of strict enforcement by Centrelink). If a breach is incurred it can be challenged either with the original decision maker at internal review or by formal appeal. Data on reviews and appeals shows that in 2002-03 just over 31 per cent of all incurred breaches were later overturned by the original decision maker - a gradual increase since the late 1990s (ACOSS 2000a; Department of Family and Community Services 2003). This represented around 11 per cent of activity test breaches and almost 40 per cent of administrative breaches.

The success rate for appeals taken to more formal levels has been even higher. In 2001-02, 43 per cent of breach decisions taken to internal review were overturned by Centrelink review officers (AROs) and 38 per cent of appeals to Social Security Appeal Tribunals were also successful. Appeals against activity test breaches had a higher rate of success than those against administrative breaches. However, only a small proportion of challenges reach the formal appeal level, so it is estimated that in all, fewer than two per cent of all breaches incurred are later overturned (Senate Community Affairs Legislation Committee 2002).

The higher success rates for activity test breaches once an appeal reaches a tribunal may be explained partly by recipients with the strongest cases being more likely to appeal (and possibly more likely to acquire professional representation). On the other hand, it has been argued that recipients often do not appeal even when they might have good grounds for doing so, because of a lack of awareness of appeal rights and difficulty engaging with the procedures (ACOSS 2000a; AFHO 2001; Mullins 2002).

Who gets breached?

One of the main research questions was whether breaching disproportionately affects the most vulnerable recipients, as welfare sector agencies have argued. This is not easy to determine. Within the resources available for our study it was not possible to construct a direct comparison group of non-breached beneficiaries.

Figure 1 shows the age profile of breached recipients in 2002-03 (when overall breaching rates had fallen back again), based on Centrelink data. It contrasts breaching with the overall unemployment beneficiary population in each age group and shows that 18-24 year olds are the age group disproportionately most likely to be breached.

Men were also somewhat more likely than women to be breached, but taking account of the gender distribution of beneficiaries by age group, the sex difference was less significant than that of age. Previous research has shown that Indigenous beneficiaries were also disproportionately likely to be breached (Sanders 1999), but our data suggested that the gap between Indigenous and non-Indigenous recipients may have been narrowing.

Figure 1. Age profile of breached beneficiaries, 2002-03

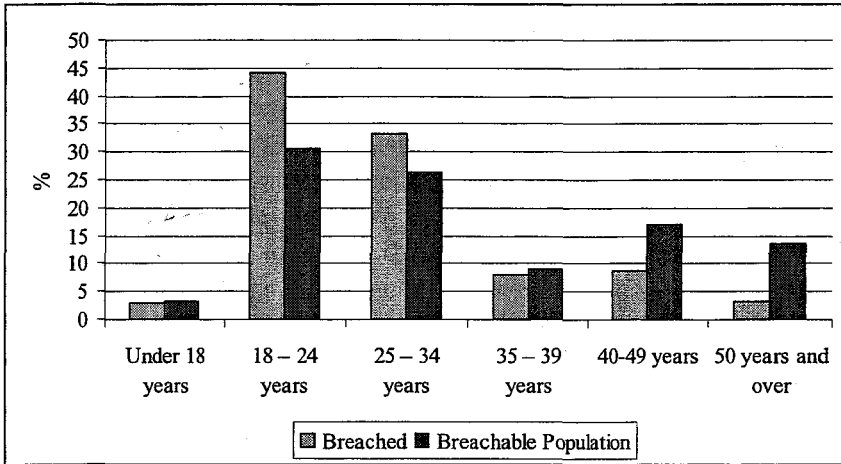
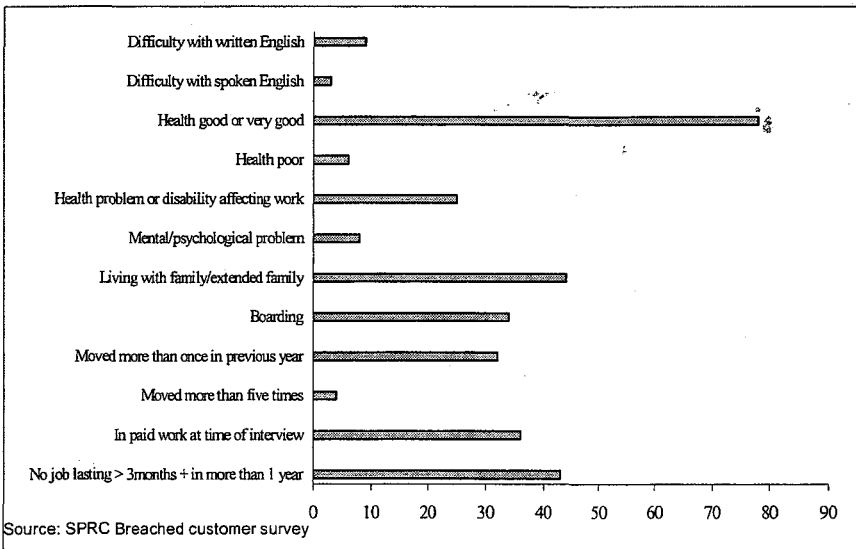


Figure 2 summarises responses to a number of survey questions on breached recipient circumstances and characteristics.

Figure 2. Breached recipients' circumstances and characteristics, 2002 (per cent)



Language difficulties

Most did not report having difficulties with spoken English, even though more than 11 per cent were born overseas in a non-English speaking country. Ninety-two per cent also said that English was the main language spoken at home. However, we might expect language problems to be slightly understated, given that just over two per cent of potential respondents contacted did not participate in the survey because of language difficulties. A small minority (nearly nine per cent) did report difficulties with written English that made it hard to deal with Centrelink and other official bodies. These were disproportionately concentrated amongst older men, who were more likely to have been born overseas in a non-English speaking country. However, comparison with administrative data suggests that people from non-English speaking backgrounds (NESB) were somewhat less likely to be breached than their presence in the unemployed income support population would suggest. Even if the survey under-represents breached NESB recipients to some extent, it does not appear that they figure disproportionately amongst those receiving penalties.

Health status

More than three-quarters reported their general health as being good or better, but just over one-quarter reported having a health problem, physical disability or psychological difficulty which made it hard to look for or to keep work. Again this was highly age-related, involving 55 per cent of those aged 50 or over, but was slightly more prevalent amongst women than men. Of all those reporting such problems, two-thirds said that they had received medical or other treatment for the problem in the previous year, suggesting that most of the conditions reported were more than trivial. Many of the physical conditions increased in prevalence by age, so that, for example, while only four per cent of respondents said they had back injuries or problems, this was true of 19 per cent of those aged 50 or more.

The largest single category of psychological conditions was that involving depression/anxiety/stress and various nervous disorders. Close to five per cent overall reported a condition falling into this category, but it was more common amongst women (nearly seven per cent). Taken together with other mental health or psychological conditions that include bi-polar disorder, schizophrenia, psychosis, Tourette's syndrome, ADHD, agoraphobia, personality disorders and substance addiction problems, this totalled 8.4 per cent of breached recipients. It is important to remember that these were recipients of unemployment payments, not the Disability

Support Pension, and we might also assume some level of under-reporting of such conditions in a telephone survey of this kind.

However, to put this in perspective, other research has indicated that mental illness is much more common amongst unemployed income support recipients as a whole than amongst the general population, with up to 30 per cent of the unemployed recipient population having some kind of mental health disorder (Butterworth 2003). This estimate was based on data from the National Health Survey, which is perhaps more likely to identify such problems accurately than the breached customer survey (but could also overestimate them, given the broad scope of the questions). Our own data were based on self-identification in response to one question over the telephone and were thus likely to underestimate the full extent of such problems. Nevertheless, although there are clearly a substantial number of people with potentially severe psychological problems being breached, these data do not in themselves support the suggestion that people with mental health problems are disproportionately represented amongst breached recipients.

Living and housing arrangements

In terms of living arrangements, a substantial proportion of breached recipients were living with their families at the time of the survey (44 per cent), but only around one-quarter of these were living rent-free, so most still had rent or boarding payments to meet from their reduced incomes. FaCS data on housing tenure indicated that breached recipients were much less likely than other beneficiaries to be home owners, as would be expected given their age profile.

The picture on housing instability was mixed. Close to half had not moved house in the previous year and another 23 per cent had only moved once. At the other extreme 14 per cent had moved between three and five times, and a further four per cent had moved more than five times in the year. This pattern was somewhat different for men and women, with women apparently suffering greater housing instability, but it was clearly age related, with the youngest grouping making the most frequent moves. This suggests that while housing instability may not be a major problem for most breached recipients, there is a significant minority for whom breaching may be exacerbating existing difficulties with finding secure housing.

Labour market activity

Respondents were also asked about their labour market activities in the week before the survey. It should be noted that this is not the same as their activities at the time they were last breached, which would have been up to four months before. Well over one-third (37 per cent) were in paid work of some kind, including a small number in self-employment or on CDEP schemes, while half remained primarily unemployed and in job search, and the rest were studying or training, doing voluntary work, or meeting home or caring responsibilities. Of those in paid work, although most were in part-time jobs a substantial number reported working long hours (especially the men), but nearly two-thirds said their hours usually varied. On the other hand, more than two-fifths reported it having been over a year since they had a job lasting more than three months and seven per cent had never had such a job.

Household financial stress

Where there was more direct evidence of comparative disadvantage amongst breached recipients was in their experiences of a range of household financial stresses. A comparison using ABS financial stress measures suggested that breached recipients' households were considerably more likely than other unemployed income support recipients to have experienced multiple cash flow and other hardship problems in the previous year (Table 2).

Table 2. Household financial stress breached recipients compared with all beneficiaries

	Cash flow			Hardship		
	None	Some	Multiple	None	Some	Multiple
<i>Breached recipients (2002)</i>						
Newstart	16.0	19.1	64.9	35.7	22.6	41.7
Youth Allowance	21.4	26.1	52.5	45.0	23.4	31.7
<i>Households with 50% + income from benefits (1998-99)</i>						
Newstart	14.2	52.4	33.4	47.3	35.0	17.7
Youth Allowance	3.7	63.4	32.9	68.8	23.2	8.0

Source: SPRC Survey of Breached Recipients, Bray (2001), Table 15, based on analysis of ABS Household Expenditure Survey.

Even just comparing breached Newstart recipients with all those mainly reliant on benefits shows that the former were nearly twice as likely to report multiple cash flow problems (65 per cent compared with 33 per cent). Youth Allowance recipients were also more than one and a half times as likely to report multiple cash flow problems, but they were also more likely to report no cash flow problems (21 per cent compared with four per cent), possibly because they were more often living with their families. Breached Newstart recipients were also well over twice as likely to report multiple financial hardship (42 per cent compared with 18 per cent).

There was also a relationship between breach severity and financial disadvantage. Nearly 12 per cent of those reporting multiple hardships were on their third breach, compared with less than seven per cent of those reporting no financial hardships. However, given that less than nine per cent of respondents overall were on their third breach, this means that close to half of all those with third breaches reported multiple hardships, compared to just over 30 per cent of those reporting no hardships. Of course, an association between breaching and financial stress over a given period does not tell us the direction of any causality. Being breached may cause financial hardship, but pre-existing financial hardship could also lead people to attempt to maximise income, such as by not reporting all earnings, and consequently to receive a penalty.

Overall, the study could not tell us conclusively how far there has been a concentration of breaching amongst more disadvantaged or vulnerable groups. Evidence from welfare service and advocacy groups, including those surveyed in the study, suggests that there has been, but it is likely by their nature that these organisations tend to see the more disadvantaged recipients. The customer survey suggested that no more than one-fifth of all those breached are likely to have contacted welfare agencies, which is to be expected as most people would avoid having to call on such help if they had other alternatives. However, it also shows that approaching welfare agencies is associated with higher numbers of breaches, so that up to 35 per cent of those with 2-3 breaches in the previous two years had approached charities or welfare agencies for help.

Does breaching increase compliance?

This is a key question: if it turns out that compliance is not increased by breaching, the rationale for such penalties is weakened. The survey allowed us to examine the impacts of breaching in three main ways. First,

respondents were asked to list in their own words up to six things that had happened to them, or that they had done in the previous few weeks, as a result of the most recent breach, and then to say which of these was the most important. Second, they were asked to listen to a list of possible impacts (derived from the literature) and to say whether they had experienced any of these as a result of either the most recent breach or any others in the previous two years. Third, they were asked to give their views on a series of attitudinal statements about breaching and its effects.

One limitation of the study was that it was not possible to follow up respondents to see what they actually did after being breached (and determining any causal link between breaching and subsequent behaviour is methodologically problematic in any case). Our results are based simply on what people told us they did or did not do as a result of a breach.

In response to the open-ended question about the impact of the most recent breach, less than seven per cent reported increasing their participation in job search or work, and compliance did not rate highly in their assessment of the most important impact of breaching (nominated by less than four per cent). Nearly as many (six per cent) reported some negative effect on participation, such as reduced job search or curtailing a course of study. By contrast, response to the subsequent *prompted* list of possible impacts (over a longer time period) suggested that compliance effects were substantially greater than implied from the previous question. Nearly 90 per cent reported that their participation in one or more of a range of activities increased as a consequence of the breach. About two-thirds said they looked harder for work, while 10 per cent who did not nominate that they looked harder for work still indicated that they either found full-time work, part-time work or increased their present hours of work. In all, just over 45 per cent said that their level of work had increased as a consequence of breaching, either through getting some kind of new work or increasing existing hours of work, or both.³ Fifty-seven per cent indicated that they tried harder to meet Centrelink requirements and around the same percentage reported making more effort to turn up to interviews. Almost one-third said that they started reporting all of their earnings, while around 13 per cent indicated that they commenced a training course.

However, breaching also apparently resulted in negative compliance effects for 37 per cent overall. Twenty-seven per cent said that they spent less time on job search activities, while 13 per cent found other work, but of a less desirable 'cash-in-hand' type. Five per cent reported not enrolling for studies, but this would have represented a larger proportion of those actually undertaking courses.

Interpreting the discrepancy between the responses to these two questions presents a challenge. When prompted, most respondents saw breaching as having affected their work or job search behaviour, either positively or negatively. However, without such prompting it does not seem that many recipients saw compliance as a major impact of breaching. The prompting effect could be seen as leading to exaggeration, but on the other hand it may have stimulated fuller recall and greater focus on the main impacts of breaching. It is also possible that the high positive response to the prompted question is at least partly influenced by respondents feeling that they *ought* to report increased compliance.

The final way in which such effects were examined were through the attitudinal questions. These are discussed in more detail below, but they too provided indications of a substantial compliance effect. Nearly 66 per cent of breached recipients agreed that being breached made them more determined to find work and 76 per cent said it made them more aware of their requirements.

What other impacts does breaching have?

Results of the open-ended question

From the wide-ranging responses to the open-ended question described above, a grouping of forty-five different types of impacts were identified, covering the domains of daily living expenses, housing, health and participation. By far the most common impacts reported were those relating to the basic necessities of life.

Problems with living expenses

Fifty-four per cent reported experiencing some financial impact⁵⁶ affecting their ability to pay for basic necessities such as food or bills. Twenty-eight per cent reported a general shortage of money. In addition to an overall shortage of money, recipients cited specific areas of their lives that were affected. Sixteen per cent reported that they had trouble paying bills, with a small number saying they had had their utilities cut off. While utility disconnection may be fairly unusual, it can be a serious problem for those who experience it, since further payments are usually required for reconnection. Assuming that this sample is broadly representative of breaching events over the course of a year, the overall number of breach-related utility disconnections could still be as many as 2000 annually.

Eleven per cent reported going without food or groceries as a result of their most recent breach. In addition, a small number (around 0.5 per cent overall) reported that their dependent children had gone without food. Given that only around five per cent of the total had children aged under 13 years, this could amount to more than 12 per cent of the parents. Ten per cent of recipients also reported that they had experienced transport problems as a result of breaching. These included problems with both public and private transport. Public transport difficulties included inability to afford fares, resulting either from loss of income, loss of concessionary transport cards or both. Private transport difficulties included being unable to (re)register or insure vehicles and/or to buy fuel. Amongst the recipients who reported breach-related transport difficulties, 14 per cent specifically identified this as a factor contributing to curtailed job search efforts following the breach.

Housing

The literature suggests that housing is another important area affected by breaching. In the survey nearly 13 per cent of recipients said that they had problems paying their rent or mortgage as a consequence of being breached. A further 2.8 per cent said that they lost their accommodation or were forced to move, while a handful (0.4 per cent) reported becoming homeless. While breaching can be highly stressful in terms of housing payments or security, only a small minority appear to experience actual homelessness as a result. However, we need to bear in mind that people in the most unstable housing circumstances were likely to have been under-represented in the survey.

Borrowing and debts

Another common consequence, reported by 20 per cent of respondents, was the need to borrow money from either formal or informal sources. In addition to those undertaking new post-breach loans (nine per cent), this group also includes those facing increased further debts or an inability to make payments on existing loans. In four per cent of cases, respondents reported increased indebtedness to Centrelink or outstanding fines from other sources. A few (one per cent) reported that they had sold or pawned possessions as a result of the breach.

Six per cent reported that they had increased their financial reliance on family and friends as a consequence of their breach. 'Family' here included parents, siblings, adult children, in-laws and partners' families. Family and friends were reported to have provided rent and board payments, loan payments (including payments on mortgages and car loans), and general financial support when respondents lost income. A small number (1.4 per cent) reported using savings to live on and a few others had sold possessions. In response to this question only a handful (0.4 per cent) reported approaching another official body or welfare service agency for help, although this figure was higher when prompted (see Table 3 below).

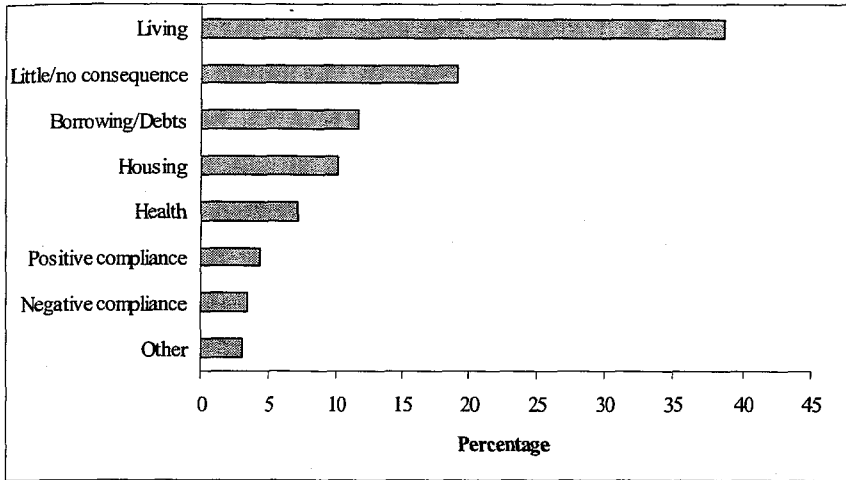
Health and social impacts

Around 14 per cent of respondents reported some form of physical, psychological or relational impact arising from the breach. For the majority, these related to depression, emotional problems or stress. Others reported relationship problems (mostly with partners), reduction in social or recreational activities, feelings of social isolation and other personal problems.

In spite of all the negative impacts discussed here, it is also important to note that around one-fifth reported there being little or no consequence arising from their last breach. Of these, just under 13 per cent simply said there had been little or no impact, without elaborating. A further six per cent indicated that the impact had been small because they either already had, or later got, work.

These summary data, of course, take into account neither the relative effect of different kinds of events in people's lives, nor the importance that people place on different impacts. Therefore respondents were also asked to nominate which of the impacts they identified as the most important for them. Respondents variously nominated as the most important 42 out of the 45 types of impacts identified, further indicating that recipients' experiences varied considerably (Figure 3). Problems with daily living expenses were by far the most important, however, followed by 'limited consequences' and housing costs. As discussed earlier, respondents saw compliance effects, both positive and negative, as relatively unimportant.

Figure 3. Areas of breach impacts nominated by respondents as the most important



Results of the prompted question

Table 3 presents the results of this question, with the individual impacts grouped into key areas. The sub-totals within the table are not a sum of the individual impacts, because many respondents reported experiencing more than one impact within each area. Instead they show the percentage that reported experiencing one or more of the impacts in the particular area. The variation in the ‘not applicable’ column mainly represents the fact that some impacts would not apply to people in certain circumstances.

Table 3. Impacts of breaching (responses to prompted list) (row percentages)

Consequence of breach	Yes	No	N/A
<u>Positive compliance</u>			
I looked harder for work	66.7	29.9	3.4
I tried harder to meet Centrelink requirements	57.4	39.7	2.9
I made more effort to turn up to interviews	56.3	35.4	8.3
I found part-time or casual work	33.2	62.5	4.3
I started reporting all my earnings	31.9	55.9	12.3
I increased my hours of work	19.6	74.6	5.7
I found full-time work	18.5	79.5	1.9
I started a training course	12.7	84.8	2.5
I just stopped claiming income support	16.8	78.4	4.8
<i>Total</i>	89.9		
<u>Negative impact on participation</u>			
I cut down on job search activities	27.2	68.7	4.0
I found cash-in-hand work	13.4	84.7	1.8
I didn't enrol for my studies	5.0	73.7	21.3
<i>Total^a</i>	36.6		

<u>Living expenses</u>			
I budgeted more carefully	69.4	28.4	2.2
I bought cheaper food	60.9	37.3	1.8
I got into debt	55.5	43.0	1.5
I cut down on travel by car or public transport	53.6	43.7	2.7
I had to go without food	31.8	67.2	1.0
I got a transport fine	18.2	80.0	1.8
I lost my transport concession card	12.7	73.2	14.0
I couldn't afford to buy text books	10.1	70.5	19.4
<i>Total^a</i>	<i>88.5</i>		
<u>Housing</u>			
I had problems paying household bills	65.5	32.9	1.6
I was unable to pay my rent	40.8	54.5	4.7
I was unable to make mortgage or credit card repayments	22.8	61.1	16.1
I had to move to cheaper accommodation	19.8	76.4	3.8
I had to move house	17.9	79.4	2.7
I lost my accommodation	10.9	86.6	2.4
<i>Total^a</i>	<i>73.0</i>		
<u>Health</u>			
I couldn't afford medical treatment I needed	26.8	68.4	4.7
I cut down or gave up medications	17.2	74.8	8.1
I started using more alcohol or other drugs	13.3	84.3	2.3
I started gambling more	3.9	89.5	6.6
<i>Total^a</i>	<i>37.8</i>		
<u>Social (family and friends)</u>			
I stopped buying gifts or presents for family/friends	50.0	44.4	5.6
I gave up a social activity or hobby	43.4	53.3	3.3
My marriage or relationship came under stress	26.2	67.1	6.7
I was involved in a serious household argument	21.3	76.8	1.9
I stopped taking the kids on outings	15.1	54.1	30.7
I was unable to pay child support	6.3	61.3	32.4
<i>Total^a</i>	<i>68.1</i>		

Table 3 continued

<u>Reliance on alternative funds</u>			
I borrowed money from relatives or friends	70.5	28.7	0.8
I used my own savings to support myself	55.4	38.4	6.2
I asked a charity or welfare agency for help	19.8	78.2	1.9
<i>Total^a</i>	<i>86.5</i>		
<u>Risk-taking activities</u>			
I jumped trains or avoided paying bus fares	15.7	81.1	3.2
I stole money or goods to support myself	5.6	92.7	1.7
I made some extra money by dealing drugs	3.6	94.2	2.2
I had sex with people in return for money or gifts	0.6	97.2	2.2
<i>Total^a</i>	<i>18.8</i>		

Note: a. sub-totals represent the percentage of respondents answering 'yes' to one or more questions in each area

Source: SPRC Survey of Breached Recipients

A large majority of breached recipients (88 per cent) reported that they took certain actions to ameliorate the financial impact of the breach. For example, 71 per cent borrowed money from friends or family, 55 per cent used their own savings to support themselves and 20 per cent sought help from a charity or welfare agency. In spite of such actions many other negative side effects were reported. For example, two-thirds reported that they had problems paying household bills, 56 per cent stated that they got into debt and two-fifths reported that they could not pay their rent. Problems with housing costs led to between 11 and 18 per cent having to move or losing their accommodation. Responses to the earlier question suggest that only a small percentage actually became homeless as a result, but it appears that housing consequences of breaching can still be severe for a significant minority of people who are breached.

On a more positive note, 70 per cent indicated that they budgeted more carefully, indicating an adaptive response to their reduction in income. However, many had to make sacrifices to do this, so that 54 per cent said they had to cut down on transport, half had to stop buying gifts or presents for family and friends and more than two-fifths reported having to give up a social activity or hobby.

A considerable number also reported health-related, psychological or social impacts arising from breaching. Close to half (48 per cent) said that either their marriage or their relationship came under stress, or that they were involved in a serious household argument. Seventeen per cent reported having to cut down on medication they needed, while a significant minority reported increasing potentially harmful behaviours: 13 per cent said their alcohol or drug consumption increased, while for a few (four per cent) gambling increased. It is a matter of concern that nearly one-fifth reported participating in some form of illegal activity, including 16 per cent who admitted to jumping trains or avoiding paying bus fares, and a small group who admitted to theft or dealing in drugs.

Overall, it seems clear that breaching does impact substantially on the lives of the majority of those penalised and on the lives of those around them. Some of the effects may be seen as positive in terms of Government policy, such as greater compliance with requirements and some additional movement into employment, but for other recipients compliance is reduced by the shortage of money. While some of the more extreme impacts, such as homelessness and crime, seem restricted to a small number of people, negative effects are nevertheless widespread. The extent to which people cope with reduced incomes also seems heavily dependent on whether they have support from family and social networks. Yet these networks of

support may be weakened by people's reduced ability to maintain reciprocal actions such as gift giving and other social activities.

The relationship between breaching impacts and recipients' characteristics and circumstances

In order to explore further the relationship between the reported impacts of breaching and respondents' characteristics and circumstances, including levels of breaching, a series of multivariate regression analyses were carried out. We focused on responses to two survey questions: first, the request to state which of respondents' (unprompted) reported impacts was the most important for them; and, second, the prompted responses reported in Table 3 above.

Logistic regression was used to predict the likelihood that various customer groups would nominate these different types of impacts as the most important. Models were reduced using backward elimination and the likelihood ratio test was used to compare models. For the prompted question linear regression was used to analyse responses. Distributions of the outcome variables were approximately normal. Models were again reduced using backward elimination, and Akaike's Information Criterion (AIC) was used to compare models.⁴

Holding other factors constant, those who were more likely to report living expenses as the main impact were those with between one and three breaches in the previous two years (compared with those with none) and homeowners (compared with renters). Those with lower education levels (compared with a trade qualification), on their first or third activity test breach, with spoken English difficulties and in work at the time of the breach were less likely to nominate living expenses as the main impact.

Housing impacts were positively associated with being female, living other than with parents or family, a health barrier to employment, more than three house moves in the previous year, spoken English difficulties and a high Job Seeker Classification Instrument (JSCI) score, while homeowners were less likely than renters to highlight housing problems.

Greater reliance on other sources of funds/support was positively associated with being on a third activity test breach, and negatively associated with the reason for the latest breach being failure to maintain a Job Seeker Diary and being Indigenous. Possibly the latter finding reflects that fact that Indigenous recipients may often have less access to such alternative sources of funds than other recipients. Reporting negative health impacts was most strongly associated with having children under 13 and having poor general health.

A number of characteristics and circumstances were associated with reporting either positive or negative compliance as the main impact, though it should be remembered that relatively few highlighted either of these in response to this question. In terms of positive compliance, people with children were more likely than those without to report this as the main impact, as were all those with activity test breaches, compared with those with administrative breaches, and those with paid work at the time of the breach. Married or *de facto* recipients were less likely than single people to highlight this, as were those with more recent work experience. There were no positive associations with negative compliance, but Youth Allowance recipients and those living alone or in shared accommodation were less likely to highlight this impact.

Those who highlighted little or no impact were more likely to be older, with lower educational levels, on their first activity test breach, Indigenous and in paid work at the time of the breach. By contrast, being divorced, widowed or separated; with a health barrier to employment; having a high JSCI score; having undeclared income as a reason for the breach; and being a home owner were all associated with being less likely to report no consequences of a breach.

Turning to the responses to the prompted questions, the likelihood of experiencing impacts on general living expenses were positively associated with having had more breaches, living away from parents and family, having moved more often, poorer general health, longer time out of paid work and spoken English difficulties. Those with lower levels of education, compared with having trade qualifications, were less likely to report these impacts.

Housing problems were associated with many factors, including being female; being divorced, widowed or separated; having had more breaches; currently being on a third activity test breach; living away from parents or family; health problems including those which create a barrier to working; frequent house moves; difficulties with written English and being breached for not attending interviews or incorrectly reporting earnings.

Social impacts were associated with more than one breach, living with a spouse, written English difficulties and poorer health in general. However, those with health problems or disabilities that were a barrier to employment were less likely to report social impacts. Health impacts were associated with having had more than one breach, existing health problems, frequent house moves and being breached for under-reporting earnings.

In terms of positive compliance, we need to remember that nearly 90 per cent reported some impact, so particular associations will be harder to detect. However, it appears that more experience of breaching, living with

a spouse, frequent house moves and the customer's own explanation for the breach being that they were working were all associated with positive compliance, whereas those with lower educational achievement and no recent work experience were less likely to report these impacts. Only having an imposed breach, as opposed to a revoked one, and frequent house moves were associated with negative compliance.

Increased reliance on alternative sources of funds, including families, loans and debts, was more likely to happen to those with third activity test breaches (where benefit would be lost altogether for a period), people living in shared accommodation or with spouses, those without recent paid work and those moving house frequently.

Finally, involvement in risk-taking activities was particularly associated with high numbers of breaches, living in shared accommodation or with a spouse, having a health problem or disability that created a barrier to employment, and having difficulties with written English.

Are people who are penalised in favour of breaching?

The final evidence from the breached customer survey on impacts comes from a question about attitudes to breaching. Respondents were asked how far they agreed or disagreed with a set of statements concerning both attitudes to breaching and the effect it had on them. For comparison and validation, some of these questions used the same wording as those in the activity test evaluation survey for FaCS by the Wallis Group (2001). The main results are shown below in Figure 4.

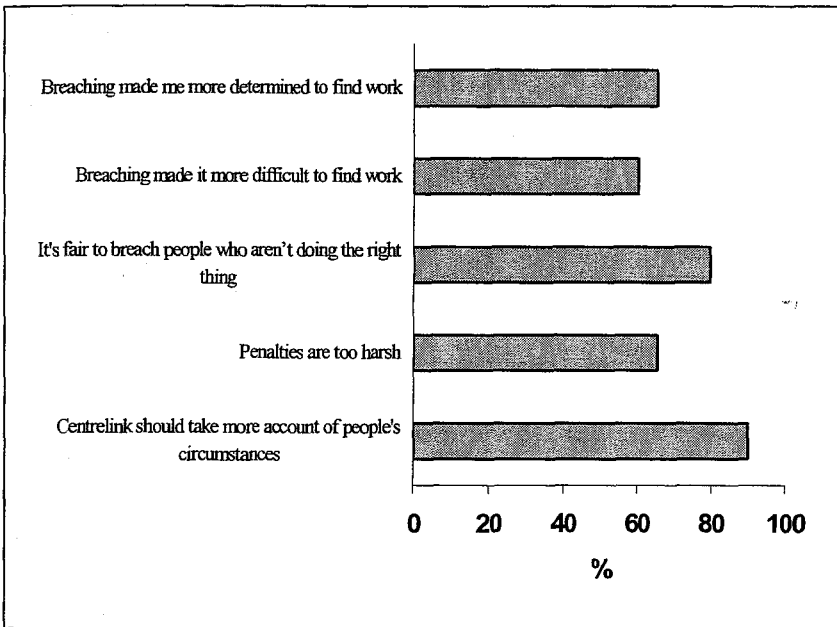
As stated earlier, it appears that being breached does, for the majority of breached recipients, make them more determined to find work and more aware of their requirements. The percentage agreeing with these statements was even higher than for the people with an activity test breach responding to the Wallis survey. On the other hand, a similar majority also said that their work efforts were not affected by knowing that Centrelink might check up on them. Sixty per cent also said that being breached actually made it more difficult for them to look for work.

As in other studies, there was strong support (80 per cent overall) for breaching where recipients are 'not doing the right thing', and a bare majority in favour of full payment cancellation for a third breach unless there was a very good reason. However, there was also a strong sense that Centrelink were not always prepared to hear 'their side of the story' (63 per cent agreement overall, compared with 56 per cent of people with an activity test breach in the Wallis survey). The vast majority (90 per cent)

also thought that Centrelink should take more account of people's circumstances in deciding whether to breach. More than two-thirds thought that the penalties (as at the end of 2002) were 'too harsh' and only one-fifth felt that having their payments cut was 'not a big deal' (very similar to the 18 per cent of respondents in the Wallis survey). Nearly three-quarters felt this had created a lot of difficulties for them.

These responses were cross-tabulated with the level of severity of the most recent breach. There was a consistent tendency for those with third activity test breaches to be more inclined to agree that penalties were too harsh (71 per cent compared with 66 per cent of all respondents) and had created a lot of difficulties in their lives (82 per cent compared with 74 per cent). Those on third breaches were the most likely of all to say that breaching had made them more determined to find work (74 per cent compared with 66 per cent of all respondents).

Figure 4. Attitudes to breaching



Source:SPRC Breached Customer Survey

It is perhaps puzzling to find such high levels of support for breaching amongst those who experience penalties themselves, but this is consistent with other research where similar questions have been asked (Weatherley 1993; Eardley, Saunders and Evans 2001; Wallis Consulting Group 2001).

A study of Australian attitudes to unemployment more generally found an apparent rise in the 1990s in willingness to personalise responsibility for unemployment (Eardley and Matherson 2000), which led us then to speculate that the 'active society' discourse being promoted by government (and the relentless pursuit of so-called 'dole bludgers' by sections of the media) may have encouraged people to see unemployment as a matter of personal responsibility.

Weatherley (1993) also suggested that the high level of support for activity testing he found amongst claimants seemed for some a means of assuaging guilt that they felt about being unemployed and requiring help. The apparent contradictions between support for breaching and criticism of its application found amongst our respondents can partly be explained by the distinctions people often made between their own actions, which were justified in terms of the difficulties they experienced, and those of some others – an example of what Dean (1998), following Claus Offe, describes as 'moral repertoires', or the complex arrays of opinions and attitudes which people draw on in responding to questions of social welfare.

Discussion

The impacts of financial penalties on unemployed people vary widely according to people's circumstances. While there are certainly many highly disadvantaged people amongst those who are breached, it is not clear that these are substantially over-represented compared with the unemployed recipient population as a whole. However, it needs to be recognised that the breached customer survey may have under-sampled people with the most unstable housing and transient lives and so should be viewed as providing lower-bound estimates of the difficulties experienced. Even if breached recipients are not disproportionately disadvantaged in terms of health or other factors, they do seem considerably more likely to have experienced a range of household financial stresses.

Around one-fifth of breached recipients seem to experience only minor effects, partly because they find or already have some income from work, or because the income loss is absorbed by their families (since many young recipients are either living with or partly supported by families). The qualitative interviews suggested that for many of these the most significant impact was a reduction in social life, which whilst it may be seen as a trivial effect can still contribute to the social isolation often associated with unemployment.

Yet breaching does impact substantially on the lives of the majority of those penalised and on the lives of those around them, particularly in terms

of creating problems with basic living expenses. Some of the effects were positive, in terms of greater compliance with requirements and some additional movement into employment (albeit often casual), but for many recipients job search and other participation activities are actually reduced because of a shortage of money. The majority of participants were able to manage on reduced benefits mainly through the support of friends and family. The safety net role played by friends and family in alleviating the more serious impacts of breaching is clearly crucial. Without such support some recipients faced serious difficulties living on reduced incomes and got into further debt, with a small number experiencing highly disruptive events such as disconnection of utilities or homelessness.

Against this background, the level of support for breaching is perhaps surprising, but our survey found - as have others - a large majority even of those breached in favour of penalties where recipients are not 'doing the right thing'. The qualitative interviews too found a widespread view that the income support system needs to be safeguarded against 'roting'. However, there was also a strong sense that many of respondents' own breaches were unfair because Centrelink did not take people's circumstances properly into account and were not always prepared to listen to their side of the story. Still, although people experiencing higher levels of breaching penalties were more likely to see the penalty regime as harsh and insufficiently responsive to their circumstances, a majority even of these supported the basic principle.

Both the individuals interviewed and the welfare agencies surveyed had strong views on how the breaching system needed to be improved. There was a strong sense of unfairness in treatment, arising from inadequate checks of client's circumstances. A number of administrative concerns were also highlighted, including over-complicated official letters and documents, inappropriate automated referrals and a need for better and simpler explanatory material about requirements and breaching.

The main issue with breaching, apart from whether the monetary level of penalties is unfairly high, seems not so much that it falls disproportionately on the most vulnerable recipients, but that it is the more disadvantaged beneficiaries who face the most difficulties when breached. Many unemployed recipients lead lives that are constrained, stressful and easily disrupted by sudden reduction or loss of income. For some the impacts can be severe and may be long lasting, especially if they lack networks of support. Our conclusion was that there were clear opportunities to reduce further the extent of breaching by more effort to contact recipients and review their circumstances before imposing penalties, particularly given that the evidence on whether they increase compliance is ambiguous.

So what light does this research give on the proposed new system? While the focus appears to be on attempting to boost the compliance effect of penalties and reducing the financial impact once compliance is restored, there seem to be two potential drawbacks. First, payment is only restored for those who can convince Centrelink that their reason for non-compliance was acceptable. Others face total loss of payments for the period between suspension and when they contact Centrelink. This seems likely to be a continuing problem, especially for young people without settled homes and with disorganised lives. Secondly, the new system removes the previous distinction between administrative and activity test breaches. Relatively minor infringements, such as not answering letters or missing an appointment, could now bring much more severe penalties than before. Retaining such heavy loss of payments for minor offences seems likely to continue causing considerable hardship to some recipients and this study suggests that they may often be the ones already most disadvantaged.

Notes

- ¹ This article is based on research commissioned by the Department of Family and Community Services, but any views expressed are those of the author and not of the Department.
- ² Appendix Table A1 provides a comparative summary of the levels of unemployment benefit penalties over time, presented in 2002 \$ values.
- ³ It should be noted that we have included the nearly 17 per cent of respondents who said they 'just stopped claiming benefits' in the positive compliance effects here, but it is important to remember that without knowing what happened to people as a further consequence it cannot be assumed that this is really positive. The in-depth interviews shed further light on this question. Several interviewees explained how they had come off payments following a breach and tried unsuccessfully to live for periods without claiming benefits and without any other secure resources, leading to further difficulties.
- ⁴ Details of the regression methodology and results can be found in the full report of the breaching study (Eardley et al. 2005).

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Appendix Table

Table A1. Illustration of charges in the monetary cost of breach penalties over time, based on payment to single unemployed person aged 21 at June 2002 \$

Breach type	1947-79	1979-84	1984-86	1986	1987-90	1990-94	1994-97	1997-present
Administrative (per breach)	369-2214 (discretionary)	1107-2214 (discretionary)	Up to 2214 (discretionary)	369-2214 (discretionary)	369	369	369	384 ^o
Activity: 1 st breach ^a	369-2214 (discretionary)	1107-2214 (discretionary)	Up to 2214 (discretionary)	369-2214 (discretionary)	369	369	i) 369 ^d ii) 738 iii) 1107	864
2 nd breach	369-2214 (discretionary)	1107-2214 (discretionary)	Up to 2214 (discretionary)	369-2214 (discretionary)	738	1107	i) 1476 ii) 1845 iii) 2214	1151
3 rd breach	369-2214 (discretionary)	1107-2214 (discretionary)	Up to 2214 (discretionary)	369-2214 (discretionary)	1107 ^b	2214 ^c	i) 2583 ii) 2952 iii) 3321	1476
Total where 3 rd activity breach imposed	1107-6642 (discretionary)	3321-6642 (discretionary)	Up to 6642 (discretionary)	1107-6642 (discretionary)	2214	3690	4428-6642	3491

Notes: a. Before 1987 there was no fixed distinction in penalty level according to the number of breaches. Within 3 years, subsequent breaches to maximum of \$2214c. Within 3 years, no upper limit. i) unemployed for under 12 months ii) unemployed 12-18 months iii) unemployed for more than 18 months e. Or \$369 if taken as 2 week non-payment rather than 13 weeks reduction by 16 per cent