



NATIONAL
WELFARE RIGHTS
NETWORK

Submission to Senate Community Affairs Legislation Committee

Social Services Legislation Amendment
(Family Payments Structural Reform) Bill (No 2) 2015

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About NWRN

The National Welfare Rights Network (NWRN) is the peak community organisation in the area of social security law, policy and administration. We represent community legal centres and organisations whose role is to provide people with information, advice and representation about Australia's social security system.

NWRN member organisations operate in all states and territories of Australia. They are organisations which have community legal services and workers dedicated to social security issues. Their services are free and they are independent of Centrelink and government departments.

The NWRN also has as Associate Members the Central Australian Aboriginal Legal Aid Service (CAALAS) and the North Australian Aboriginal Justice Agency (NAAJA).

The NWRN develops policy about social security, family assistance and employment assistance based on the casework experience of its members. The Network provides submissions to government, advocates in the media and lobbies for improvements to Australia's social security system and for the rights of people who use the system.

Background to the Bill

Most of the measures in the *Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) (No 2) Bill 2015 (the No 2 bill)* were previously contained in the *Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2015 (the former bill)* which passed on 30 November 2015. It was amended in Parliament and, as passed, contained only one measure: cessation of Family Tax Benefit (FTB) for couple families when their youngest child turns 13 (except for grandparent and great-grandparent couples).

The No 2 Bill re-introduces three measures:

1. FTB Part A rate:

From July 2018:

- Increase of \$10.08 per child in the fortnightly rates of FTB Part A;
- Equivalent increases in the rates of youth allowance and disability support pension (DSP) for children under 18 and living at home of around \$10.44 per fortnight.

2. FTB Part B rate:

From 1 July 2016:

- Increase the standard rate of FTB Part B by \$1,000.10 per year for families with a youngest child aged under one;

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- Reduce the standard rate for people with a youngest child aged 13 to 16 to \$1,000.10 (unless they are single parents aged 60 or more or grandparents or great-grandparents). The current rate is \$2,737.50.

Note that the bill explicitly makes no change to the following standard rates:

- for families with a youngest child aged 1 to 5;
- for families with a youngest child aged 5 to 13; and
- for single parents aged 60 or more, or grandparents and great-grandparents with a youngest child aged 13 to 18.

3. Phased abolition of FTB Supplements

The FTB Part A and Part B supplements will be phased out by reducing them annually from 1 July 2016 until they are abolished from 1 July 2018.

Savings from the measures

The projected savings from these measures is just over \$4 billion¹. This is a major reduction in payments to low income families. The limited increase in rates for some small cohorts are heavily outweighed by the overall cuts proposed in these measures.

Further, they must be considered in the context of the measure that passed in the previous bill. The combined savings projected in the previous bill (prior to amendment), of \$4.84 billion over the forward estimates was greater than those proposed in the 2014 Budget Measures bills² that were defeated or are currently stalled in the Senate namely the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 1) Bill*, the *Social Services and Other Legislation Amendment (2014 Budget Measures No.2) Bill* and the stalled *Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill*.

The family payments system needs real reform, not reductions in payment rates

It appears from the Minister's second reading speech, that this bill replaces a range of changes which the government had failed to negotiate through the Senate (from the 2014 Budget), including a proposed freeze on family tax benefit payment rates. As the NWRN said at the time, those measures would have had a significant impact on the adequacy of family payments to low-income families.³

¹ \$4,063.9 million see Explanatory Memorandum p 2

² Bills Digest No. 50, 2015-2016 Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2015, 18 November 2015, pp.7-8

³ See pp 28-30 of the NWRN submission on the Social Services and Other Legislation Amendment (2014 Budget Measures No. 1) Bill 2014 Social Services and Other Legislation Amendment (2014 Budget Measures No. 2) Bill accessible at

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This bill is an improvement on those measures, which would have disproportionately and unfairly impacted on low-income families and children. However, it still seeks to draw savings from the family payments system in a way that will have a major impact on the adequacy of payments to low-income families and their children, while failing to progress meaningful reform of the well recognised issues with the family payments system.⁴

The Bill undermines the adequacy of payments to families and children for those who are unable to enter the workforce or will be unsuccessful in doing so.

There are recognised participation disincentives in the family payments system, such as the combined effect of having two separate family payments with different withdrawal rates, combined with tax rates and withdrawal of other income support payments, to reduce the returns from employment especially for second-earners in couple families. Reform in this area was proposed by the Henry Tax Review, but governments continue to focus on rates of payment and restricting eligibility rather than genuine structural reform of the family payments system.

The NWRN supports genuine reform of the family payments system and measures to increase workforce participation rates. The Bill fails to address this issue other than by reducing payment rates and eligibility in a way that affects low-income families the most. The starting point must remain payment adequacy for families and children, as a matter of our community's responsibility to ensure that all children get a basic acceptable standard of living, regardless of their parents' circumstances. The Bill fails this moral and fairness test.

Combined impact of the measures

The combined impact of these measures will have a severe impact on low-income families, especially the most vulnerable who are reliant on government payments.

The impact of the measures in the No 2 bill need to be considered alongside the measures already passed in the previous bill.

While families with younger children lose less, they are worse off overall. This is because from 1 July 2018 although there will be an increase in the base rate of FTB Part A of about \$260 per year per child, this is offset by the abolition of the FTB Part A supplement of about \$726 per year per child (which results in an overall net loss of \$466 per year per child). This net result will follow on from reductions in the FTB Part A supplement in the two prior years.

The impact on families with older children is very significant. A sole parent with one child aged 13 to 16 will lose roughly \$2,500 per year once the combined effect of the reduction in family tax benefit part B and loss of the supplements take effect. A sole parent with two children loses roughly \$3,000

http://www.welfarerights.org.au/sites/default/files/field_shared_attachments/policy/NWRN%20Submission%20on%202014%20Social%20Services%20Budget%20Bills.pdf

⁴ This point has also been made by Matthew Butt "New Family Payments Bill Same Old Story" 17 November 2015 accessed at: <https://socialsecuritylawandpolicy.wordpress.com/2015/11/17/new-family-payments-bill-same-old-story/>

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per year. Low income couples will lose \$3,500 - \$4,000 per year.⁵ Additionally excluding FTB Part B payments for secondary school students aged 17 to 19 will have an impact on their future education participation.

Different treatment for grandparents

As some social commentators have pointed out, the retention of a reduced FTB Part B payment for grandparents is welcome, but introduces an arbitrary and unfair distinction into the family payments system.⁶

Support for grandparents caring for their grandchildren is welcome, including the continuation of a reduced FTB Part B payment for grandparents with dependent grandchildren 13 and over.

The rationale for this, according to the Minister's second reading speech to the previous bill, is that grandparent carers are less likely to be working and more likely to be retired. In other words, the payment is provided because there is a reduced expectation that grandparent carers should look for work or participate in the workforce.

However, many families now face reduced payments despite the fact that they too are facing circumstances which should reduce the community's expectation that they find work.

For example, many parents with children with high care needs due to disability or learning difficulties do not qualify for higher levels of support such as through payments for carers, which have strict eligibility conditions. However, they also face major difficulties transitioning to work, even as their children get older. Why are those parents treated less beneficially than grandparent carers? Similarly, parents with a disability or other significant medical problem also face barriers to transitioning to work, and yet will get less support once their youngest child turns 13. Others such as foster carers and kinship carers are not considered in terms of their capacity to participate in the workforce.

The introduction of arbitrary distinctions into the income support system is a fundamentally objectionable approach to family payments reform because it fails to treat people who are in the same circumstances alike.

Reduction in support when it's needed the most.

The Henry Tax Review recognised that the rate of family payments failed to adequately reflect the direct costs of older children and recommended that assistance should be higher for older children. In the recent review of the welfare system commissioned by the Government, the report "A New System for Better Employment and Social Outcomes" provides guidance to government in relation to the cost of children.

⁵ See analysis of Professor Peter Whiteford "Family Tax Benefit savings trimmed but families with teenagers hit hardest" The Conversation 22 October 2015: <https://theconversation.com/family-tax-benefit-savings-trimmed-but-families-with-teenagers-hit-hardest-49496>

⁶ See analysis of Matthew Butt "New family payments bill, same old story" 17 November 2015: <https://socialsecuritylawandpolicy.wordpress.com/2015/11/17/new-family-payments-bill-same-old-story/>

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Research indicates that the costs of children increase as they get older. This reflects older children's food consumption, clothing needs, the cost of other school related items and increasing social needs.

The costs of children increase markedly at the following points in the lifecycle: starting primary school, starting secondary school and entering the final two years of secondary school. The new Child and Youth Payment will better reflect this and be higher for older children than for younger children.

*Payments for low income families with children and young people should support children to finish their education and transition to the workforce. There should also be recognition in the new system that children living across more than one household have higher combined costs.*⁷

These measures reduce payments to many families as their children get older, despite the costs of children increasing with age.

Example

As a caseworker from one of our Member Centres in Perth observed:

“.....Children turning 13 are usually just about to start high school.

- The school fees are much more expensive at a state high school. The fees can be up to six times the state primary school fees depending on the subjects the child enrolls in. There are also frequently extra fees – to cover the cost of the materials used in various subjects.
- The books for high school are also much more expensive than for primary school as there are more subjects. Most high schools in Western Australia do not have the text books available to borrow as do a lot of the primary schools. The constant changes to the school curriculum have meant that books are not able to be passed down or purchased second hand.
- Children will need to be able to easily access a computer/laptop and because of the lack of school facilities they may need to purchase one.
- There is also the need to purchase a scientific calculator for all mathematics units except for the remedial mathematics units.
- Frequently the uniforms are more expensive at high school and in Western Australia you are required to wear the official uniform at high school e.g. ordinary uniform, sports uniforms (there maybe a number of sports uniforms depending on what sport you play or if you play a different winter and summer sport).
- Extra-curricular school activities – most low income families struggle to pay for these activities but cutting FTB Part B will mean that children of low income families will not have the option to participate in things like the school orientation camp, entering any interschool /interstate competitions (even if the child excels in the subject/sport).

Low income families are going to find it particularly expensive with cancellation of FTB Part B and the cancellation of the School Kids Bonus in July 2016 when their youngest child commences high school

⁷ A New System for Better Employment and Social Outcomes, Report of the Reference Group on Welfare Reform to the Minister for Social Services, February 2015, p78.

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in February 2017. Grandparent carers and sole parents are also going to find it difficult to manage to pay for their children to do Year 11 and 12 with the reduction in the age of eligibility for FTB Part B reduced to 16 year olds.

Abolishing the FTB Part A and Part B supplements will also cause financial problems.

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This measure reduces the total level of payments to families overall, but especially for families with children aged 13 to 16, and fails to respond to the basic imperative of the family payment system to adequately provide for the direct costs of children as they grow older.

The measure to introduce a reduced rate of \$1,000.10 per year for single parent families and couple grandparents with a youngest child aged 13 to 16 also effectively removes FTB Part B for people with children aged over 16 who meet the definition of “senior secondary school child”. Children turning 16 are usually starting Year 11 or Year 12 so that the cessation of FTB Part B at this age will impact on the sole parents and grandparent carers ability to cover their children’s educational costs. Education costs are greater for Vocational Education and Training (VET) courses or units which allow you to obtain Australian Tertiary Admission Rank (ATAR). This change seems to be at odds with the move toward smarter education and may decrease participation in higher education.

It is important to ensure that there is adequate support provided during high school to afford the best educational outcomes for young people and to encourage school retention rates.

Abolishing supplementary payments is not an acceptable goal in itself

The Minister refers to the McClure review and report, and the criticism that there are too many payment types and supplements.

The payments of the supplements to be abolished in this bill namely FTB A and FTB B supplements were initially introduced in 2004 and 2005 respectively mainly to address the large number of FTB debts which arose at reconciliation.⁸ The supplement was intended to ameliorate some of the difficulty experienced by those in receipt of FTB who ended up with debts because of the difficulties associated with accurately providing annual estimates of taxable income.

The Department of Social Services has indicated that the need for the supplements to deal with FTB debts will cease with additional ATO systems to come in over the next two years which will reduce the need for FTB supplements to be used to repay FTB debts. According to Department of Social Services evidence provided to this Committee currently 80% of FTB recipients following

⁸ Bills Digest No. 50, 2015-2016 Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2015, 18 November 2015, pp. 9 -10.

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reconciliation receive the full supplement, with 8% having an FTB debt and the remaining 12% have enough in the supplement to cover the full repayment of their FTB debt.⁹

The NWRN agrees with the objectives of simplification of the payments system. But again, the starting point must be to ensure the adequacy of payments so that Australia's highly targeted system can still meet its objective of providing a safety net. This is particularly important to the family payments system which is concerned with the adequacy of support for children.

As the NWRN and other commentators have pointed out in the past¹⁰, simply abolishing the supplements, without a corresponding and equivalent increase in base rates of payment, is no more than a reduction in payments in a system where levels of support for many families are inadequate (especially following the transition of single parents with children from Parenting Payment Single to Newstart Allowance).

A simple system is not enough. It must also be adequate, and fair. In a contest between simplicity on the one hand, and adequacy and fairness on the other, simplicity should yield.

The NWRN supports the abolition of supplements only following careful review and appropriate increases to base rates of payment (as well as adequate mechanisms for ensuring payments remain adequate over time, such as appropriate indexation arrangements). It does not support abolition of supplements and "simplification" for its own sake.

Conclusion

NWRN recommends that the Bill be withdrawn.

⁹ See transcript pp 33 to 34 available here http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/068adf10-f588-402a-a5b6-c607bb8d507e/toc_pdf/Community%20Affairs%20Legislation%20Committee_2015_11_19_4012_Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/068adf10-f588-402a-a5b6-c607bb8d507e/0000%22

¹⁰ See for example:

1. NWRN Submission to the Welfare Review Taskforce (the McClure Review) 2014 http://www.welfarerights.org.au/sites/default/files/field_shared_attachments/policy/NWRN%20Submission%20to%20the%20Welfare%20Review%20Taskforce.pdf
2. ACOSS Media Release "Back to the drawing board on family payments – new bill still hits poorest families" 21 October 2015 http://www.acoss.org.au/media-releases/?media_release=back-to-the-drawing-board-on-family-payments-new-bill-still-hits-poorest-families
3. Analysis by Professor Peter Whiteford "Family Tax Benefit savings trimmed but families with teenagers hit hardest" The Conversation 22 October 2015: <https://theconversation.com/family-tax-benefit-savings-trimmed-but-families-with-teenagers-hit-hardest-49496>
4. Analysis by Matthew Butt "New family payments bill, same old story" 17 November 2015: <https://socialsecuritylawandpolicy.wordpress.com/2015/11/17/new-family-payments-bill-same-old-story/>

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