Australian Council of Social Service

18 November 2015
Committee Secretary
Senate Standing Committee on Community Affairs
By email: community.affairs.sen@aph.gov.au

Dear Committee Secretariat,

Re: Inquiry into the Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2015

Thank you for the opportunity to participate in this inquiry.

ACOSS is a national voice for people affected by poverty, disadvantage and inequality. Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities have the opportunities and resources they need to participate fully in social and economic life.

The *Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2015* ('the Bill') would effect major changes to the family payments system and result in significant income losses for some low income families, including single parent and low income couple families. ACOSS therefore recommends that the Bill be rejected in its current form.

This submission summarises the family payments system as it is today, analyses the impacts of the Government's Bill and sets out an alternative reform agenda to improve the adequacy and sustainability of the family payments system.

Background

The core purpose of Australia's family payment system is to protect against child poverty, by supplementing the incomes of parents on low or modest incomes. It is intended to cover the extra costs of children (e.g. food, housing, clothing) but not the additional costs of childcare. The current system was established by the Hawke Government and strongly supported throughout the Howard Government era.

The Federal Government originally proposed changes to the family payment system in the 2014-15 Budget but was unable to secure the passage of legislation through the Parliament. A new bill was introduced on 21 October 2015 containing a modified set of changes. The Government has argued that cuts to family payments are needed to pay for the additional costs of the proposed new childcare system.

ACOSS has long advocated for reform of the family payments system but is concerned that the proposed reforms will cause serious financial harm to many low income and vulnerable families, including single parent families who have already experienced a number of cuts to payments in the last decade and are at high risk of poverty.

This submission summarises the current family payments system; describes and analyses the reforms proposed by the Federal Government and outlines an alternative reform package to deliver a more adequate, better targeted and sustainable system.

The current family payments system

In addition to Income Support payments for parents who are not in paid employment or receive inadequate income from paid employment (Parenting Payments or Newstart Allowance), eligible families receive Family Tax Benefit payments (FTB Part A and B) to assist with the living costs of having dependent children. Payment types, levels and eligibility requirements are summarised in *Table A: Family and Child Care Payments* below.

Table A: Overview of family and child care payments

Component	Purpose and eligibility	Maximum rates	Income test ($ per annum)	Minimum rate
FTB Part A*	To prevent child poverty and help low and middle-income families with the costs of children. Low and middle income families with a child under 19 years.	Per child (including supplement, $ per week): 0-13 yrs: $104 13-15 yrs: $131 16-19 yrs, at school: $131	On family income: Free area is $51,027 Taper rate is 20% for each $1 above $51,027 from the max rate, then 30% for each $ above $94,316 from the base rate. Max. rate cuts out (for 2 chn 0-12yrs old) at $83,403 (above which only minimum rate is paid)	Per child (including supplement – per week): 0-19 yrs: $43 Min. rate cuts out (for 2 chn, one primary, one high school aged) at $113,260
FTB Part B	Paid to single income families, including sole parents, with children under 16 years (or 18 if FT secondary school student not getting Youth Allowance). Purpose: To support one partner in a couple family to care for a child fulltime at home; AND To help sole parents with the extra costs of raising a child alone.	Per family (including supplement, $ per week): 0-4 yrs: $83 5-18 yrs: $60	On higher income earner or sole parent: Cuts out at $100,000 from 1 July 2015 (previously $150,000) (NB: single parents automatically receive the maximum rate if below the income cut off). On second earner: Free area is $5,402 Taper rate is 20% Cuts out (for chn. aged 5-18yrs) at $21,353.	None

The *Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2015*

The Bill would make the following changes to the family payments system:

- Limit FTB Part B at the current rate to families with children under 12 years (down from 18 years);
- Replace the current rate of FTB Part B for single parents and grandparents with older children (between 12 and 16 years) with a lower payment (of $1000.10, down from $2737.50 per annum). This will leave a gap for children between 16-18 years, previously covered by Part B if at school and not receiving Youth Allowance.
- Increase Part B for families with a youngest child under 1 year by $1000.10 per annum.
- Rapidly phase out end-of-year FTB Part A and B supplements (currently $726.35 per child for Part A and $354.05 per family for Part B) by reducing them in two steps over two years (between 2016-2018).
- Increase FTB Part A by $5 per week for each child up to age 19 years.

The changes are estimated to save $4.8 billion over the forward estimates.

Problems with the current Bill

Although the current Bill will be less severe in its impacts than those proposed in 2014-15 Budget, the changes remain very harsh. Unlike the age pension changes, this Bill does not seek to better target payments to lower income families while tightening access for those on higher incomes. It will affect those on the lowest incomes the most, including single parent and low income couple households.

It is estimated that 136,000 single parents with older children will be adversely affected by the changes to Part B alone[1], with a sole parent with one child over 13 to lose approximately $2,500 per year (as will grandparents) and those with two children over 13 to lose around $3,000 per year (as will grandparents).

Some 76,000 couple families will lose the Part B payment entirely, some of who are already on very low incomes.[2] Low-income couples with children over 13 will lose between $3,500 and $4,000 per year.

Some 4000 grandparents will be affected by the changes.[3]

The numbers affected and the extent of the income losses mean that the changes are likely to lead to an increase in child poverty, noting child poverty is already concentrated in single parent families. There are already 600,000 children living below the poverty line in Australia.

The changes will mean that assistance with the costs of children under Part B will decrease as children get older, despite children becoming more expensive as they get older.

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[1] Evidence provided by the Department of Social Services to Senate Estimates. Social Services transcript available at: http://www.aph.gov.au/Parliamentary_Business/Senate_Estimates/clacctte/estimates/sup1516/index
[2] Ibid.
[3] Ibid.

They will do nothing to arrest the decline in the value of the payments by reference to community living standards, resulting from the decision by the previous Labor Government to reduce indexation to prices only (not wages).

The small boost to Part A ($5 a week) will do little to offset the losses resulting from the withdrawal of the end of year supplements and the cuts to Part B.

The IT interface between the Department of Social Services and the Australian Tax Office is not yet advanced enough to prevent over and underpayments, which end of year supplements were designed to address. Until the IT system is up to the task, the supplements should not be phased out and any phase out should be done very gradually and offset by other increases for low income families (see detail below).

An alternative reform agenda

ACOSS supports the need for reform of the family payments system to achieve the following objectives:

1. To reduce child poverty in Australia and ensure all children have an acceptable standard of living;
2. To provide a stable and adequate foundation for the family payment system into the future, by benchmarking payments to the costs of children as they grow older, and indexing them to movements in community living standards not just to consumer prices;
3. To encourage paid workforce participation for those who have capacity to work by removing barriers or disincentives.

Problems in the current system to be addressed

While some aspects of the family payments system work well, other parts of the system are poorly designed, especially:

- The steady decline in the value of maximum payments compared with community living standards (and compared with pension rates for adults), since indexation was reduced from linking to wage movements down to CPI in 2009 (Part A and B);
- The lack of a clear rationale for the maximum rates of payment for children of different ages and from different family types (Part A and B);
- Inadequate support for the costs of older teenage children, which are much more expensive (Part A);
- Inadequate support for single parents with the extra costs of raising a child alone (the Part B payment for single parents, which was originally intended to fulfill this purpose, drastically reduces once the youngest child turns 5 despite increasing household costs); and
- Disincentives to paid employment, especially the extension of the Part B payment to support one stay-at-home parent in a couple to care for a child fulltime until they reach 18 years, despite changes over time in working and caring patterns.

ACOSS' proposed reforms

ACOSS recommends the following package of reforms to achieve the above objectives:

1. Index family payments to wage movements as well as the CPI, by restoring previous benchmarking of maximum rates of family payments to pension rates, which were based on the age of each child.
2. For Part A, consider introducing a 'middle benchmark' for children of primary school age (in addition to one for preschoolers and another for those of high school age).[4]
3. Replace Family Tax Benefit Part B for *single parent families* with a Sole Parent Supplement to provide adequate supplementation for the extra costs of raising a child alone *regardless of paid workforce status*. This should be set at the level of the current Part B payment for younger child, so that payments to single parent families no longer fall when the youngest child reaches 6 years. This would provide an increase to affected single parent families (many of whom recently experienced payment cuts) of $23 per week and clearly separate this function from that of supporting the main carer of a child to 'stay at home'.
4. Progressively replace the 'remaining' FTB Part B payments in respect of *couples with school-age children* with higher Family Tax Benefit Part A payments, in a way that minimizes any income losses for families on low incomes. For example, the Part B payment for couples could initially be restricted to those whose youngest child is 12 years or less, and low income families with older children. Any income losses for those affected should be substantially offset by proposed increases in the FTB Part A payment for school age children, and proper indexation for those payments.
5. Retain FTB Part B for couples where one parent cares for a young child 'at home'.
6. Establish an independent payments review commission to review the adequacy of all payments (including pensions, allowances, family payments and supplements) and indexation arrangements on a regular basis (say every 3 to 4 years) with a view to ensuring all households are able to achieve an acceptable standard of living. This body should recommend benchmarks for income required to achieve an adequate standard of living, including for children, based on the best available research.

Conclusion

With 600,000 children already living below the poverty line in Australia, and one in three single parent families living in poverty, further cuts to payments to low income families cannot be justified when there are other, fairer ways to achieve budget repair. ACOSS supports the need for structural reform of family payments, but any reform package must meet three key objectives: reducing child poverty; ensuring the adequacy of payments into the future and addressing workforce disincentives. The Bill being considered by the Committee does not meet these objectives and should be rejected. ACOSS remains willing to work with the Federal Government and the Parliament to develop an alternative reform proposal to ensure the family payment system is fit for purpose into the future.

Yours sincerely,

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Acting CEO

[4] Previous benchmarks were 16.6% of the couple pension rate for each child under 13 years & 21.6% for each older child.