

Chapter 2

Key issues

2.1 Most submitters and witnesses supported reforms to the family tax benefit (FTB) payments system to ensure it is simpler, fairer and better targeted. However, most submitters and witnesses opposed the proposed changes outlined in the Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2015 (Bill) and expressed concerns about the following measures:

- changes to the FTB Part B rates for vulnerable families, particularly those with children aged over 13 years of age;
- phasing out of FTB Part A and FTB Part B supplements; and
- linking proposed savings to the government's childcare package.

2.2 In his second reading speech, the Minister for Social Services (Minister), the Hon Christian Porter MP, noted that the measures outlined in the Bill:

...demonstrates the government's commitment to assisting families; providing additional assistance to families when they need it the most; supporting family choice to spend more time with children when they are very young, if they wish to do so; recognising that families still have caring responsibilities when their children are in secondary school; and recognising that the most vulnerable families in the secondary schooling years, such as grandparent carers, should receive some additional support during a child's adolescent years.¹

Changes to FTB Part B payments

2.3 Some submitters and witnesses supported the proposal to increase the fortnightly FTB Part A payment by \$10.08 for each child in the family aged up to 19 years, with equivalent increases in youth allowance and disability support pension payments for those aged under 18 and living at home. The Commissioner for Children and Young People Western Australia supported the measure noting it would:

...assist low income families in raising and supporting their children so that they can be safe and healthy, so that they can attend quality child care, pre-school, primary and secondary school, and have access to life opportunities.²

2.4 However, most submitters and witnesses did not support the proposed changes to FTB Part B payments, noting that for most families the proposed increase in FTB Part A may be less than the proposed reductions to FTB Part B. These submitters expressed concern that the proposed reduction in payments risks placing

1 The Hon Christian Porter MP, Minister for Social Services, *House of Representatives Hansard*, 21 October 2015, p. 11920.

2 Commissioner for Children and Young People WA (CCYPWA), *Submission 10*, p. 3.

families in financial hardship, particularly families in vulnerable groups such as single parents, low-income families, families in regional and remote areas and Aboriginal and Torres Strait Islander families.³ For example, the Secretariat of National Aboriginal and Islander Child Care submitted that the reductions would have a disproportionate impact on Aboriginal and Torres Strait Islander families:

Many of our people are already really struggling to meet the day-to-day needs of their families. These reductions will inconsistently further reduce the ability of many parents to care for their children...⁴

2.5 A number of submitters and witnesses expressed concern about the impact of the proposed reduction of the FTB Part B payment on families with a youngest child aged over 13 years of age. These submitters and witnesses suggested that removing payments risks placing these children at a disadvantage as the cost of raising children increases as children grow older.⁵ For example, the Centre for Excellence in Child and Family Welfare submitted that children:

...the costs of caring for children continue to rise as children grow older. Reducing the income available for families who are already struggling financially at a time when expenses are increasing will exacerbate the challenges for these families and is likely to increase child poverty.⁶

2.6 The Australian Youth Affairs Coalition (AYAC) expressed particular concern about the impact of removing FTB Part B payments for young people aged 16 to 18 years of age who are not eligible for youth allowance.⁷ Mr Leo Fieldgrass, National Director of the AYAC told the committee:

We are concerned that replacing the current rate of family tax benefit part B, for single parents and grandparents with older children between 12 and 16, with the lower payment will leave a gap for children between 16 and 18 that was previously covered by part B and not receiving youth allowance.⁸

3 See: Catholic Social Services, *Submission 1*, pp 1–2; Australian Council of Social Service (ACOSS), *Submission 2*, p. 4; Australian Catholic Council for Employment Relations, *Submission 3*, pp 5–16; National Foundation for Australian Women, *Submission 4*, pp [1–2]; UnitingCare Australia, *Submission 5*, p. [6]; Grandparents Rearing Grandchildren WA, *Submission 6*, pp [1–2]; Name withheld, *Submission 9*, p. [1]; National Council for Single Mothers and their Children (NCSMC), *Submission 9*, p. 4; CCYPWA, *Submission 10*, pp 3–4; National Welfare Rights Network (NWRN), *Submission 13*, pp [4–5]; Welfare Rights Centre, *Submission 16*, pp [1–3]; Centre for Excellence in Child and Family Welfare, *Submission 19*, pp 2–3.

4 SNAICC, *Submission 12*, p. [2].

5 See: NCSMC, *Submission 9*, p.4; Australian Youth Affairs Coalition, *Submission 11*, p. 2; NWRN, *Submission 13*, pp [6–7]; Youth Affairs Council of Western Australia, *Submission 17*, pp 1–3.

6 *Submission 19*, p. 2.

7 *Submission 11*, p. 1.

8 *Committee Hansard*, 19 November 2015, p. 17.

2.7 Representatives from the Department of Social Services (department) told the committee that the 'vast majority' of FTB Part A recipients would receive an increase in fortnightly assistance, with around 1.2 million families (including 2.2 million children) receiving an additional \$10.08 per fortnight.⁹ At Supplementary Budget Estimates, the committee was advised that 516 000 single parents (43 per cent of the 1.2 million families) would benefit from the increase, and 22 200 children aged under 18 years of age receiving youth allowance, disability support pension, Abstudy or special benefit would also benefit.¹⁰

2.8 The department clarified that the changes to FTB Part B payments are intended to provide an incentive for parents to re-enter the workforce as their children grow older:

FTB [Part] B is a payment which is provided to single income families to recognise that, for example, a member of a couple has withdrawn from the workforce as part of the family's arrangements to support the children...the intention of removing the payment at 13 is to provide an incentive for those parents to become more engaged in the workforce.¹¹

2.9 The department highlighted that FTB Part A is the family payment designed to specifically assist families with the increasing costs of raising children over the age of 13, and that part of this Bill's objective is to increase workforce participation for families as the youngest child becomes more independent and requires less direct care:

FTB [Part] A is really the payment which is intended to assist families with the direct costs of children and it increases at age 13, in line with the recognised increasing cost of children; FTB [Part] B, which is the payment which is being reduced as part of these proposals, is assisting single income couples.

I think the gist of the government's policy is that, at that age, single income couples are in a position to increase their workforce participation and therefore specific assistance them is not so much required. That is why they are making the change. But that is not to do with the cost of children; that is to do with a recognition that the family may have more capacity to increase their own hours of work and their own level of participation in the workforce to contribute to the total costs of the family.¹²

Incentives to enter the workforce

2.10 Submitters questioned whether the removal of FTB Part B payments is the most appropriate mechanism to increase workforce participation. Ms Lin Hatfield Dodds, National Director of UnitingCare Australia told the committee that reductions

9 Ms Cath Halbert, Group Manager, Payments Policy Group, Department of Social Services, *Committee Hansard*, 19 November 2015, p. 33.

10 Mr Andrew Whitecross, Branch Manager, Rates and Means Testing Policy, Department of Social Services, *Estimates Hansard*, 22 October 2015, p. 26 & p. 41.

11 Mr Andrew Whitecross, *Committee Hansard*, 19 November 2015, p. 36.

12 Mr Andrew Whitecross, *Committee Hansard*, 19 November 2015, p. 40.

in payments do not provide sufficient incentive and should be accompanied by investment in job creation:

In our experience over many decades working with unemployed Australians, if a person is unable to work or cannot find employment, despite attempting to do so, reducing payments is not an effective incentive if someone is genuinely looking for work. To be effective in attaching unemployed people to jobs, we believe our focus needs to be, beyond training and employment support, on investment in job creation.¹³

2.11 In its submission, National Welfare Rights Network (NWRN) acknowledged that in some circumstances removal of payments may act as an incentive for parents to re-engage with the workforce 'and as a result be better off'. However, NWRN also noted that in many other circumstances, parents:

...will never be in a position to take up paid work due to disability or caring responsibilities or other factors. 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.¹⁴

2.12 In evidence to the committee, the department noted the positive consequences of increasing workforce participation once a family's youngest child commences secondary schooling and requires less direct care:

...the intention of the policy is that families that are currently single income families could replace that money through increases in their workforce participation and, as a result, they get the money to meet those costs of their children through self-provision rather than through government assistance.¹⁵

2.13 The department also explained that the expected savings from the Bill would offset the *Jobs for Families* package to enable parents with younger children to access greater childcare support when contemplating re-entering the workforce:

A common theme across both the childcare package and this package is some priority for encouraging families to provide for themselves as much as possible, and the cost of child care is a significant inhibitor of participation for families, particularly where the person planning to work has a low wage rate and where the cost of child care could be quite a high proportion of their wage rate. So improving assistance through child care is an important element of enabling low-income families and low-wage workers to participate in the workforce.¹⁶

13 *Committee Hansard*, 19 November 2015, p. 2.

14 *Submission 13*, p. 5. See also: *Submission 19*, p. 2.

15 Mr Andrew Whitecross, *Committee Hansard*, 19 November 2015, p. 40.

16 Mr Andrew Whitecross, *Committee Hansard*, 19 November 2015, p. 41.

Exemptions for grandparent carers

2.14 A number of submissions were supportive of this Bill's exemption of grandparent carers from the changes to FTB Part B.¹⁷ However, some submitters questioned why the exemption for grandparents was not extended to other vulnerable groups such as foster carers and kinship carers.¹⁸ Mr Brian Lawrence, Chairman of the Australian Catholic Council for Employment Relations (ACCER) told the committee:

We would want all carers of children to be included in the benefits and to have the full benefits. We think it is wrong to discriminate against children by reference to the status of their carer or, to put it another way, to discriminate against carers by reference to their relationship with the children...that is, the separation out of sole parents, grandparents, coupled parents, of course the leaving aside of other carers, is discriminatory. We think they all should be treated equally.¹⁹

2.15 The committee notes that the Bill provides a range of protections for vulnerable families including single parent and grandparent led households. This includes \$1000.10 per year for grandparent carers with a youngest child aged 13 to 16 years of age. A reduced rate of \$1000.10 will also be provided to single parents with children in the same age bracket.²⁰ Representatives from the department noted that these protections acknowledge that grandparent carers and single parents have less capacity to engage in the workforce:

...removing the FTB [Part] B from when the child is aged 13 is to do with workforce incentives. Clearly grandparents, who are either at retirement age or nearing retirement age, will have less capacity to increase their workforce participation—as is the case with sole parents.²¹

Phasing out of FTB Part A and FTB Part B supplements

2.16 A number of submitters and witnesses expressed concern that the phasing out of the FTB Part A and FTB Part B supplements would risk further disadvantaging vulnerable groups, particularly single parents and low-income families.²² Mr Martin Cowling from UnitingCare Australia told the committee:

...many of our organisations deal with people whose finances are very finely balanced all the time, and that any shift in those finances can push a family into crisis.²³

17 See: *Submission 9*, p. 3; *Submission 13*, p. [6]; Grandparents Australia, *Submission 18*, p. [1].

18 See: Ms Lin Hatfield Dodds, *Committee Hansard*, 19 November 2015, p. 5; *Submission 13*, p. [6]; *Submission 18*, p. [1].

19 *Committee Hansard*, 19 November 2015, p. 27.

20 EM, p. 1.

21 Ms Cath Halbert, *Committee Hansard*, 19 November 2015, p. 37.

22 See: *Submission 3*, pp 2–3; *Submission 5*, pp [4–5]; *Submission 9*, p. [1]; *Submission 9*, p. 3; *Submission 10*, pp 4–5; *Submission 16*, pp [3–4].

23 *Committee Hansard*, 19 November 2015, p. 3.

2.17 The committee heard that low-income families rely on the supplement for significant expenses that can't be met through fortnightly payments. Ms Terese Edwards, CEO of the National Council for Single Mothers and their Children, told the committee:

The reconciling of the end-of-year supplements is factored into household budgets and provides a much required capacity to enable families to pay those large costs that often cannot be met within the weekly budget. Such items may include outstanding school fees, car registration and replacement of household appliances.²⁴

2.18 In his second reading speech, the Minister highlighted that the purpose of the supplements when they were introduced in 2004 and 2005 was to 'offset potential family tax benefit overpayments arising from underestimates by recipients of their FTB relevant annual income'.²⁵ Representatives from the department estimated that only eight per cent of current supplement recipients incur a debt at the end of the financial year, with 12 per cent having a debt that is covered by the supplement and 80 per cent receiving the full supplement.²⁶

2.19 The Minister also noted that the phasing out of supplements was consistent with one of the recommendations from the 2015 report by the Reference Group on Welfare Reform to the Minister for Social Services, *A New System for Better Employment and Social Outcomes: Final Report* (McClure Report).²⁷ The McClure Report recommended implementing a 'new architecture for the income support system that is employment focused' that would be 'simpler, more coherent and clearly reward work'.²⁸ This new system should include 'fewer supplements and they should have clearly defined purposes and be for specific additional costs', and the government should 'review all supplements alongside the detailed development of the new payment architecture'.²⁹

2.20 The Minister further noted that the need for the supplement would be reduced by impending changes to the way FTB payments are estimated:

In the near future, the Australian Taxation Office is introducing a single-touch payroll system, a system which will allow for accurate fortnightly reporting of income...[this system] will very significantly reduce the problem of family tax benefit debts.³⁰

24 *Committee Hansard*, 19 November 2015, p. 14.

25 *House of Representatives Hansard*, 21 October 2015, p. 11920.

26 Mr Andrew Whitecross, *Committee Hansard*, 19 November 2015, p. 34.

27 *House of Representatives Hansard*, 21 October 2015, p. 11920.

28 Reference Group on Welfare Reform to the Minister for Social Services, *A New System for Better Employment and Social Outcomes: Final Report*, February 2015, p. 15, <https://www.dss.gov.au/review-of-australias-welfare-system> (accessed 24 November 2015).

29 *A New System for Better Employment and Social Outcomes*, p. 16.

30 *House of Representatives Hansard*, 21 October 2015, p. 11920.

2.21 Some submitters expressed concern that the proposed Single Touch Payroll is not yet advanced enough to resolve the problem of overpayments. The Australian Council of Social Service (ACOSS) submitted that the supplements should not be phased out until the system is fully operational:

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.³¹

2.22 Representatives from the department clarified that the Single Touch Payroll system:

...has the potential to assist us to work with the customer to get their estimates more accurate under the current estimation rules. We will see what stream of income the customer is actually receiving and will be able to identify circumstances in which it is apparent that their estimate seems to be not appropriate against what we are actually seeing the customer receive. It will assist in relation to those kinds of cases, in identifying and adjusting estimates for families where their estimate does not seem to line up with what is actually happening. It also offers us the potential over the longer term to consider alternative ways of assessing income rather than using income estimates, because we will have real-time information about their circumstances which could be used to directly assist their entitlements in the future.³²

Linking savings to child care reforms

2.23 A number of submitters and witnesses expressed concern about the proposal to use the savings from the FTB reductions to fund the \$3.5 billion child care package outlined in the 2015 Budget. These submitters and witnesses did not support reducing family support payments to fund child care.³³ Mr Brian Lawrence from ACCER suggested instead that child care support should be funded from general tax revenue:

Our view is that child care is a responsibility of the community as a whole and it should come out of the general tax system. Employers have to pay something towards it; the whole community has to pay something towards it—it is a community responsibility and not the responsibility of low-paid people who are struggling to look after their kids and give them a decent standard of living.³⁴

2.24 In his second reading speech, the Minister noted that:

31 *Submission 2*, p. 5.

32 Mr Andrew Whitecross, *Committee Hansard*, 19 November 2015, p. 34.

33 See, for example: Australian Council of Trade Unions, *Submission 15*, pp [1–2]; Ms Terese Edwards, *Committee Hansard*, 19 November 2015, p. 15; Mr Brian Lawrence, *Committee Hansard*, 19 November 2015, p. 24.

34 *Committee Hansard*, 19 November 2015, p. 24.

The measures in this bill have been introduced in order to make sure the *Jobs for Families* package that was introduced in the 2015-16 budget is fully paid for. This present package contains the required savings to offset the additional investment in the childcare package, which, as well as helping families and encouraging workforce participation, also represents substantive reform of a complicated inflationary childcare system.³⁵

2.25 Representatives from the department clarified that the savings would make childcare more accessible:

The government is investing almost \$40 billion in child care over the next four years. This includes an extra \$3.5 billion to make child care simpler, more flexible and more accessible. The government wants to help families find affordable child care. This is an important productivity measure that will boost female workforce participation.

The overall effect of these reforms will increase ongoing day-to-day financial assistance and provide families with more choice, with many families receiving an increase of between \$30 and \$60 in fortnightly payments, depending on their particular situation. Families will have access to a better, simpler, more flexible childcare system while ensuring parents who choose to stay at home when their children are very young are not disadvantaged. The government believes the package strikes the right balance between improving the sustainability of family payments and providing sufficient financial support to families most in need.³⁶

Committee view

2.26 The committee supports the proposed increases to FTB Part A payments which acknowledge and attempt to offset some of the costs associated with raising children, and would benefit 1.2 million families. The committee notes that FTB Part A is a means tested payment and as such targets those most in need.

2.27 The committee acknowledges concerns about the proposed changes to FTB Part B payments and the impact on vulnerable families. The committee considers that these changes will provide an incentive for parents to re-engage in the workforce, recognising that as children grow older, parents have increased capacity to participate in the workforce. The committee acknowledges that the Bill contains appropriate safeguards for grandparent carers and single parents who have limited capacity to find employment.

2.28 The committee acknowledges concerns about the impact of phasing out FTB Part A and FTB Part B supplements. The committee recognises that a small proportion of families use the supplement for its original purpose to offset debts incurred as a result of FTB overpayments. The committee is satisfied that under the Single Touch Payroll system, families will be able to more accurately estimate payments and less likely to incur a debt. The committee also recognises that reducing

35 *House of Representatives Hansard*, 21 October 2015, p. 11919.

36 Ms Cath Halbert, *Committee Hansard*, 19 November 2015, p. 33.

the number of income support supplements is consistent with the recommendations of the McClure Report to improve the sustainability of Australia's welfare system.

2.29 The committee acknowledges concerns about linking the expected savings from the proposed changes to FTB Part B payments to the government's childcare package. The committee considers that using the savings for this purpose is justified and will contribute to increasing productivity and boosting the participation of parents in the workforce. The committee notes that the combination of these measures, together with the *Jobs for Families* childcare package, will help to support families to support themselves and reduce their dependence on welfare payments.

Recommendation 1

2.30 The committee recommends that the Bill be passed.

Senator Zed Seselja

Chair

