



102/55 Holt Street, Surry Hills, NSW, 2010
Phone: (02) 9211 5300 Fax: (02) 9211 5268
Toll Free: 1800 226 028 TTY: (02) 9211 0238
ABN: 76 002 708 714
sydney@welfarerights.org.au
www.welfarerightscentre.org.au

16 February 2016

Committee Secretary
Senate Standing Committee on Community Affairs
Parliament House
Canberra
ACT 2600

By email: community.affairs.sen@aph.gov.au

RE: Submission to Senate Community Affairs Legislation Committee inquiry into the *Social Services Legislation Amendment (Family Payments Structural Reform) Bill 2015*

Dear Committee Secretariat,

Welfare Rights Centre NSW welcomes the opportunity to provide comment to the Senate Community Affairs Legislation Committee inquiry into the *Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill (No. 2) 2015*.

For over 33 years, the Welfare Rights Centre NSW has advised people about their social security rights, entitlements and obligations and has assisted people through the social security review and appeals system. The Centre provides information and advice about family payments and employment assistance and engages in community legal education, training and law reform activities. The Welfare Rights Centre NSW is a member of the National Welfare Rights Network.

Family payments and poverty

Some of the measures in this Bill were part of the harsh and now discredited 2014-15 Federal Budget that was rejected by both the Senate and the wider Australian community as deeply unfair, which undermined aspects of our social security safety net. The Government, with support from the Opposition, amended a previous Bill on family payments. It made change to eligibility for FTB Part B for couples, which reduced the age of the youngest child from 18 to 12 years of age. A third of couples impacted by these cuts earned under \$40,000. This Bill achieved some savings, but it was not genuine reform, and it was certainly not fair to the 29,500 couple families that were living on less than \$40,000 per year.

It is useful to consider the available data on poverty in Australia when considering the likely impacts of this Bill. According to the 2014 ACOSS *Poverty in Australia* report there are over 602,000 children (17.7% of all children) living below the poverty line. Nearly 37% of all children in poverty were in sole parent households. The Welfare Rights Centre NSW urges the Committee to support legislation which reduces poverty and inequality in Australia, rather than increase it.

The Bill before the Committee will cause significant harm to the poorest families in this country. A single parent family with one child over 13 years will lose approximately \$2,500 per year and a single parent with two children will lose approximately \$3,000 per year (\$48 per week and \$58 per week respectively).

The measures in this Bill will lead to greater levels of inequality and poverty, and they should be rejected by the Committee.

Overview of changes to family payments in this Bill

From 1 July 2018, Family Tax Benefit Part A fortnightly rates will increase by around \$10 as will fortnightly rates of Youth Allowance and Disability Support Pension, assisting 1.2 million families. From 1 July this year, Family Tax Benefit Part B, for those with a child under the age of one, will get a \$1,000 per year increase. Assistance for older grandparents will be maintained. The Bill, if enacted, will leave a gap in support for 16-18 year olds, with Family Tax Benefit (FTB) B to cease at 16 years (previously 18 years) for young people *not* eligible for Youth Allowance.

Research by the Brotherhood of St Laurence paints a disturbing picture of the current labour market experience for many young people. Since the global financial crisis, the number of young people looking for work has increased by 55%, by over 100,000 to 290,000 people.

The latest official ABS data shows that the unemployment rate for 15 to 24-year olds at October 2015 stood at 12.4%. This is more than twice the official rate of unemployment, which was 5.9% in October 2015.

The Department of Social Services has advised that 15,600 young people under 18 years who are living at home will receive small fortnightly increases in Family Tax Benefit Part A, as will 4,930 young people receiving youth rates of Disability Support Pension. A further 1,050 young people are receiving Abstudy and Special Benefit.¹

Welfare Rights NSW notes widespread concerns from community organisations, including the Australian Council of Social Service (ACOSS) and the Australian Youth Action Coalition (AYAC) that current rates of Youth Allowance and other social security payments for young people are inadequate. Any payment increases are very welcome, particularly in a context where these low rates of payments are indexed just once a year, unlike most other working age payments.

While these very modest increases are welcome as noted earlier in this submission, they are insignificant compared to the extreme and harsh measures in the *Social Services Legislation Amendment (Youth Employment Bill) 2015*. Under this Bill which is currently before the Parliament, young people may face a four week waiting period.

The supplements will be reduced in 2016-17 and 2017-18 before being abolished in 2018-19.

Some FTB cuts have already passed the Parliament, including changes to Family Tax Benefit Part B for couple families, other than grandparents. This measure saved around \$520 million, leaving thousands of low income coupled families in increased financial stress.

Who is most impacted by the FTB changes in this Bill?

The Welfare Rights Centre continued to oppose the Government's plans to cut payments for low and middle-income families. Under this bill, 1.5 million families are going to lose their Family Tax Benefit Part A Supplement, a cut of more than \$700 per child every year. Around 600,000 of these families are single-parent families. Around 500,000 of these families are on the maximum rate. Many are on a combined family income of less than \$51,000 per year. Another 1.3 million families will lose their Family Tax Benefit Part B Supplement, which is a cut of more than \$350 per family every year.

Single-parent families will be hit even harder, having their Family Tax Benefit Part B reduced to \$1,000 a year when their youngest child turns 13, and then removed entirely when their youngest child turns 16. This is despite research consistently finding that the costs of raising children escalate as a child gets older. Just when the costs increase, the Government is removing vital financial support that families need to make ends meet.

¹ Community Affairs Legislation Committee, *Senate Transcript*, 22 August 2015, p. 24.

It is critical that the cumulative payment reductions in all of the relevant Bills before the Parliament are considered, as only then will the Parliament be provided with an accurate picture of the impacts of the measures in the Bills it is considering.

Need for genuine reform of the family payments system

The role of the family payments system is to keep families out of poverty and to assist with the costs of raising children to cover essential items such as food, clothing, transport, accommodation, etc.

Historically, financial support through the family payments system is credited with reducing unacceptable rates of child poverty in Australia. From 1982 to 1995-96 there was a one-third reduction in child poverty, attributed largely to the significant increases in government income payments to lower income families with children.⁵ However, child poverty is still a major concern. Available evidence indicates that existing financial support for families is now less effective in alleviating child poverty, with 17.7% of all children now living in poverty.⁶

The Welfare Rights Centre NSW supports sensible and fair reform of the family payments system. But this Bill fails the test of fairness, will exacerbate poverty, increase disadvantage, and cause harm to vulnerable families and children

We note that the Australian Council of Social Services has developed a discussion paper for reform of family payments which we consider provides a very useful starting point for a broader community dialogue about how families and children can best be supported.

The Welfare Rights Centre NSW argues that reform of the system must not be driven by more than the need to find budgetary savings.

Alternative approaches to family payments reform

Instead of reducing essential family payments for families, the Committee should consider policies that provide more effective support for low income families. This could be achieved by reversing previous indexation arrangements for family payments, which has effectively reduced support for many families.

The Welfare Rights Centre NSW notes that mechanisms that maintain the level of family payments are critical to protecting the well-being of children at risk of poverty. In 2009, the former Government introduced less generous indexation benchmarks, which meant that family payments were no longer increased above the inflation rate.

This led to incomes of the poorest families falling behind improvements in community living standards. Since 2009, inferior indexation arrangements have effectively reduced the weekly benefit paid to families by about \$20 per week per child.

The Government must immediately restore beneficial indexation arrangements for FTB payments to ensure that these important benefits are indexed to wages, as well as prices.

Human Rights concerns with this Bill

The Joint Human Rights Parliamentary Committee in its recent report found that the family payments package, which proposes to cut family tax benefits to single income families, may breach people's right to social security and an adequate standard of living.⁷

⁵ Harding A. and Szukalska, A. *Trends in Child Poverty 1982 to 1995-96*, presented at the Australian Association for Social Research Annual Conference, 12 February 1999.

⁶ Australian Council of Social Service, *Poverty in Australia*, 2014.

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http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Human_Rights/Completed_inquiries/2015/Thirtieth_Report_of_the_44th_Parliament

remaining after reconciliation and recoveries from their tax returns. This represents 8% of the FTB population. The average debt value was \$1,860.²

While the number of FTB overpayments has declined, a substantial number of families are still saddled with this problem, and grapple with a payments system which makes it difficult to avoid a debt. In 2013-14, the total amount of overpayment was valued at \$273 million.³ The average amount of debt was \$1,672, an increase of \$50 on the previous year. Some debts can be much higher, at \$5,000 or even more.

The single touch payroll system with the Australian Tax Office, which offers the promise of “real time” employer reporting of incomes, is still some years away, according to the evidence provided at Senate Estimates hearings.

The Welfare Rights Centre NSW does not support the removal of these supplements. Low income families and single parents tell us that they factor these lump sum payments into their annual family budgets. It is incredibly difficult to save money for things like insurance and car registration, to pay-off or reduce credit card debts, or to replace ageing whitegoods. These supplements are also put aside for their children’s future, to cover the costs of school fees and tuition, uniforms, and school activities, camps, excursions and, of course, sports. The loss of these supplements would be a significant blow to many families who rely on them as they juggle bills and family expenses over the year.

As noted, arguments for the phasing out of supplements are 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)*.

This report claims that the social security system in Australia, with 20 main income support payments and 55 supplements “has led to a system that is difficult to understand, navigate and administer”, which “adds complexity” and results in a “system that is confusing”.⁴

The Welfare Rights Centre NSW’s three decades of experience in dealing with individuals about their social security payments is that many have a reasonable level of awareness of the payments that they are receiving, and of the benefits that they are entitled to. In our experience, this is particularly the case with the FTB supplements.

It appears that one of the driving imperatives behind this Bill is to reduce the number of supplements, as highlighted in the McClure Review. The aim is to reduce the number of supplements, irrespective of whether or not such reduction plays a beneficial and important role in alleviating poverty or assisting people in the transition to work, study or training. This is not a sound or defensible approach to developing social policy.

The Welfare Rights Centre NSW is concerned about the overall cumulative, compounding effects of the payment reductions in this bill, and how it interacts with other legislation before the Parliament. For instance, it is likely that some families who will be impacted by the loss of the Large Family Supplement (loss of \$325 per annum) may also be impacted by the removal of the Pensioner Education Supplement (loss of \$1,622 per annum) and the Education Entry Payment (loss of \$208 per annum), which are contained in the *Social Services Legislation Amendment Budget Repair Bill 2015* that the Committee has investigated. As a result of just these three measures, a family could be worse off by \$2,150 a year.

² Senate Community Affairs Committee, Answers To Estimates Questions on Notice, Social Services Portfolio 2015-16, *Supplementary Estimates Hearings*, Question No: SQ15-000980.

³ Department of Social Services, *Annual Report 2014-15*. P. 247

⁴ McClure, P. *A New System for Better Employment and Social Outcomes: Report on the Reference Group on Welfare Reform*, February 2015, p. 9.

Of those affected by the FTB B cuts under the Bill are 136,000 single parents with children over 13 years of age.

In supporting the Bill in the Parliament, Government members spoke of the need to “repair the budget”. It is unfortunate that low income families are again being required to bear the impact of these savage payment cuts.

One group that will be hit especially hard are the 121,000 single parents who have been pushed onto the lower Newstart Allowance. The loss of Parenting Payment Single back in 2005 has meant that single parents on the maximum rate are now over \$80 pw worse off, and faced with harsher earnings thresholds and withdrawal rates, which reduce the financial benefit of earnings. The FTB cuts in this Bill will push these families further into poverty.

Single parent families will be hit even harder, having their Family Tax Benefit B reduced to \$1,000 per year when their youngest child turns 13, and then cut entirely when their youngest child turns 16.

The \$5 per week increase to Part A will not offset the cumulative financial losses that many families will experience if this Bill is passed by the Parliament. The Welfare Rights Centre NSW believes that the measures in this Bill fail the test of fairness: they are quite harsh, quite severe, and quite unnecessary.

FTB Supplements

The Bill would phase out the FTB Part A supplement by reducing it to \$602.25 a year from 1 July 2016 and to \$302.95 a year from 1 July 2017, before withdrawing it entirely from 1 July 2018. The FTB Part B supplement will be reduced to \$302.95 a year from 1 July 2016 and to \$153.30 a year from 1 July 2017, before also being withdrawn from 1 July 2018.

The number of families impacted by the removal of supplements is substantial. Around 1.7 million families receive Family Tax Benefits of end-of-year supplements, at a cost of around \$4 billion over four years.

These lump sum payments are considered valuable and important payments for a number of reasons – they allow families to make purchases and pay larger bills that they could not otherwise afford (due to an inability to save larger amounts), and, for a smaller group, they off-set debts caused by design problems with the family payments system, where it is often difficult to avoid an overpayment.

More recently, Government had advanced additional rationale to get rid of the billion dollar end-of-year lump payments system, claiming that supplements (and presumably any supplements, not matter how widely accessed or important for families and individuals), are complex, bad policy and should therefore be removed. This view has gained greater currency among Government, especially since the release of the McClure Report on Welfare Reform which sought to trivialise and essentially demonise the system of supplementary payments, and their role in meeting individual need and reducing poverty and hardship

It is claimed there is no continuing rationale to maintain the current Family Tax Benefit supplements because the problem with Family Tax Benefit overpayments has been solved. Unfortunately, the casework experience of the Welfare Rights Centre NSW does not support this claim.

Information about the percentage of the people with an FTB debt who still have an overpayment after reconciliation and their tax return was recently provided to the Senate. For the 2012-13 entitlement year, 2,017,314 Family Tax Benefit (FTB) clients have been reconciled. Of these, 487,730 were deemed to be overpaid. This is a substantial proportion of families who were saddled with FTB overpayments – which totals almost half a million. Additionally, 33% (161,817) still had a debt

The Committee raises concern over the lack of evidence to support the billion in cuts to families:
*"No information is provided as to the impact of these changes on families and how those families will meet their living expenses with the reduced rates of FTB Part B or how the measures have been targeted to avoid undue economic hardship. No information is provided as to why the changes to FTB Part B are structured around the age of the child and not the income of the family."*⁸

"Family tax payments are an integral part of Australia's social welfare scheme and critical for many families to provide an adequate standard of living," argued the Committee's report, which was critical of the lack of evidence to support the \$4 billion in cuts to some of the most vulnerable members of our community.⁹

If there was an alternative option that would allow for the means-testing of the supplements, then it might be worth considering it.

On the removal of the end of year supplements, the Committee notes "while the continued availability of family tax benefit will be important for many families, this does not explain why removing the family tax benefit supplement for all families (regardless of income) is proportionate."¹⁰

The Welfare Rights Centre NSW urges the government to take steps to ensure that any reforms to do not unfairly target funding cuts on the most vulnerable and marginalised groups who are ill-equipped to deal with substantial reductions in household incomes.

Recommendation: That the Committee recommend that this Bill not be enacted.

Yours sincerely,

Aaron Neal
Director and Principal Solicitor
Welfare Rights Centre NSW

⁸ Ibid, p. 55.

⁹ Ibid, p. 56.

¹⁰ Ibid, p. 59.