



# Analysis of proposed changes to Family Tax Benefits

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*ACOSS has argued for many years that family payments for teenagers aged 16 years and over are too low to enable low-income families to meet the rising cost of raising children as they grow older. We therefore strongly support the Government's intention to increase the Family Tax Benefit as proposed in the Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (Election Commitments and Other Measures) Bill 2011. This Bill seeks to raise the maximum rate of Family Tax Benefit Part A (FTB-A) for families with a young person aged 16 to 19.*

*However, inconsistencies between family and youth payments mean that the FTB-A payment increase will not benefit some of the most disadvantaged families. Under current FTB rules, up to 15,000 early school leavers from low-income families, many of whom experience multiple barriers to education such as mental illness, low self-esteem, or family conflict, could miss out on proposed annual increases of between \$600 and \$4,000. Sole parents on low incomes and who receive child support payments may also miss out on payment increases.*

*Many early school leavers will not receive the increased payments because FTB requires participation in fulltime education or training. Unlike the Youth Allowance, FTB rules do not allow young people to meet their participation requirements through case management and early intervention programs that prepare young people for participation in education and training, or through combinations of part-time training and part-time employment.*

*ACOSS support the Government's commitment to improving educational and employment outcomes for young people. However, the Bill does not contribute to this objective as FTB requirements potentially omit the very programs and supports designed to assist vulnerable young people through education or onto further training or work. The lack of flexibility in FTB rules could therefore weaken training and employment outcomes for early school leavers as well as depriving their families of a much-needed increase in family assistance.*

*The proposed increase in FTB-A payments will greatly reduce child poverty, but the FTB participation rules need adjustment so that the most disadvantaged young people benefit from the higher payments and more flexible learning options.*

**ACOSS recommends that:**

- 1. The increase in Family Tax Benefits for older teenagers in the Bill be supported**

**Either:**

- 2. The activity requirements for early school leavers whose parents receive Family Tax Benefit be made for flexible by bringing them into line for those that apply to Youth Allowance, OR**
- 3. Youth Allowance for young people aged 16-17 years who are living at home be raised to the same level as the proposed new rate of Family Tax Benefit Part A, including entitlement to Rent Assistance.**

## 1.1 What family payments do low-income families currently receive?<sup>1</sup>

Family assistance payments play a central role in alleviating child poverty and providing support to families living on the lowest incomes.

For families with children under the age of 16, the primary form of family assistance is the Family Tax Benefit (FTB), which is designed to compensate families for the costs associated with raising children, and which provides higher rates of assistance to families on low incomes.

The FTB system in turn comprises two parts: FTB Part A (FTB-A) and FTB Part B (FTB-B). This paper focuses on FTB-A, which is a general payment designed to meet the costs of raising children, and which is the subject of the Bill currently under consideration.<sup>2</sup> The amount of FTB-A that a family receives depends on their annual income, and the age and number of their children.

Once their dependent child turns 16, low-income families can choose to either maintain FTB-A payments or to switch to Youth Allowance (YA). Claiming one of these payments precludes eligibility for the other, and families are left to calculate which form of assistance is most beneficial for them. Yet the levels of these two payments and the eligibility requirements differ, in part because they are administered by two separate Government Departments – FAHCSIA and DEEWR.

## 1.2 Why are family payments necessary for low-income families?

FTB is designed to compensate families for the costs associated with raising children, with higher rates of assistance targeted to families on low incomes.

Recent research on child poverty in OECD countries suggests that the family assistance system in Australia has been instrumental in reducing child poverty.<sup>3</sup> Since major reforms were undertaken in the 1980s, increases in the rate of family payments for low-income families have corresponded to a significant drop in rates of child poverty in Australia.<sup>4</sup>

Nevertheless, child poverty in Australia remains a persistent problem. Approximately eleven per cent of children in Australia live in poverty, higher than the OECD average.<sup>5</sup> This high rate of child poverty can be attributed to a range of factors, including the inadequacy of social security payments, and relatively low levels of participation in the paid workforce amongst Australian families with children.

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<sup>1</sup> This paper was prepared by Corinne Dobson with advice from other ACOSS policy staff and our network of policy advisers.

<sup>2</sup> Whilst FTB-A is a general payment designed to meet the costs of raising children, FTB-B is more narrowly targeted to families with only one income earner (including sole parents). The activity test associated with FTB-B is more narrowly delimited than that applied to FTB-A.

<sup>3</sup> Whiteford, Peter & Cass, Bettina (2009), 'Social Inclusion and the struggle against child poverty: lessons from Australian experience'. Paper presented at the *Expert Group Meeting on Policies to Advance Social Integration* United Nations Department of Economic and Social Affairs Division for Social Policy and Development Social Perspective on Development Branch, United Nations, New York, 2 November; Whiteford, Peter & Willem Adema (2007), *What Works Best in Reducing Child Poverty: A Benefit or Work Strategy?* OECD; Whiteford, Peter (2009), *Family Joblessness in Australia*. Social Inclusion Unit: Canberra.

<sup>4</sup> Harding, Ann & Szukalska Aggie (1999), 'Trends in Child Poverty 1982 to 1995/96', presented at the Australian Association for Social Research Annual Conference, 12 February 1999.

<sup>5</sup> ACOSS (2009), *Reform of family assistance payments*, ACOSS Paper 160, November 2009. The poverty line used is 50% of median family disposable income.

In addition, children from sole-parent families are three times more likely to be in poverty than other children. Around thirty per cent of children in such families live below the poverty line. Most sole parent families live on low incomes - over seventy per cent are in the bottom forty per cent of Australian households ranked by income.<sup>6</sup>

The degree to which FTB will continue to moderate child poverty will depend on whether payment levels correspond to the actual costs of raising children, and the extent to which it reaches those families most in need. The remaining part of this paper assesses the current and proposed FTB legislation against these two criteria.

### **1.3 Do current FTB and YA payments meet the costs of raising older teenagers?**

To protect children from poverty, family assistance payments should meet the full 'minimum' costs of raising a child in a low-income family. Under the current payment rates, however, neither FTB-A nor YA meet the costs of raising older children.

An analysis of expenditure survey data indicates that the costs of raising children increase with age.<sup>7</sup> It is estimated that, for a typical low-income family, young people aged 16–17 years of age are more than five times as costly as children aged 0–4 years.<sup>8</sup> Thus, whilst a child 4 years of age costs between \$50 and \$100 per week, the weekly expenditure for a 17-year-old increases to between \$250 and \$300 per week.

Despite the increasing costs of children as they age, family payment levels *decrease* for older children. The disparity between the rising costs of children as they age and current family assistance payments is illustrated in Figure 1, below.

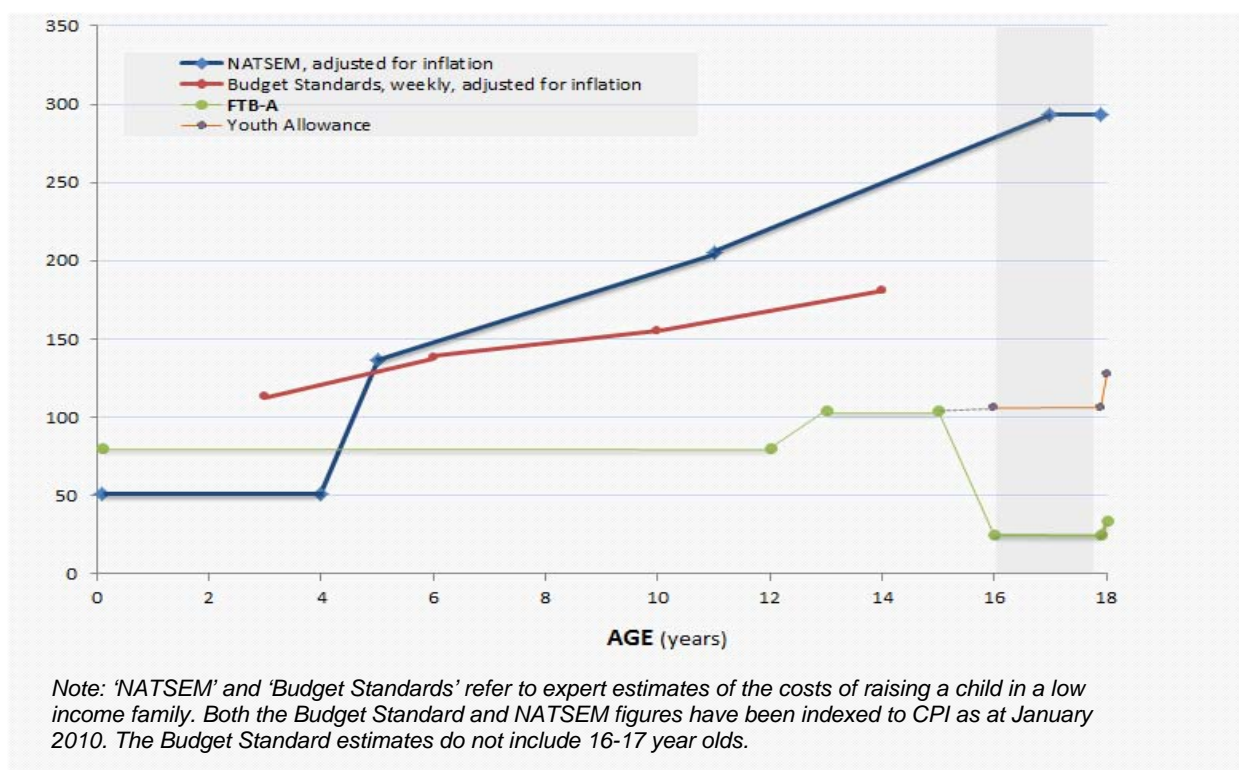
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<sup>6</sup> Melbourne Institute (2009), 'A statistical report on waves 1 to 6 of the HILDA survey'. *Families, Incomes and Jobs* 4:36.

<sup>7</sup> ACOSS (2009), *op cit.*

<sup>8</sup> Whilst data analysis consistently confirms older children are more expensive than younger children, estimates of the rate at which costs increase with age vary depending on the method used. Expenditure surveys calculate the costs of raising children by comparing the expenditure of families with children to families without children. A budget standards method calculates costs on the basis of the price of goods and services needed to achieve a basic standard of living. This latter method typically yields a lower rate for cost increases, with older teenagers calculated to cost at least twice as much as very young children. For a more detailed explanation of these methods, see ACOSS 2009 *op cit.*

FIGURE 1. Costs of raising children and family payments (\$ per week) according to age of child.



Sources P. Henman, (2005), *Updated Costs of Children Using Australian Budget Standards*, May 2005. University of Queensland; Percival, R. and Harding, A., (2005, *The Estimated Costs of Children in Australian Families in 2005-06*. NATSEM: Canberra

Under the current payment system, parents can opt to receive either FTB-A or YA once their dependent child reaches 16 years of age. As Figure 1 reveals, there is a significant gap between family assistance payments and the costs of raising children once teenagers reach this age.

Although this disparity between family assistance payments and the costs of raising older teenagers is apparent for families receiving either FTB-A or YA, it is most pronounced for FTB-A payments. This is because the current weekly FTB-A payment for low-income families drops from \$104 to \$26 once a young person reaches the age of 16. Consequently, most low-income families switch from FTB-A to the YA payment of \$106 once their dependent child reaches 16 years of age. The YA payment is \$80 higher than the equivalent FTB-A payment for these older teenagers. However, those families receiving YA cannot claim the \$726 annual FTB-A supplement or the extra Rent Assistance payments available to FTB-A recipients, nor can they receive the additional FTB-B payments if they are a single-income family.

#### 1.4 How does YA and FTB interact with the child support system?

Under the current rules, FTB-A is distributed between separated parents when either provides over 35% of the child's care. In addition, child support payments may further affect the level of FTB-A received by sole parent households. The Maintenance Income Test (MIT) operates to reduce FTB-A payments by 50 cents for each dollar of child support above a prescribed threshold (\$26 per week), until the base rate of FTB-A is reached. Rent Assistance, paid as a supplement to FTB-A, is also subject to reduction through the MIT.

The adverse impact of this can be illustrated by the example of a sole parent with an annual income of earning \$35,000, and receiving \$50 per week per week in child support for their 15 year old.

Under FTB, the sole parent is subject to MIT and their FTB-A reduced, with the size of this reduction depending on how much time the child is in their care. If the 15 year old is in their care full time, their FTB-A payment is reduced from \$104 per week to \$92.25. For a child who is in the care of the sole parent for 50% of the time, the FTB-A payment is halved to \$52 per week, and then reduced to \$40.25 under the MIT. In addition, any rent assistance that they may be receiving will be reduced through the application of the MIT.

In contrast to FTB-A, YA is not distributed proportionately between parents according to the care pattern, but is paid to a nominated place of residence. Furthermore, YA does not have a separate maintenance income test, and so is not reduced at the rate that applies to FTB parents who receive child support. For YA recipients, child support income is included in the parental income test which determines the level of YA that a family may receive. Under this income test, the rate of YA payment is reduced at 20 cents in the dollar over the parental income test threshold of \$45,114.

Thus, for separated parents living on low incomes, the receipt of child support has a greater impact on reducing financial assistance under FTB than under YA. Further, the MIT operates to reduce FTB payments to all children in a family, not just those for whom child support payments are received.

### 1.5 What changes to FTB-A and YA have been proposed?

Under the *Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (Election Commitments and Other Measures) Bill 2011*, the Government has signalled its intention to increase the maximum weekly FTB-A payment to \$104 for low-income families with teenagers aged 16 to 19 years. As indicated in Table 1, this brings FTB-A payments for 16 to 19 year olds into alignment with the payment levels for 13 to 15 year olds.

**TABLE 1. Comparison of current and proposed payment rates for FTB-A and Rent Assistance (RA)\* (January 2011)**

Age of child	FTB-A		Rent Assistance (RA)**		Combined payment (FTB-A + RA)	
	Weekly	Annual	Weekly	Annual	Weekly	Annual
13-15 years	\$104	\$6,161	\$68	\$3,536	\$172	\$9,687
<b>CURRENT: 16-17 years</b>	\$26	\$2,062	\$68	\$3,536	\$94	<b>\$5,598</b>
<b>PROPOSED: 16-19 years</b>	\$104	\$6,161	\$68	\$3,536	\$172	<b>\$9,697</b>

\*Table shows the maximum rates as at Jan 2011, payable to a couple with one child and annual income below \$45,114. Annual figures include the FTB-A end of year supplement worth \$726.

\*\*Stated RA payment is the maximum amount that can be received by FTB-A recipients, and is not offset by the RA payment that can be claimed by parents in receipt of Newstart Allowance or the Disability Support Pension. Rent Assistance may be up to \$54.30 for a couple in which one partner is in receipt of Newstart, where the total family income does not exceed \$45,114, and where the weekly rent is more than \$159.

In addition to increasing the FTB-A payment for older teenagers, the Bill proposes amendments to eligibility for YA. These changes would preclude full-time students aged 16 to 17 from receiving YA. Exceptions to this rule would be permitted for students considered 'independent', those required to live away from home, or students who were receiving YA immediately before commencing their course of study. This maintains the traditional distinction between young people in full-time education and those who are engaged with the labour market, a distinction that the Youth Allowance was introduced over a decade ago to overcome and which is becoming less relevant as time passes.

### **1.6 How will FTB and YA payments levels differ under the proposed changes?**

If the Bill is passed, the payment for FTB will be higher than the YA payment for 16-17 year olds.

As a result of the changes proposed to payment rates and eligibility criteria, it can be expected that a large number of YA recipients will transfer to the FTB system. The increased FTB-A payment will be higher in annual terms than the equivalent Youth Allowance payments, due to the lump sum FTB-A supplement paid at the end of financial year. In addition, low-income FTB-A recipients will be able to access Rent Assistance, which is not currently offered to YA recipients living at home, and may also qualify for FTB-B if they are a single-income family.<sup>9</sup>

Thus, Family Tax Benefits will generally be higher than the equivalent Youth Allowance payment for 16-17 year olds, for example:

- Approximately \$600 per year higher for a low-income couple with one teenage child, not renting privately;
- Approximately \$1,300 per year higher for a low-income couple with one teenage child, paying a high private rent;
- Approximately \$4,000 per year higher for a low-income sole parent with one teenage child, paying a high private rent.

The last example, that of a sole parent with a teenage child eligible for the maximum rate of Rent Assistance, is illustrated in the table below. If the Bill is passed, low-income sole parent families not receiving child support would particularly benefit from switching their child payments from Youth Allowance to FTB because they would receive the higher FTB Part A payment, the Part B payment, and higher Rent Assistance. However, as discussed previously, those with Child Support payments who make the switch could be financially worse off due to the maintenance income test.

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<sup>9</sup> Low-income families in receipt of YA may be eligible for Rent Assistance if one or both parents are receiving payments such as Newstart Allowance or Disability Support Pension, but this Rent Assistance makes no additional provision for dependent children.

**TABLE 2. Comparison of maximum amounts payable proposed for a sole parent with one child aged 16–17 years\* (January 2011)**

	FTB				YOUTH ALLOWANCE (YA)			
	FTB-A	RA <sup>†</sup>	FTB-B	TOTAL	YA	RA <sup>‡</sup>	FTB-B	TOTAL
Weekly payment	\$104	\$68	\$48	<b>\$220</b>	\$106	\$58	\$0	<b>\$164</b>
Annual payment <sup>***</sup>	\$6,161	\$3,536	\$2,826	<b>\$12,523</b>	\$5,530	\$3,016	\$0	<b>\$8,546</b>
Annual difference (YA – FTB)					-\$631	-\$510	-\$2,832	<b>-\$3,973</b>

1.1 \* Rates as at January 2011; applicable where family income is below \$45,114.

1.2 \*\*\* Annual payment of FTB includes the annual FTB supplements, which are not paid to YA recipients

1.3 † For FTB-A recipients, maximum RA is paid with FTB-A and applies where weekly rent is more than \$159.

1.4 ‡ RA rate represents the maximum that can be claimed by a sole parent receiving Newstart Allowance, and applies where weekly rent is more than \$129. Maximum rate for a couple is \$54 per week.

Even small increases or reductions in income make a big difference to a struggling low-income family. These examples illustrate how important it will be for families to be able to shift from YA to FTB in order to benefit from the proposed increases in that payment. However, this will be hard for many young early school leavers to do, due to the more stringent education participation requirements for FTB.

### In what ways are the participation requirements for FTB less flexible than for YA?

Under policy changes introduced in 2009, eligibility for both FTB-A and YA has been tightened as part of a series of initiatives, called the 'earn or learn' policy, designed to encourage school participation. The tightened FTB-A activity test, also referred to as the 'education participation requirement', is satisfied if a young person aged 16–20 years of age:

- has completed the final year of secondary school, or an equivalent level of education (considered to be a Certificate Level II qualification under the Australian Qualifications Framework), or
- is undertaking *full-time study* in an *approved course of education or study* that would assist or allow the young person to complete the final year of secondary school or an equivalent level of education.<sup>10</sup>

<sup>10</sup> *Family Assistance Legislation Amendment (Participation Requirement) Act 2009*. Note that the FTB-B study requirement was not changed by the amended FTB-A activity test. The separate full-time study requirement for FTB-B, which was already in place, continues to operate and does not allow for exemptions, adjusted full-time load, or for payment of FTB-B to continue where a child has attained a Year 12 or equivalent qualification and subsequently ceases study.

The legislation accompanying these reforms allows for exemptions from the activity test where it can be demonstrated that the young person has reduced capacity (intellectual, physical or psychiatric disability); resides in an area where there is no locally accessible approved course of study; or is subject to exceptional circumstances that prevent participation in educational activities. Some young people, for example those with a learning disability, may be approved to meet the requirements by studying part time.

Whilst the activity test for YA was also tightened at the same time, the education participation requirements associated with YA are more flexible, encompassing a wider array of activities and circumstances, including early intervention and non-vocational programs and activities specifically designed to assist vulnerable young people, and combinations of employment and part-time study or training.<sup>11</sup> Furthermore, the policy guidelines associated with FTB-A stipulate a more stringent assessment process, with documented evidence or other sources of independent verification needed to substantiate exemptions.<sup>12</sup> The difference between the education requirements and exemptions currently associated with FTB-A and YA are shown in Table 3, with the key differences marked in bold. Of course, much depends on how these rules are administered on the ground.

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<sup>11</sup> Although the YA activity test allows for greater discretion, discretionary measures do not automatically guarantee adequate protection given the difficulties typically involved in administering safeguards and exemption clauses. The effectiveness of such safeguards assumes families have a willingness and capacity to disclose information and self-advocate about circumstances impacting on their capacity to meet educational requirements. This assumption is problematic given the highly personal nature of some of the factors underlying educational disengagement, raising questions about whether parents are aware of the circumstances (such as their child being bullied or experiencing mental illness) or willing to disclose extenuating circumstances (such as domestic violence, addiction, or their child providing parental care).

<sup>12</sup> *Family Assistance Guide 1.1.F.53, FTB Activity Test; cf Social Security Guide 3.2.7.10, Satisfying the YA Activity Test.*

TABLE 3. Comparison of education participation requirements & exemptions for FTB-A and YA

FTB-A	YA
<b>LEGISLATED EDUCATION PARTICIPATION REQUIREMENTS FOR EARLY SCHOOL LEAVERS</b>	
<p>Is undertaking full-time study in an approved course of education or study that would assist or allow the individual to complete their final year of secondary school or an equivalent level of education<sup>13</sup></p>	<p>Is undertaking:</p> <ul style="list-style-type: none"> <li>i) full-time education or training that would assist or allow the individual to complete the final year of secondary school or an equivalent level of education; <b>OR,</b></li> <li>ii) <b>part-time study or training, in combination with other approved activities, (generally 25 hours a week): OR,</b></li> <li>iii) <b>other approved programs or activities (generally 25 hours per week), as specified under the young person’s Employment Pathway Plan.<sup>14</sup></b></li> </ul> <p><b>For the purposes of (ii) and (iii) above, “approved activities” include: paid employment; voluntary work; participation in ‘Stream 4’ of Job Services Australia; English as a Second Language course; Youth Connections Program; literacy &amp; numeracy programs; Australian Apprenticeships Access Program; Community Development Employment Program; vocational rehabilitation programs; programs including behaviour management, financial literacy, drug or alcohol counselling, abuse counselling, pre-vocational or other rehabilitation courses; skill development such as computer skills or obtaining driver’s licence; participation in Green Corps or Drought Force.<sup>15</sup></b></p>
<b>ACTIVITY TEST EXEMPTIONS</b>	
<p>Physical, psychiatric or intellectual disability or learning difficulty</p> <p>Medical circumstances (accident, illness, injury)</p> <p>Personal circumstances (substance abuse, bullying, behavioural problems)</p> <p>Family circumstances (death in family, domestic violence, family eviction, caring responsibilities)</p> <p>Inability to secure an appropriate place in an education or training institution (e.g. due to refusal, child not qualified, or lack of locally accessible educational facilities or appropriate distance education courses)</p> <p>Other circumstances considered appropriate (<b>does not include the young person mixing part-time study with part-time work</b>)<sup>16</sup></p>	<p>Physical, psychiatric or intellectual disability or learning difficulty</p> <p>Medical circumstances (accident, illness, injury)</p> <p>Personal circumstances (substance abuse, bullying, behavioural problems, relationship break-up, emotional and/or sexual abuse; disruption to home through burglary or natural disaster)</p> <p>Family circumstances (death in family, domestic violence, family eviction, family dislocation, caring responsibilities)</p> <p>Inability to secure an appropriate place in an education or training institution (e.g. no locally accessible approved course, cultural or academic reasons, or lack of locally accessible educational facilities or appropriate distance education courses)</p> <p>Lack of stable accommodation</p> <p><b>Commitment to part-time work</b></p> <p><b>Refugee status</b></p> <p><b>Subject to Community Service/Justice Order</b></p> <p><b>Case-management under the supervision of state or territory authorities or a community organisation, or via Commonwealth-funded intensive assistance</b></p> <p><b>Other special circumstances that make it unreasonable to expect the young person to participate in full-time education</b></p>

<sup>13</sup> Family Assistance Legislation Amendment (Participation Requirement) Act 2009

<sup>14</sup> Social Security Act 1991 544DA, Youth Allowance Employment Pathway Plans – Early School Leavers

<sup>15</sup> Social Security Act 1991 542; Social Security Guide 3.2.4.

<sup>16</sup> A New Tax System (Family Assistance) ACT 1999, subsection 17B; Family Assistance Guide 1.1.F.53. Note that in exceptional circumstances such as a learning disability, the young person may be approved to study part time.

### 1.7 Which young people will miss out?

A break-down of YA recipients aged 16-17 years as of September 2010 indicates that up to 15,000 early school leavers may miss out on the proposed increases to FTB-A because their parents will not be able to switch from YA to that payment.<sup>17</sup> Under the more flexible YA activity test, this group of young early school leavers are able to qualify for YA payments by undertaking a range of activities as part of their Employment Pathway Plan, as indicated in Table 4 below. FTB-A participation requirements, however, usually preclude activities other than full-time study or training.

**Table 4. Distribution of Employment Pathway Plan activities of early school leavers on YA (other), at September 2010**

23%	Stream 4 services with Job Services Australia providers (this stream comprises those assessed as having the most severe barriers to employment and education)
19%	Full-time or part-time study at an accredited institution
12%	Suitable skills development and support programs including the Adult Migrant English Program; Australian Apprenticeship Access Program; Community Development Employment Project; the Language, Literacy and Numeracy Program; the National Green Jobs Corp; New Enterprise Incentive Training; Youth Connections; or work for the dole programs
34%	Range of different activities such as attendance at state-based programs, provider-based training, drug and alcohol counselling, relationship counselling, and obtaining driver's licence
6%	Temporary exemptions
3%	Disability Employment Services
3%	Employment or work experience activities

As this break-down of YA recipients indicates, the families who are at risk of missing out on the increase in FTB-A payments include some of the most disadvantaged young people. Research suggests that the reasons this group of early school leavers disengage from education are complex, ranging from factors within the school or education system, to those external to the school or education system (i.e. relating to the individual child, their home, or community).<sup>18</sup> Risk factors for disengaging from education include mental illness, low self-esteem, bullying, family dysfunction, learning difficulties, financial pressures, caring responsibilities, lack of support structures, and drug and alcohol addiction.<sup>19</sup> Young people more susceptible to these risk factors include indigenous children, those living in out of home care, young offenders, homeless children, immigrants and refugees, young mothers, children with disabilities, and those experiencing mental health issues.<sup>20</sup>

<sup>17</sup> Senate Standing Committee on Education Employment and Workplace Relations, Questions on Notice, SQ10-001557.

<sup>18</sup> KPMG (2009), *Re-engaging our kids: a framework for education provision for young people at risk of disengaging or disengaged from school*. Department of Education and Early Childhood Development: Melbourne.

<sup>19</sup> Anglicare (2010), *ibid.*; Refugee Council of Australia (2009), *Refugee young people and post-compulsory education and training: An annotated bibliography*; Kilpatrick, P, (1996), 'Missing school: implication of curriculum structuring for students with attendance problems' *Youth Studies Australia* 1996(Dec):19-22. Schwab, R & Sutherland, D (1999), *Why only one in three? The complex reasons for low Indigenous school retention*. CAEPR Research Monograph No. 16: Canberra; KPMG (2009) op. cit.

<sup>20</sup> *Ibid.*

### 1.8 Why should the FTB requirements be more flexible?

ACOSS strongly supports the policy goal of improving the educational qualifications of early school leavers and broadly supported the 'earn or learn' policy. The problem with the FTB education participation requirement is not its objective, rather the inflexibility with which that goal is being pursued.

Many young people from disadvantaged backgrounds struggle with participation in mainstream education and either drop out or fail. It is counterproductive to force them to repeat that experience, and training programs for unemployed young people often fail for that reason<sup>21</sup>. To succeed, education and training for this group must be designed and delivered differently. Broadly speaking, it should be more closely connected to paid employment, should include a strong mentoring and support component, and in many cases it is best delivered outside a standard classroom setting<sup>22</sup>. This is the thinking behind the integration of post compulsory schooling and VET programs in recent years. Participation in full time VET courses would be likely to meet the FTB requirements. However, unlike the more flexible YA requirements, the FTB requirements appear to rule out combinations of part-time employment and training and full-time participation in prevocational programs.

The requirement for young early school leavers to participate in full-time education or training in order for their family to benefit from increases in family payments has a number of potential adverse consequences for the young people and their families.

Firstly, by denying access to adequate income support payments, the current education participation requirements undermine rather than support improved educational and employment outcomes for a group of young people who are already highly susceptible to disengagement from education and the labour market. Several studies have confirmed the causal link between the financial pressures experienced by families and a young person's disengagement with education.<sup>23</sup> These financial pressures are not conducive to supporting or re-engaging young people with education and other training opportunities.

Second, young people cannot comply with the activity test for FTB-A by participating in case management and other early intervention programs, which are often necessary to improve education and workforce participation. For example, the current YA activity test incorporates the Commonwealth-funded Youth Connections Program, which provides a safety net for youth-at-risk through tailored case-management and a suite of services and supports. Participation in this Program, however, does not qualify the family for FTB under the education participation requirement. Similarly, youth from refugee backgrounds (who are recognised as a group at a heightened risk of both poverty and disengagement from schooling) may count English-learning classes towards the activities they can undertake to receive YA. For those refugees who lack English-language proficiency, language barriers constitute a key impediment to positive education and employment outcomes. By not taking such programs into account, FTB-A eligibility criteria could reduce access to an important means of fostering school retention amongst a particularly disadvantaged group of young people.

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<sup>21</sup> Martin J & Grubb D 2001, *What works in active labour market programs*, OECD.

<sup>22</sup> ACOSS 2008, *The role of education and training in welfare to work policy*; Spoehr J 2008, *Complex not simple*, NCVET.

<sup>23</sup> Bradbury, B. (2007), *Child Outcomes and Family Socio-economic Characteristics Final Report of the Project: LSAC Outcomes and the Family Environment*. Social Policy Research Centre, University of New South Wales: Sydney. Anglicare (2010), *In from the edge: Anglicare Australia's State of the Family Report*. Anglicare Australia: Canberra. Aird, R., Miller, E. van Megan K., Buys, L. (2010), *Issues for students navigating alternative pathways to higher education: Barriers, access and equity*. Queensland University of Technology: Brisbane.

Third, a rigid requirement to sustain participation in full-time education or training increases the risk that vulnerable young people will breach the requirement and payments will be suspended or cancelled. An independent review into the impact of the new Job Seeker Compliance Framework documented concerns among Employment Service Providers that the 'earn or learn' regime was too inflexible for young people who had been actively looking for work (and perhaps had short-term jobs) and were not ready to return to full-time education.<sup>24</sup> In addition, the Review found that early school leavers accounted for a disproportionately high incidence of participation failures.<sup>25</sup> Such participation failures cannot be solely attributed to individual recipients. In a system where the onus of proof rests with income support recipients, the effectiveness of safeguards and exemptions is often undermined by systemic failings.<sup>26</sup>

A fourth reason for amending the FTB-A activity test is that, in its current form, it does not meet the objective of simplifying and streamlining the family payments system. The 'Australia's Future Tax System' Review recommended that, for dependent children up to 18 years, a single Family Payment should be the main form of assistance and should replace the current choice between youth and family payments.<sup>27</sup> The proposed changes move toward this objective, with the majority of YA recipients under 18 likely to transfer to the FTB-A payment. However, for families with early school leavers eligible for YA but unable to claim FTB-A, the separation into two different payment streams will persist.

### 1.9 What are the policy alternatives?

ACOSS supports increases in family assistance payments to families with older children and strongly supports proposed increases to the rate of FTB-A. As discussed above, under the current system, payments to older children fail to adequately meet their higher relative costs and therefore increase the risk of child poverty.

However, this paper has highlighted some fundamental anomalies between FTB and the alternative YA payment for 16-17 year old early school leavers. Both the rates of payment and activity requirements differ between these two payments. This confronts parents with a very confusing choice between payments and leaves many financially worse off.

Given the stringent activity test associated with FTB-A, it is likely the increased payment levels will not reach some of the most vulnerable and disadvantaged school leavers for whom full-time education is an unrealistic option. Whilst some of these young people may be able to access YA, their risk of poverty will remain high, given the disparity between YA payments and the costs of raising older children. In addition, the narrow scope of activities permitted under the FTB-A activity test does not support those who are more likely to achieve better social and educational outcomes outside the formal schooling environment.

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<sup>24</sup> Disney et al (2010), op. cit, pp 21-22.

<sup>25</sup> Ibid, p. 22

<sup>26</sup> This was highlighted by a 2007 Commonwealth Ombudsmen report which identified a raft of system failures where decision and practices routinely implemented by Centrelink staff were inconsistent with social security law or publicly stated policy. See: Commonwealth Ombudsmen (2007), 'Application of Penalties under Welfare to Work', Report 16/2007, December.

<sup>27</sup> Australia's Future Tax System Review (2010), *Final report of Australia's Future Tax Review* (K Henry, chair), Part 1: Overview, Treasury, 2 May 2010, viewed 8 March 2011, [http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final\\_Report\\_Part\\_1/chapter\\_9.htm](http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final_Report_Part_1/chapter_9.htm)

In its current form, the proposed changes are unlikely to achieve the objectives of reducing child poverty and improving the education levels of some of the most vulnerable and disadvantaged young people. Two policy alternatives could be implemented to achieve these objectives.

Firstly, the education participation requirements for FTB-A could be made more flexible, along the lines of the current Youth Allowance requirements. This would allow for a greater range of legitimate activities including combinations of training and paid employment. It would remove the inequity arising from differential access to these payment types and also give vulnerable young people more options where full-time classroom-based education is unrealistic or unproductive. In our view this would more effectively meet the objective of securing better educational, employment and social outcomes for disadvantaged young people, while still encouraging the majority of young people to participate in full-time schooling. Furthermore, broadening the scope of FTB-A to incorporate this category of young people and removing the other anomalies identified previously would be the most effective means of simplifying the family payment system, removing the need for any separate YA payment for dependent children under 18 years.

A second option is to raise YA payment levels to match the payment levels of the proposed FTB-A payments for older children. This would remove the inequity between these two rates of payment, ensuring those who qualify under the more flexible YA eligibility criteria will have access to a payment that is more closely aligned with the actual costs of raising older children.

Finally, it is beyond the scope of this paper to propose specific policy measures that would encourage school participation.<sup>28</sup> Increasing school participation and maximising the employment prospects of young people are the aims of current government policy relating to family assistance. However, this paper has argued that making payments strictly conditional on school attendance does not necessarily achieve these stated aims. ACOSS advocates an evidence-based approach to this issue that supports early intervention for young people at risk of disengaging from education, and that addresses the multiple barriers and needs of young people who are marginalised or unable to partake in full-time education. To reach the most disadvantaged early school leavers, education and training must be delivered in a different way, and with better supports, than the full-time traditional schooling system that failed them in the first place. It is the combination of these interventions and adequate financial support that is most likely to both address inequities and support young people as they transition into the labour market.

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<sup>28</sup> ACOSS 2008, Submission to the Department of Education, Employment and Workplace Relations on the Productivity Places Program.