

# Inquiry into the Family Assistance Legislation Amendment and the Social Services Legislation Amendment Bill 2016

ACOSS Submission, September 2016



ACOSS is a national voice in support of 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.

## Background

The *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016* (the Child Care Bill) and the *Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2016* (the Family Payments Bill) have been referred to a number of Senate Inquiries since they were first introduced in 2014/15.

The Family Payments Bill includes a package of changes to Family Tax Benefit Part A and B which originated in the 2014-15 Budget, and have since been amended.

A number of changes contained in the original package of measures have subsequently passed the Parliament with the support of the Opposition. This includes:

- + A change in eligibility for FTB Part B for couples, with a reduction in the age of youngest child from 18 to 12 years of age eligibility, which passed the Parliament on 30 November 2015 (saving \$525 million).
- + The abolition of end of year supplement payments for recipients of Part A payments with household incomes above \$80,000 per year, passed as part of the Omnibus Bill on 15 September 2016 (saving \$1.6 billion/4 years);
- + The abolition of the large family supplement which passed the Parliament on 2 February 2016 (saving \$177 million/forward estimates).



This followed previous savings in the family payments system through the tightening of the income threshold for Part B from \$150,000 to \$100,000 with the support of the Opposition in 2014 (saving \$1.2 billion/4 years). In aggregate, legislated family payment savings measures amount to \$3.6 billion over four years.

In addition to the above savings measures, the Omnibus Bill will also remove the Energy Supplement from new recipients of family payments, which will adversely affect low income families and result in income losses of at least \$2.70 per week, \$4.90 per week for a family with 2 children under 13 and more for those with larger families.

ACOSS has long advocated the need for reform of the family payment system to appropriately target assistance and address inadequacies for low income families, including single parents with older children. To this end, we have previously supported some tightening of access to Part B for couples with older children and those on high incomes, but had presented these proposals as elements of a broader package of reforms which would also address the inadequacy of family payment levels for lower income families. We are therefore very disappointed that savings measures have continued to be passed, in the absence of any additional support for lower income families. We do not support further budget savings being made in the family payments system. Any further reforms should deliver increased support for families at risk of poverty.

In introducing the latest Family Payments Bill, the Minister for Social Services stated that the savings measures contained within this Bill 'will pay for the Jobs for Families Child Care Package' – the child care reform - while also simplifying the family payments system and providing more money on a fortnightly basis to 'those families who need it most'. We reject the linking of family payment cuts to increased investment in child care and are concerned that the Committee is considering these bills in conjunction. Any additional investment in early childhood education and care should be drawn from general revenue, not from low income families. ACOSS has elsewhere developed a detailed set of recommendations to strengthen the revenue base and fund necessary services and supports.



## The Family Payments Bill

The Family Payments Bill would implement 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.

The effect of the Bill, in the context of other legislated changes noted above, would be to:

- + Limit FTB Part B at the current rate to single income families with children under 13 years (down from 18 years). This change has already been legislated in relation to couples, as noted above;
- + Replace the current rate of FTB Part B for single parents with older children (between 13 and 16 years) with a lower payment of \$1000.10, down from \$2737.50 per annum. This will reduce assistance by nearly \$2000 a year for affected families and leave a gap for children between 16-18 years, previously covered by Part B if at school and not receiving Youth Allowance. Single parents over 60, grandparents and great-grandparents will be exempt from this change and retain the higher current rate.
- + 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). (This measure is now to be amended in light of the passage Omnibus Bill 2016 which will remove the supplements from those with household incomes of over \$80,000 per annum, so the current bill would apply to households below that income level. This Omnibus Bill change will adversely impact large families for whom \$80,000 is not a high low income, noting the previous loss of the large family supplement.)
- + Increase FTB Part A by \$5 per week for each child up to age 19 years (but note that this increase will be all but be removed for some new recipients because they will lose access to the energy supplement, currently valued at \$4.90 per week for a family with 2 children under 13).

The Explanatory Memorandum states that the Family Payments changes are estimated to save \$5.87 billion over the forward estimates but this does not reflect the changes to Part B for couples, the abandonment of the \$1000.10 Part B payment



for children under one (which will save \$362 million/4 years) or the removal of the Part A supplements from those on over \$80,000 per annum.

Unlike the 2015 age pension changes, the Family Payments Bill does not seek to better target payments to lower income families through 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<sup>4</sup>, with a sole parent with one child over 13 to lose approximately \$2,500 per year or around \$50 per week and those with two children over 13 to lose around \$3,000 per year or \$60 per week.

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. 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). Finally, 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 Government has produced little analysis of the distributional effects of the proposed changes, but available data suggests that the changes announced in November last year (exempting grandparents and single parents aged 60 and over from changes) will do nothing to ameliorate the harshness of the cuts for the majority of low income families. For example, we note that just 3.6% of FTB B recipients are aged over 55 years<sup>5</sup>, with a smaller proportion of those being single parents, and just 4,000 grandparents would have been affected by the proposed changes. The Government has adjusted the package at the margins, but the major cuts remain unchanged.

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<sup>4</sup> 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/claccte/estimates/sup1516/index](http://www.aph.gov.au/Parliamentary_Business/Senate_Estimates/claccte/estimates/sup1516/index)

<sup>5</sup> <http://data.gov.au/dataset/dss-payment-demographic-data/resource/e6457899-378e-406f-8027-a6ee8a19eec6>



We would like to draw the Committee's attention to a number of other issues:

- + The current Bill would replace a two tiered FTB Part B payment with four payment rates: one for families with youngest child aged 0-5, one for families with youngest child aged 5-13 years, one for single parents and grandparents over 60 with youngest child aged 13-18 and one for other families with youngest child aged 13-16 (noting that this leaves a gap for the majority of eligible single parents aged under 60 years with youngest child aged 17-18 years). These changes could hardly be called a simplification of the family payments system nor a reform which improves targeting to need. Furthermore, the withdrawal of support for 17-18 year olds in single parent families is not supported by the evidence that shows the costs of children rise as they get older.
- + The expenditure component of the package, the boost to Part A by \$5 a week, does not take effect until 1 July 2018. It is far too little to compensate families for the losses imposed by other changes (amounting to an estimated \$48 per week for a single parent (under 60) with one child over 13 years) and it takes effect after the payment cuts.
- + We are concerned that the Government has yet to release distributional analysis of the impacts of their proposed changes. We recommend that this be done immediately. It is vital that there is clarity about how different families will be affected, particularly given that vulnerable children and their families will clearly be affected.

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.

The Senate should reject the Bill in its current form.



## Child Care Bill

The *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016* ('the Child Care Bill') contains a number of major early childhood education and care reforms which together formed a centrepiece of the 2015-16 Budget. The package will deliver additional investment of \$3.2 billion over the forward estimates. It includes the following elements:

- + A new streamlined child care subsidy which will replace the CCB, CCR and JETCCFA from 1 July 2017 which will meet:
  - o 85% of the benchmarked costs of care for families under \$65,700 per annum;
  - o 50% of the benchmarked costs of care for families on incomes of between \$170,000 and \$250,000 tapering down to 20% of costs for families on more than \$340,000 per annum (with a fee cap of \$10,000 for those on incomes upwards of \$185,000).
- + The creation of four activity tiers linked to parental activity, with those participating in less than 4 hours per week of approved activity only eligible for subsidised care if deemed to be low income, in which they are eligible for 12 hours of subsidy per week (down from current eligibility for 24 hours per week without activity requirements). Some exemptions apply (e.g. for grandparent carers);
- + The creation of 3 programs to provide additional assistance for disadvantaged or special needs children, replacing existing programs; and
- + The replacement of the current Budget Based Funding program, which provides block funding to Aboriginal children's services and other services in rural and remote areas with mainstream, user pays models, with limited transitional support for affected services.

### **Additional investment should be secured from general revenue**

ACOSS welcomes increased investment in early childhood education and care, and supports reform to simplify the child care payments system including moving to a single subsidy payment. However, we have a number of significant concerns about the package and funding arrangements proposed.



The Government proposes that the savings from family payment cuts (mainly affecting families with older children) be redirected to deliver additional investment in child care (benefitting some families with younger children, but with low income families failing to meet the activity test likely to lose).

Revisions to the child care package resulted in budget savings of \$1.9 billion over the forward estimates. This included the tightening of income tests, a reduction in the size of the nanny trial and the abolition of the top-up assistance for high fee services (together delivering a \$400 million saving to Government over the forward estimates), in addition to \$500 million saved through a downward revision of program costs<sup>6</sup> and \$930.6 million in savings from changes to Family Day Care compliance arrangements.

ACOSS believes that these savings should be redirected to address gaps in the new childcare package as detailed below, with additional funds secured from a further tightening of income tests for higher income families and general revenue, not from payment cuts to low income families.

### **All children should have access to 2 days of subsidised ECEC per week**

Under the current system, families are entitled to a minimum of 24 hours per week of subsidised care and more than 24 hours if they are engaging in at least 15 hours per week of approved activities. Under the proposed new rules, as noted above, families engaging in less than 4 hours of week of approved activity will only be eligible for 12 hours a week of subsidised care.

We note that this proposed shift to impose more stringent activity requirements is at odds with moves in comparative countries to increase access to free childcare for all children. For example, the UK Government currently provides access to 2 days free childcare for children aged 3+ years regardless of parental workforce participation, with both major parties pledging to increase access to at least 25 hours per week.

ACOSS recommends that the activity requirements to access a minimum of 2 days education and care should be removed to ensure children in families without paid work have access to sufficient quality care.

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<sup>6</sup> MYEFO states that this is “largely reflecting a higher than expected proportion of child care fee assistance payments being made in arrears”.



## **Fee assistance should be better targeted to maximise policy outcomes and ensure sustainability**

ACOSS broadly supported the Productivity Commission's model for structural reform which recommended that families on high incomes (above \$250,000) receive a lower base subsidy (the Productivity Commission recommended 20% of the benchmark costs of care). The Government's revised child care package adopts a 50% threshold for families on incomes of \$170,000-\$250,000, tapering to 20% for families on more than \$340,000 per annum. The Government has also increased the fee cap for high income families, from \$7500 to \$10,000 per annum. This has increased the costs of the package, which the Government is now seeking to pay for through cuts to family payments.

ACOSS agrees with the Government that childcare subsidies are not welfare payments, but the level of subsidy should be appropriately targeted to those who struggle with childcare costs. Above all, childcare subsidies are an investment in the education of young children. The generosity at the higher end is in stark contrast to the proposed cuts to payments to low incomes families, and points to a broader imbalance in the policy design. We support further tightening of the income tests for higher income earners and a reduction in the fee cap for families on incomes of more than \$180,000 per year and propose that savings achieved be directed towards addressing inadequacies in the new system for children in low income families or disadvantaged communities.

## **Dedicated funding streams should be maintained for Aboriginal and Torres Strait Islander and rural and remote services**

The existing Budget Based Funding program funds 303 services across Australia. Many of these are Aboriginal and Torres Strait Islander services or operate in rural and remote areas.

The Budget Based Funding program would be abolished under the proposed reforms. From 1 July 2017 these services will have to operate on the mainstream, fee-based, Childcare Subsidy. ACOSS is concerned about the viability of this funding model for Aboriginal and Torres Strait Islander services and rural and remote services. There is a genuine concern that the mainstream funding would render many of these services unviable.





We refer the Committee to the recommendations of SNAICC and the National Association of Mobile Services for Rural and Remote Families and Children (NAMS) to ensure funding adequacy and security for Aboriginal and Torres Strait Islander and rural and remote services. SNAICC recommends the establishment of an Aboriginal and Torres Strait Islander community based program within the new Child Care Safety Net with an integrated funded formula which provides top up funding to meet services' income gaps from mainstream subsidies. NAMS is calling for a dedicated funding model for rural and remote services.

**The Government should guarantee that low income families who are not in paid work are, at a minimum, no worse off**

Additional fee assistance will be available for some parents on income support who are seeking to transition to work through the Additional Child Care Subsidy which will replace the existing JETCCFA program. ACOSS is seeking a commitment from Government that affected low income families will not be worse off as a result of the proposed changes, including single parent families who are beneficiaries of the current scheme.

**Detailed modelling of policy impacts should be undertaken and published**

Limited data has been released by the Government on the impacts of the proposed policy changes of different family types and income levels. Specifically, the Government has not released separate modelling of the family payment and child care changes, only publishing selected cameos. We have therefore had to rely on modelling from other sources. For example, modelling by NATSEM confirms that the majority of sole parents on low incomes will be adversely affected by the combined effect of the family payment cuts and childcare package, with an estimated 88.9% of those in the lowest quintile worse off in 2018-19, after the childcare package has come into effect.<sup>7</sup>

We urge the Committee to call on the Government to release detailed modelling of the distributional impacts of its policy changes, including the impacts of changes to the activity test.

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<sup>7</sup> Phillips, B (2015) [Analysis of the 2015-16 Federal Budget](#), NATSEM



## **Recommendations:**

The Child Care Bill in its current form should be rejected and amendments sought. Specifically, the Federal Government should:

1. Redirect savings from tightening of income test and other policy changes to address gaps in the child care package, and draw any additional funds required from general revenue, not cuts to family payments;
2. Provide a minimum of 2 full days of subsidised early childhood education and care per week for all families, regardless of activity. Activity requirements should apply only to families seeking care for more than two days per week;
3. Establish an Aboriginal and Torres Strait Islander community based program within the new Child Care Safety Net and maintain a dedicated funding model for rural and remote services;
4. Provide a commitment that low income families currently receiving additional fee assistance through the JETCCFA program will be no worse off under the new arrangements;
5. Release detailed modelling of the distributional impacts of child care policy changes, including the impacts of changes to the activity test. It should separately model and release the distributional impacts of proposed changes to family payments.