

Review of the operations of the amendments
made to the
Families, Housing, Community Services and
Indigenous Affairs and Other Legislation
Amendment (2008 Budget and Other Measures)
Act 2008

30 June 2010

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Background

There is a legislative requirement for the Minister to instigate an independent review of the operation of the amendments made by the *Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2008 Budget and Other Measures) Act 2008* (the Act).

While the vast majority of the measures to be reviewed are within the Families, Housing, Community Services and Indigenous Affairs portfolio, some of the amendments in the Act affect the operation of the provisions within the Veteran's Affairs and the Childhood Education, Childcare and Youth portfolios. The relevant Minister's have agreed that the Department of Families, Housing, Community Services and Indigenous Affairs should lead the one Review and for Minister Macklin to table the completed report in both Houses of Parliament, as required by legislation, on their behalf.

The Act states:

4 Review of operation of amendments

1. The Minister must cause an independent review of the operation of the amendments made by this Act to be undertaken and completed by 30 June 2010.
2. The persons who undertake the review under subsection (1) must give the Minister a written report of the review.
3. The Minister must cause a copy of the report of the review under subsection (1) to be tabled in each House of the Parliament within 15 sitting days of the day on which the report is given to the Minister.
4. The review must be conducted by a panel of not less than 5 persons, of which at least:
 - (a) 3 persons must be nominated by relevant key stakeholder organisations; and
 - (b) 2 persons must be nominated by the Minister.

The Review commenced on 3 May 2010.

Panel Members

In accordance with the legislation the Minister appointed five people, in their individual capacity, to form part of the Panel. The Panel Members were:

Dr Bruce Bradbury (Chair)

Senior Research Fellow

Social Policy Research Centre

University of New South Wales

Nominated by the Minister

Eve Bodsworth

Research Officer

Brotherhood of St. Laurence

Nominated by the Brotherhood of St Laurence

Wayne Jackson PSM

Senior Advisor

The Nous Group

Nominated by the Minister

Samantha Page

Executive Director

Family Relationship Services Australia

Board Member

Australian Council of Social Services (ACOSS)

Nominated by the Australian Council of Social Services

Ian Yates AM, BA, MAICD

Chief Executive,

COTA Australia (Councils on the Ageing)

Board member

Aged Rights Advocacy Service Inc.

Nominated by the Council on the Ageing

Terms of Reference

The Panel will examine and report on the operation of the amendments made by the Act. In particular the Review will examine:

- (a) the operation of the amendments generally; and
- (b) the extent to which the objectives of the amendments have been achieved.

Considerations

In undertaking the Review, the Panel could identify the impact of amendments on individuals and the characteristics of those individuals.

Review Methodology

The Review Panel convened on 3 May 2010 and met several times before completing its Report for the Minister Families, Housing, Community Services and Indigenous Affairs on 30 June 2010. Given the legislated timing of the Review, the Panel relied upon information provided by the relevant government departments in briefing papers and in meetings with the Panel.

For each of the measures, this Review Report first presents descriptive material on the objectives and operation of the measure. This is followed by the Panel's assessment of the operation of the measure.

In considering the operation of the legislative amendments and the extent to which the objectives of the amendment have been achieved, the Panel Members are mindful of the fact that it is still too early to fully assess the impact of many of these changes and that estimates of some impacts will be impossible even with the passage of time. Only one measure (Voluntary Income Management) has an associated formal evaluation. The results from this are not available at the time of writing and, moreover, the program design does not include a control group that would enable robust outcome conclusions to be drawn. For several of the other measures, even descriptive measures of client statistics are not yet available. In these cases our assessment includes recommendations on readily available information that should be provided in the future to permit a more comprehensive assessment to be made.

Schedule 1

Responsible Economic Management Better Targeting and Delivery of Family Tax Benefit \$150,000 Income Test on Primary Earner for FTB Part B

Purpose of Legislative Amendment

This measure was intended to address community concerns about very high income families being eligible for taxpayer funded assistance and provide a more targeted system of family assistance.

The measure delivered on an election promise to means test the Family Tax Benefit (FTB) Part B on family incomes over \$250,000. The measure announced in the 2008-09 budget further tightened the income test to \$150,000 (applying only to the primary earner income). The limit of \$150,000 per annum was considered by the Government as a fair and reasonable limit, as it was around two and a half times the earnings of the average Australian based on average weekly earnings. It was considered that a \$150,000 limit would not disadvantage any middle-income families.

The amendment provided that the \$150,000 income limit would be indexed in line with movements in the Consumer Price Index (CPI) each 1 July following 1 July 2008.

At the same time a \$150,000 threshold was applied for assessing entitlement to the Dependent Spouse Tax Offset, Housekeeper Tax Offset, Child-Housekeeper Tax Offset, Parent/ Parent-in-law Tax Offset and the Invalid Relative Tax Offset. This amendment aimed to ensure that those families who are denied eligibility for FTB Part B due to the application of the income test could not circumvent this targeting by claiming the tax offsets.

These amendments all took effect from 1 July 2008.

Anticipated Impact of the Amendment

Prior to its introduction, it was estimated that the limit to eligibility for FTB Part B would reduce government expenditure by \$543.8 million over five years.

It was estimated that this measure would mean approximately 40,000 families (approximately 3 per cent of families receiving FTB Part B) would no longer be eligible to receive FTB Part B in 2008-09. It was estimated that around 1.4 million families would continue to receive FTB Part B during this period.

Reaction to Proposed Amendment

Stakeholder groups

The introduction of an income threshold for FTB Part B was supported by the Australian Council of Social Service, the National Welfare Rights Network and The Brotherhood of St Laurence. This support was generally based upon endorsement of more effective targeting of government assistance to families most in need. While

these groups advocated tighter income testing of the FTB Part B in the short term, they also advocated a longer term overhaul of family payments targeted at families in need.

The Senate Standing Committee on Finance and Public Administration report raised the issue of equity between partnered and single couples. The wider issues of the equity impact of the FTB Part B payment as a whole are not being considered in this Review. With respect to the income testing amendment, however, the situation may arise where two families with the same total income near the \$150,000 threshold will experience differences in FTB Part B eligibility depending on the distribution of income between the couple. For example, a couple where the lower earner has \$0 income and the higher earner has \$160,000 would not be eligible to any FTB Part B due to the primary earner income test. However, a couple where the lower earner has \$15,000 and the higher earner has \$145,000 would still be eligible to receive some FTB Part B, even though Couple 1 and Couple 2 both have a combined income of \$160,000.

Public reaction

Public media debate centred on the question of whether a family with an income of \$150,000 was 'high-income' family and whether the new limit would affect some "working middle class" families thought deserving of some government assistance. Others argued that in fact the limit was too high, and therefore did not effectively target FTB Part B to those families which require family assistance.

The Department received a sizeable number of letters after the announcement of this income test, principally from customers who would no longer be entitled to the payment and felt that this constituted a reduction in government assistance and support for stay at home mothers.

Background

FTB Part B is a payment designed to provide extra assistance for single parents and families with dependent children who have one main income.

Prior to the introduction of this amendment, eligibility for the FTB Part B was based only on the adjusted taxable income (ATI) of the secondary earner in a couple, and was available to all single parents.

This measure limited eligibility for FTB Part B by applying an income test which takes into account the ATI of the primary earner. The effect of this amendment is to limit FTB Part B to families where the primary earner has an ATI of \$150,000 or less, including sole parents.

For couple families where the primary earner has an ATI of \$150,000 per year or less, the rate of FTB Part B continues to be assessed based on the income of the lower earner. Sole parents with income below the limit continue to receive the maximum rate of payment of FTB Part B.

The FTB Part B is paid either in fortnightly instalments or in a lump sum payment.

Operation and Impact of Legislative Amendment after Implementation

Public Reaction

The Department advised the Panel that it had not received any correspondence or complaints from the public regarding the FTB Part B income limit or related changes since the amendment was implemented on 1 July 2008.

Actual Impact of the Measure on Number of Families Claiming FTB Part B

It is difficult to provide an accurate estimate of the impact of the measure on recipient numbers, particularly as reconciled information for the 2008-09 financial year is incomplete at the time of drafting this Report. Further, in comparing numbers of FTB Part B claimants between years, or from month to month, it is difficult to differentiate the impact of the amendment from other factors such as demographic changes, indexation and the changing economic environment. The following information regarding the impact of the FTB Part B measure should be read in the context of these limitations.

Number of existing FTB Part B customers cancelled at 1 July 2008

As of 1 July 2008 11,797 existing FTB Part B customers had their fortnightly entitlement cancelled due to the new income limit.

This figure does not include an additional unknown number of customers who had previously claimed their FTB Part B as a lump sum at the end of the financial year who will no longer be eligible due to the income limit, nor does it include people who would have become newly eligible during this period (e.g. after the birth of their first child) but for the introduction of the income limit.

Change in number of families receiving FTB Part B between June 2008 and July 2008

Between June 2008 and July 2008 (the first month of the measure's introduction) the number of families receiving FTB Part B by instalments reduced by 45,000.

However the trends in FTB Part B instalment customers over the 2007-08, 2008-09 and part of the 2009-10 financial years show significant fluctuations in customer numbers from month to month, particularly in the 2008-09 and 2009-10 financial years during which time the introduction of two stimulus packages and increased unemployment may have affected these numbers. In addition, the Department has observed that there is often a natural reduction in the number of instalment recipients in the first month of a new financial year.

Comparison between numbers of FTB Part B customers in 2008-09 and 2007-08 financial years

Available reconciliation data shows that there were 1,344,000 FTB Part B customers for the 2008-09 financial year compared to 1,436,000 for 2007-08 (both numbers as at March in the following year). This represents a reduction of 92,000, significantly higher than the initially estimated number of 40,000. This calculation includes both

those receiving FTB Part B through Centrelink and those receiving it as a lump sum after submitting their tax return.

However, it should be noted that reconciliation data for the 2008-09 financial year has been delayed due to processing delays in the Australian Taxation Office. The apparent decrease in FTB Part B claimants is likely to reduce as this backlog is cleared, as there are likely to be FTB Part B customers claiming lump sum payments who have not yet had their tax returns processed. As higher income families are more likely to claim FTB through the tax system, this processing delay makes any estimation of numbers receiving payment difficult.

Impact of measure on sole parent families as compared to couple families

Again, while it is difficult to provide accurate estimates, it can be noted that at 27 June 2008 (immediately prior to the introduction of the measure), there were only 747 sole parents with an ATI of more than \$150,000 receiving FTB Part B in instalments, compared with 17,173 couple families where the primary earner had an ATI of more than \$150,000 who were receiving FTB Part B instalments. Again, it must be noted that these numbers do not include those who would have received FTB Part B via lump sum payments, however it is likely that sole parents will remain a small percentage of the overall number of families affected by the measure.

Actual saving achieved by the measure

Due to the limitations of the currently available data outlined above it is not possible for the Department to provide an accurate estimate of the actual savings achieved at this time.

Other Operational Issues

A pause to the indexation of the FTB Part B income limit was effected subsequent to the amendment and is therefore not strictly subject to review by the Panel, however it does affect the operation of the measure and is therefore mentioned herein. The indexation pause means that indexation did not occur on 1 July 2009 and will not occur on 1 July 2010 and 1 July 2011. The next indexation of the FTB Part B income limit will take place on 1 July 2012 and annually thereafter.

The Department advised that no correspondence was received from the public regarding the pause to the indexation of the FTB Part B income limit.

Panel Assessment

The Panel notes that the timing of this Report limits the extent to which the impact of the measure can be fully and accurately assessed. It appears that a larger number of families than initially expected may no longer be eligible for the FTB Part B, however whether this is actually the case will not be known until the data can be fully reconciled.

Though some payment anomalies exist where families in similar circumstances may receive different rates of payment, the Panel is satisfied that these are not of major concern. They are only likely to be relevant to a small number of families with income near the threshold and any alternative approach seeking to avoid these anomalies would be more complex and may affect the employment behaviour of second earners in a way that is not in keeping with the overall objective of the policy.

The measure introduced a common income threshold for the primary earner in couples and for lone parents. The Panel notes that there is a case for a higher threshold for lone parents because of the additional time stress that they experience. Nonetheless, available evidence suggests that only a small number of lone parent families have been affected by the measure.

While the information available to the Panel at the time of making this assessment was incomplete, it is broadly satisfied that the measure has operated as intended.

Panel Recommendations

The Panel recommends that:

1. Detailed information on numbers of FTB Part B recipients and their characteristics for the last few years be published once the reconciled data for 2008-09 are available.

Schedule 2

Responsible Economic Management Better Targeting and Delivery of Baby Bonus

Purpose of Legislative Amendments

This measure consists of four individual changes: Family Income Limit; Fortnightly Instalments; Annual Indexation; and Increased Eligibility for Adoptive Parents.

Family Income Limit

The Baby Bonus prior to 1 January 2009 was a non-income tested lump sum payment of \$5,000 made on the birth or adoption of a child under the age of 2 years. This measure introduced a means test under which families with income over the equivalent of \$150,000 per annum were no longer eligible to receive the Baby Bonus. The income test is based on the family's income in the six months following birth on a pro rata annual basis equivalent to \$75,000 over that six month period. This was one of a number of measures intended to address community concerns about very high income families being eligible for taxpayer funded assistance and to move to a more targeted system of family assistance.

Fortnightly Instalments

Previously the baby bonus was generally a lump sum, one-off payment to an individual who met the relevant eligibility requirements. On 1 January 2009 the Baby Bonus changed from a lump sum payment to 13 fortnightly instalments.

Annual Indexation

Previously the Baby Bonus was indexed twice a year; this measure reduced that to an annual indexation applied on 1 July each year.

Increased Eligibility for Adoptive Parents

This measure extended eligibility for the Baby Bonus to parents who adopt children under 16 years of age. Previously, adopted children needed to be under two years of age for parents to be eligible. From 1 January 2009 an adoptive parent became eligible for the Baby Bonus for an adopted child if the child is aged under 16 years of age when adopted and the adoptive parent lodges a Baby Bonus claim within 26 weeks of the child being placed into their care by the appropriate authority. For locally adopted children the Baby Bonus can be paid regardless of whether this payment was previously given to the birth parent or other primary carer.

Government Objectives

Overall, the four measures were expected to reduce government expenditure by \$354.5 million over four years.

Family Income Limit

The Government made an election commitment to income test Family Tax Benefit (FTB) Part B to families with incomes of less than \$250,000. The government extended that commitment to the Baby Bonus to ensure that taxpayer funded assistance does not go to high income families who are able to support themselves. Subsequently, the threshold was changed to an income test of the equivalent of \$150,000 a year in line with changes to FTB eligibility. These measures were also designed to achieve savings for Government which could be redirected to other priority areas.

Use of the period immediately after the birth as the income assessment period was designed to ensure that the timing of the birth would not affect eligibility under the income test. This income limit was expected to affect around 16,000 high income families. An estimated 280,000 children were expected to continue to benefit from the payment.

Fortnightly Instalments

Since its introduction there had been some concerns that the lump sum payment regime of the Baby Bonus encouraged (what some perceived as) misuse such as expenditure on plasma televisions, electronic goods, holidays and alcohol. This was reflected in complaints from members of the public and media articles. While the Department advises there was no evidence of widespread misuse of the Baby Bonus, information supplied to the Department from Centrelink (via Centrelink social workers) and community service organisations had concerns that some parents, particularly young women and women in violent relationships, were at risk due to the lump sum nature of the payment. The change to fortnightly instalments aimed to address these concerns and encourage spending of the Baby Bonus on expenses directly related to the child. It was intended that instalment payments would also be more likely to be seen as income replacement.

Annual Indexation

This change aligned indexation of the Baby Bonus with other family payments and resulted in ongoing savings for the Government, as indexation scheduled for 20 September 2008 and 20 March 2009 was replaced with annual indexation beginning 1 July 2009.

Increased Eligibility for Adoptive Parents

This policy change recognises that a significant number of adopted children are aged over two years when they enter the care of their adoptive parents, and that these parents also face direct and indirect costs associated with a new child.

Reaction to Proposals

Family Income Limit

Most media reaction concentrated on the introduction of an income limit to the Baby Bonus. Overall the reaction was mixed. The income limit was supported by: the Business Council of Australia; the Australian Industry Group; Australian Council of Social Service; the Brotherhood of St Laurence.

The Department received hundreds of letters in response to the announcement of this income test. As with the FTB Part B income test, many expressed the view that the Government should not be cutting support to those that deserve assistance, including families in which both parents are employed before the birth of a new baby and where decisions about staying at home or returning to work after having a baby would potentially be influenced by access to the Baby Bonus. The Department reports that the majority of letters were from potential customers who were concerned they would not be eligible under the income test. However, the Department also reported that many of these customers did not appear to adequately understand the operation of the income test. Common misconceptions were that the income test would apply to income earned in the financial or calendar year prior to the birth rather than in the year or 6 months after the birth. There were also some complaints from people who had conceived a child before the announcement of the income test and did not agree they should be subjected to the test.

Fortnightly Instalments

On the introduction of the measure, the Department advised that they received a number of complaints regarding the removal of the lump sum option for the Baby Bonus. The Department also advised that letters of complaint are received periodically from parents claiming the payment when they learn of the move to fortnightly instalments.

Annual Indexation

The Department advises that there was no apparent public reaction to the change to Annual Indexation.

Increased Eligibility for Adoptive Parents

The extension of eligibility was generally accepted by the community; however the Department advises that it received a number of letters from adoptive parents who had adopted children aged over two child before 1 January 2009 and were therefore not eligible under the extension. These parents conducted a letter campaign to lobby for the measure to be backdated so that they could also benefit from the changes.

Operation and Impact of Legislative Amendment

Family Income Limit

The objective of the measure has been met in that the income limit of \$150,000 for the baby bonus has been applied. This limit is more than double the current full-time adult average yearly earnings which was around \$63,800 at the time this Report was prepared. The income limit applies only to income earned after the birth of the child and is based on an estimate provided by the parent(s).

It is not possible to establish the amount of savings achieved by this measure at the time of the preparation of this Report. The income limit has been applied since 1 January 2009 and families have 52 weeks in which to lodge a claim. The Department advises that savings for the 2008-09 financial year will not be known until July 2010. Furthermore, data on a full year of Baby Bonus expenditure will not be available before January 2011.

An indication of the measure's impact is that during the 6 months between January and June 2009, 1,909 claims for Baby Bonus were rejected due to exceeding the income limit and between July 2009 and March 2010 another 3,291 claims were rejected (an approximate saving of \$26M). The Panel notes that these figures do not include those families who did not apply.

Another indication of the impact of this measure is that claims for the 12 month period January – December 2009 totalled 265,400 compared with a total of 288,500 claims over the same period in 2008 – an apparent reduction of 23,100 claims (approximate savings of \$115M). However, during this time the income test based on income in the six months following the birth was introduced, and it is likely that in 2009 a greater number of parents may have delayed claiming until toward the end of this period when their actual income was clearer. Such a change in claiming patterns may serve to further reduce the apparent difference in eligible claims with data up to June 2010 being required to gain a clearer picture.

The Panel inquired into the reconciliation of Baby Bonus income estimates and was informed by the Department that there is no reconciliation of income estimates at the end of the six month period. The Department advised that this is because the Baby Bonus is an events-based payment, and the emphasis is placed on whether the estimate made at the time of the claim is reasonable, together with verification of those estimates. When lodging a claim for the Baby Bonus, the claim must contain an estimate of the applicant's and/or the applicant's partner's adjusted taxable income for the 6-month period following the birth of the child or the date the child was entrusted to care. Mostly, the estimate detailed in the claim is accepted as reasonable but, where income is close to the target range (greater than \$60,000), evidence such as pay slips, a statement of leave arrangements/entitlements, a letter from an employer on letterhead or a recent tax return may be required from the applicant as evidence of income.

Claimants already receiving payments such as FTB may have their estimate checked against existing information such as an FTB estimate or income support information. Baby Bonus debts will only be raised where a customer is found to have purposely given false or misleading information about their income in order to claim Baby Bonus. There are no notification requirements for baby bonus income estimates. Where actual income for the six month period ends up being higher than an estimate due to unexpected changes, Baby Bonus payments will not be stopped and customers

will not be required to repay Baby Bonus payments received. Customers are required to notify Family Assistance Office (FAO) if they lose care of a child.

Fortnightly Instalments

The Department advises that it has received complaints regarding the removal of the lump sum option for the Baby Bonus. Some of the common issues raised were by people requiring a lump sum to pay obstetrician fees or mortgages, or a car upgrade in the case of larger families. However, Centrelink advised the Department that they have received feedback from customers who found receiving instalments to be helpful over a longer period of time and also helped to manage unexpected expenses after the birth of the child.

The Department has not conducted research into the effect of moving the Baby Bonus to fortnightly instalments but it reports that the change appears to have alleviated public concerns and has been considered a positive move by some Centrelink social workers and community service organisations. The Department notes, however, that there was no evidence of a widespread or systematic misuse of the lump sum payment prior to the introduction of this amendment. The Department also reports that some Centrelink staff in remote areas believe there has been a decline in 'humbugging' behaviour since the new disbursement method was introduced.

Administratively, the change has made it easier to ensure payments follow the child where there has been a change in care during the 26 weeks following the child's birth. In these situations, it is now simpler for the Family Assistance Office to redirect payments to the new carer, without having to raise an overpayment for the original carer. Through the Department, Centrelink processing/call centre staff reported that most of the queries from customers were around when the next instalment payment was due or how many instalments were remaining, indicating that customers were still unsure about the payment method (this may also be due to the fact that it is an event based payment, rather than an ongoing payment like FTB). The complaints that were received were mostly from customers who believed there should be consideration of their special circumstances, for example, where there were unexpected medical costs due to complications after the birth or where customers were experiencing financial hardship. The Department advises that Centrelink staff generally thought these complaints were valid and that there should be some discretion for Centrelink staff to be able to grant lump sum payment in some cases, beyond bereavement situations.

The Department also advised that prior to the introduction of this measure, 4,170 Baby Bonus recipients had received the payment in fortnightly instalments instead of lump sum payment. Of these 3,109 (75%) were due to the parent being under 17 years of age, 1,022 (25%) were due to customer request, 20 (<1%) were Social Worker Recommended and 19 (<1%) were due to Income Management.

Annual Indexation

The move to index Baby Bonus once per year, rather than twice, has resulted in families receiving a lower amount of payment than they would have under the old regime – depending on the period in the year that their child was born. In 2008-09 (the year the measure was introduced) changes to indexation resulted in families with children born between 20 March and 30 June receiving \$187 less than under the

previous indexation arrangements. On the other hand, the value of the payment for babies born between 1 July and 19 September each year is not significantly affected by the change.

Increased Eligibility for Adoptive Parents

The extension of eligibility for adoptive parents took effect during the last six months of the 2008-09 financial year. The total number of Baby Bonus grants for adoptions in 2008-09 was 248:

- 184 were for overseas adoptions, of which 27 children were aged over two years
- 64 were for local adoptions, however age data is not available for these children.

It is not possible to assess the cost of the measure extending eligibility to parents adopting children aged 3-15 years because age data has not been collected for local adoptions.

Other Matters

The Panel was interested in how Baby Bonus Payments are made to foster and kinship carers and separated parents and whether the budget measures had any impact on these groups. The Panel was advised by the Department that generally the Baby Bonus is payable to only one individual, however where two or more people are potentially eligible within the 26 week period after the child's birth, due to a change of primary carer during this time, the Baby Bonus may be apportioned between them:

- Where a child is taken from the birth parent immediately after birth and placed in the long-term care of another person, this person may be eligible for the Baby Bonus (if they meet other criteria such as the income test).
- When 2 or more people are potentially eligible within 26 weeks of the child's birth (for example, the birth parent had some care before the child was placed with a foster carer), each person may receive a percentage of the Baby Bonus. The Baby Bonus is generally apportioned according to the length of time the child is in the care of each of the eligible applicants (within the 26 week eligibility period) on a pro rata daily rate basis.
- If the second carer is not eligible to receive Baby Bonus (eg. due to the income test), the first carer will continue to receive Baby Bonus payments until the full amount has been paid (as the Baby Bonus is an event-based payment).

In addition to Australian Government payments, many states also provide foster care allowances. For example, the NSW Government pays foster carers of newborn children \$403 per fortnight. These allowances are not included as income for the purposes of family assistance.

Panel Assessment

It is not possible to determine the expected level of savings that has been achieved through the introduction of these measures at the time this Report was prepared. Indeed it may not be possible to clearly determine savings at any time because eligibility for payment will also be influenced by changes in birth rates, claim patterns and the distribution of household income.

Family Income Limit

The application of a family income limit on the Baby Bonus appears to have been accepted by the community and there is no evidence that it has caused hardship for families that became ineligible to receive the payment.

It is not possible to determine the savings that were achieved by this measure in the 2008-09 financial year because of the 52 week claim period and because the number of births in families over the \$150,000 family income limit is likely to remain unknown. However, there has clearly been a decrease in uptake of Baby Bonus at comparable points in the 2008-09 and 2007-08 financial years.

Some families may have delayed claiming until sure about their income towards the end of the 6 month period after birth. Others may not claim at all because of uncertainty about eligibility or fear of accruing a debt if their estimate is incorrect.

While we recognise that the claim form attempts to clarify eligibility and Centrelink has been proactive in distributing claim forms to new parents, nonetheless the complexity of estimating income for 6 months after the birth of a child may still present difficulties for some families. The Panel remains concerned that the lower numbers of applications in the 2008-09 period, compared to 2007-08, may in part be indicative of ongoing confusion about the income test, as reported by the Department at the time the measure was introduced.

There is a risk of negative consequences to families that would be eligible for but do not claim the Baby Bonus. These families may make difficult decisions about returning to work earlier than they would like or working longer hours than necessary because of income needs that could have been alleviated had they claimed the Baby Bonus. This is speculative and research into the patterns of claims and reasons for claiming or not claiming would be needed to determine whether potentially eligible families are missing out on the Baby Bonus and for what reason.

In the Opposition Senators' Minority Report (in relation to the Senate Finance and Public Administration Standing Committee inquiry into the provisions which are the subject of this Review) Opposition Senators expressed concern regarding the blunt nature of the means test proposed. They were concerned that the lack of a taper would mean that an extra dollar of income would make the difference between receiving the full Baby Bonus and receiving nothing. The Department reports that this has not been the focus of complaints from the public in correspondence to the Minister or the Department. However, the potential impact may have been mitigated by the way the assessment has been administered based on an income estimate rather than an income reconciliation. If there was a more stringent approach to reconciling actual income against estimated income it is likely that more families would lose eligibility and/or potentially accrue a debt to Centrelink as a result of small changes in overall income –

a matter of one dollar more could be significant. This issue should be borne in mind when considering any future changes to the administration of the measure.

The Panel understands that upon commencement of the Paid Parental Leave (PPL) scheme, parents will have to choose to receive either PPL or Baby Bonus for their child, that is, they will not be able to receive both PPL and Baby Bonus in relation to the same child. This change will create an even greater need for clear and readily available information about eligibility and income limits for both PPL and Baby Bonus to ensure that families understand their entitlements and can make informed decisions.

The Panel also believes that the alignment between estimated income and actual income should be examined over time to inform the policy and its implementation.

Fortnightly Instalments

FaHCSIA research suggests that misuse of Baby Bonus lump sum payments was not widespread and indicates that while there are changes in household expenditure after the birth of a child these are primarily in the areas of clothing, child care and health care¹. Nonetheless, the change to fortnightly instalments has addressed community perceptions and, based on anecdotal evidence, may have reduced the risks associated with lump sum payments such as humbugging and family violence.

It would appear that in the majority of cases the change to fortnightly instalments has not caused any difficulties. However the Panel considers that there may be some circumstances in which the discretion to pay a lump sum is warranted and consideration could be given to allowing Centrelink staff more discretion to convert the payment to a lump sum payment when appropriate, such as when families have unanticipated medical expenses.

Annual Indexation

The Panel notes that annual indexation is consistent with other family assistance.

Increased Eligibility for Adoptions

It is not possible to assess the cost of the measure extending eligibility to parents adopting children aged 3-15 years because age data has not been collected for local adoptions. However, on the basis of the data that is available the costs would appear to be relatively modest.

Panel Recommendations

The Panel recommends that:

2. More comprehensive estimates of the number of families affected and the total savings achieved by this measure be published once the period of eligibility expires for families who gave birth or adopted children in 2008-09 and when the total expenditure for 2008-09 is known.

¹ FaHCSIA Research Note No 40 *Effects of newborn children on household expenditure*

3. Research be undertaken into the alignment between income estimates and actual income in the 6 month period after the birth of a child to inform the ongoing application of an income limit and eligibility monitoring.
4. Research and consultation into the extent to which customers understand their entitlements be undertaken, particularly with consideration to the introduction of Paid Parental Leave and the importance of eligible customers making informed decisions when choosing between these two payment options.

Schedule 3

Commonwealth Seniors Health Card (CSHC) Collection of Tax File Numbers (TFN)

Purpose of Legislative Amendment

The legislation providing for the collection of Tax File Numbers (TFNs) under the Commonwealth Seniors Health Card (CSHC) program was part of the new CSHC review and compliance regime introduced as a 2008-09 Budget measure. This Panel is not required to review the entire compliance regime.

Schedule 3 of the legislation under review provides for the collection of TFNs from new CSHC claimants and existing cardholders. The legislation also provides for CSHCs to be cancelled or not granted where TFNs are not provided. There are exemptions which can apply to the provision of a TFN for the CSHC which are similar to those applying to other income support payments including the Age Pension.

Government Objectives

Financial Impact

FaHCSIA's 2008-09 Portfolio Budget Statement estimated total costs and savings from the CSHC compliance regime, including the collection of TFNs, as follows:

Table 1. CSHC Measure - Anticipated Savings and Costs

Outcome 2 (2.1)	2008-09 (\$000)	2009-2010 (\$000)	2010-2011 (\$000)	2011-2012 (\$000)	Total over 4 years
Reduction in Cardholders (estimate)*	13,800	14,300	16,500	18,700	18,700
FaHCSIA Administered Savings	-2,066	-8,731	-10,304	-11,984	-33,085
Delivery Costs (mostly Centrelink)	9,775	1,126	795	718	12,414
Total FaHCSIA savings	7,709	-7,605	-9,509	-11,266	20,671

* affected cardholder numbers are cumulative over this period, and are rounded.

Reaction to Proposal

Opposition Senators raised concerns about Schedule 3 in their minority report on the Bill and Greens Senators moved an amendment to remove Schedule 3, which was not accepted. Their concerns centred on whether the collection of TFNs from CSHC applicants and cardholders (for the purposes of checking against CSHC income limits) would lead to a form of indirect means-testing and unfairly exclude seniors from being eligible for the card.

Background

Features of the CSHC

The CSHC was introduced in 1994 to support seniors whose assets precluded them from receiving the Age Pension, or who did not meet the Age Pension residence requirement.

The concessions available to CSHC holders include access to Pharmaceutical Benefits Scheme prescription items and certain Medicare services at a cheaper rate, the Seniors Supplement paid by the Commonwealth, and concessional travel on Great Southern Rail services.

CSHC income limits were originally in line with Age Pension cut-offs but were later increased to \$50,000 for singles and \$80,000 for couples combined. These limits are higher than the current pension cut-off limits of \$40,149.20 for singles and \$61,412.00 for couples combined.

Since 1994 the benefits associated with the CSHC have grown significantly in value. For example, in the same Budget as the compliance regime was introduced the Seniors Concession Allowance was increased from \$218 to \$500 and the higher rate of Telephone Allowance from \$88 to \$132. These allowances are now rolled into the Seniors Supplement and paid to CSHC holders, with the supplement being worth \$795 per year for a single cardholder and \$600 for each member of a couple.

No routine compliance activity has previously been associated with the CSHC. Although cardholders are required to notify Centrelink if their income exceeds the income limits, this has not always occurred. This is contrary to common practice relating to income-tested government payments and benefits, which generally have associated compliance schemes to ensure integrity and accuracy of government outlays.

Development of the CSHC compliance regime

In 2006, a one-off data cleanse by Centrelink in conjunction with the ATO revealed that around 28,000 CSHC holders – around nine percent of the total population – were over the income limits for the card. This one-off income review of cardholders resulted in about 21,000 cards being cancelled.

The 2008 Budget measure established a formal compliance mechanism to remove the need for further ad-hoc or one-off evaluations and to better support the integrity of government expenditure under the CSHC program. The Department sought to bring the CSHC program in line with the other government payments and benefits legislated

in the *Social Security Act 1991* and the *A New Tax System (Family Assistance) Act 1999* that have accompanying review and compliance mechanisms.

The components of the 2008-09 CSHC compliance regime measure include:

- Data matching with Births, Deaths and Marriages (re. death notifications) and DIAC (re. overseas absences of more than 13 weeks) – this has been taking place since July 2008;
- Income review and collection of TFNs – commenced in September 2008 (the collection of TFNs representing the component under review by the Panel);
- A profiling tool to target reviews of cardholders with out-of-date income details or who are close to income limits began in early 2010 – this commenced in January 2010;
- Data-matching between Centrelink and ATO on cardholder taxable incomes – this will commence in March/April 2011.

Operation and Impact of Legislative Amendment

Collecting TFNs under the compliance regime

The collection of TFNs commenced in September 2008 when new applicants for the CSHC were required to include their TFN (and their partner's TFN) in their application. If they did not provide a TFN within 28 days (except under special circumstances) their claim was rejected.

In March 2009, Centrelink sent letters to all CSHC holders who had their card granted prior to September 2008. The letter required cardholders to provide their TFNs and current income details within 28 days or have their card cancelled.

At 17 July 2009 approximately 246,000 review forms had been sent to cardholders with 8,451 cards cancelled for failure to return the review form, 7,855 were cancelled due to income exceeding the income limits and 350 were cancelled for not providing their TFNs.

Centrelink sent these cardholders cancellation letters which notified them of a 13 week period to appeal the cancellation decision and have their card cancellation reversed.

Data-matching between Centrelink and ATO on cardholder taxable incomes is expected to commence in March/April 2011 after completion of the 2009-10 tax assessment cycle. This will embed the use of TFNs as part of the CSHC compliance regime and enable accurate identification and matching of taxable income details.

Customer reaction

The Department advised the Panel of a low level of negative reaction from customers to the measure, with less than 10 individual complaints registered with FaHCSIA and Centrelink. There were no external appeals (e.g. Social Security Appeals Tribunal) on cancellation decisions relating to the CSHC TFN requirement.

The complaints related to the need to provide TFNs to multiple government agencies and from people who do not have TFNs. The Department advised that the current service delivery reforms are looking at the first issue. Customers without a TFN have been advised of the TFN exemptions and the process for applying for an exemption.

Initial Outcome of the TFN Review

Table 2 below provides a summary of the actual card cancellations resulting from the 2008-09 TFN collection and income review, as at 17 July 2009.

Table 2 – Summary of TFN and Income Review Results

Summary of TFN and income review results		17 July 2009
Total customers reviewed		245,766
Main cancellation reasons since the TFN/Income Review		16,656
- Client failed to respond to review	8,451	
- Clients income exceeds qualifying income limit	7,855	
- Client failed to provide TFN	<u>350</u>	
	16,656	

In Table 1 13,800 CSHC cancellations were projected while Table 2 identifies actual card cancellations of 16,656. Actual cancellations were about 20 per cent higher than expected. There is no evidence that the higher than expected cancellations were a direct consequence of the TFN requirements. Of the 16,656 cancellations only two percent (350) were due to customers not providing their TFN, forty-seven percent (7,855) represented customers with income over the limit and fifty-one percent (8,451) were due to customers not responding to the review, most likely due to self-assessment of their income levels against the income limits.

The total CSHC cancellations represent about seven percent of the CSHC population reviewed. This is broadly consistent with the 2006 ATO data cleansing exercise which found nine percent of customers with income above the CSHC income limits. The Department considers these findings emphasise the need for a compliance regime including TFN collection and data matching.

While the income review and TFN collection, from pre-September 2008 cardholders, was delayed from January 2009 to March 2009 it still led to more than the expected number of card cancellations by July 2009.

Financial impact

At this early stage in the implementation of the compliance regime, a full analysis cannot yet be carried out on the compliance regime over the full forward estimates period 2008-09 to 2011-12. Therefore, the most useful comparison to be made at this point by the Panel is on the number of expected and actual CSHC card cancellations for 2008-09. The key observation is that actual cancellations were around 20 percent higher than expected.

It is important to note that the 2009-10 Pension Reforms included changes to the benefits associated with the CSHC (for example, Seniors Concession Allowance and Telephone Allowance (at the higher rate) were combined to form the Seniors Supplement). This presents difficulties in making direct comparison between expected financial implications and the actual financial outcomes of the CSHC compliance measures from 2009-10 onwards. In addition, the effects of the CSHC income review from 2009-10 onwards are difficult to judge in isolation as they are tied up with the impact of another measure, which commenced on 1 July 2009, which included new sources of income in the CSHC income test.

As indicated in Table 1, about 75 per cent of the administered savings arising from cancellations in 2008-09 under the CSHC compliance regime, which includes the TFN measure, would have been realised in the 2009-10 year as the cards were cancelled late in 2008-09. Therefore the additional administered savings to the FaHCSIA portfolio from the higher number of card cancellations are likely to have been in the order of \$0.4 million in 2008-09 and \$1.65 million in 2009-10.

Savings outside the FaHCSIA portfolio primarily relate to the Health and Ageing portfolio, which provides pharmaceutical and medical concessions based on CSHC eligibility. The administered savings achieved in the Health and Ageing portfolio – expected in the 2008-09 Budget papers to be \$3.741 million in 2008-09 and \$15.977 million in 2009-10 – are likely to have increased by the same proportion as the FaHCSIA savings (20 per cent) due to the higher number of card cancellations.

Table 1 also shows the expected departmental expenses or delivery costs for the measure. The bulk of these costs occurred in 2008-09 when Centrelink collected TFNs, conducted the income review, processed CSHC cancellations, and commenced development of the profiling tool. Centrelink implemented these elements of the compliance regime using the allocated resources and within expected timeframes.

Panel Assessment

The Panel notes that the collection of TFNs does not change the eligibility for CSHC, but forms an important part of the compliance regime to ensure the integrity of the card. While there was a compliance burden placed on existing applicants during the implementation phase, the Panel notes that there is no additional burden to ongoing customers and that this requirement is no different to that which applies to income support and family assistance recipients.

The Panel notes the very low number of complaints received and that there were no external appeals. The Panel notes that, of the total CSHC holders reviewed, 3.4 percent were cancelled for failure to respond to the review after two approaches by Centrelink, including the opportunity to appeal the cancellation. A further 3.2 percent had their CSHC cancelled because their income exceeded the qualifying

income limit and only 0.1 percent were cancelled for not supplying their TFN. Approximately 93 percent of CSHC holders did not lose eligibility as a result of the review.

While the Panel notes that 20 percent more people were affected by this measure than originally intended, this cancellation rate would appear to be an appropriate result when compared to the nine percent of the population who had cards cancelled through the 2006 Centrelink/ATO data cleansing exercise.

The Panel is satisfied that the TFN component of the measure has operated as intended.

Schedule 4

Voluntary Income Management (VIM)

Purpose of Legislative Amendment

This measure provides for people in selected areas in Western Australia to voluntarily enter into an agreement with Centrelink for income management if they consider this would assist them to better meet their financial responsibilities or contribute to the wellbeing of their children or children within their community.

Government Objectives

VIM allows income support recipients in the metropolitan Perth and the Kimberly region in WA to volunteer for income management, and aims to assist them to meet their priority needs and learn tools to help manage their finances for themselves and/or their family in the long term. Other objectives include:

- Giving customers the ability to use the BasicsCard (ensuring stores are available, and ensuring customers understand how to operate the card, including checking balances)
- Increased financial literacy
- Reductions in undesired pressure to give money to family members or others (including humbugging)
- Reduce available funds for gambling, pornography and alcohol.

Reaction to Proposal

The Department advises that there were very few concerns expressed about the introduction of VIM in WA.

Background

VIM allows Centrelink customers to request that part of their income support and family payments be income managed and is only currently available to people in metropolitan Perth and the Kimberly region in Western Australia. New legislation to be introduced proposes that VIM be offered in the NT alongside the new scheme of income management from the second half of 2010. This is part of the Government's broader welfare reforms which will be introduced, initially across the Northern Territory, from 1 July 2010 (subject to passage of legislation which was before the Senate at the time this Report was prepared), followed by other states.

VIM involves Centrelink directing 70 per cent of an individual's income support payments towards meeting their essential needs such as food, rent and clothing. Individuals are not able to purchase excluded goods, such as alcohol, tobacco, gambling or pornography products with income managed funds.

Income management does not reduce an individual's entitlement but redirects payments to prescribed items. Income management is tailored on a case-by-case basis with individuals having the opportunity to discuss their specific expenses and needs with Centrelink. A referral to a Commonwealth Financial Counselling or Money Management service is also offered to all individuals who volunteer for income management with the aim of increasing an individual's ability to manage their income.

The Government's intention is that when combined with financial training and education, VIM will help individuals deal with their immediate financial difficulties and build skills to better manage their finances and provide for their children in the long term.

Currently under VIM, 70 per cent of an individual's regular fortnightly payments are income managed. The remaining 30 per cent of the individual's payments are paid in the usual way. All advances, lump sum payments and Baby Bonus payments will be 100 per cent income managed.

As VIM is entered into voluntarily, the person to whom the agreement relates is able to ask the delegate to terminate the agreement at any time, for any reason. The person must provide written notice to the delegate in order for the delegate to terminate the agreement. If a request to terminate a VIM agreement is made, the delegate must terminate the agreement as soon as practicable.

In addition to VIM, there is a child protection scheme. Under Child Protection Income Management scheme, the Department of Child Protection in WA is enabled to make referrals to Centrelink for people to be subject to compulsory income management where child neglect is related to poor use of financial resources.

The Child Protection income management measure runs in the same locations as VIM.

Operation and Impact of Legislative Amendment

Demographic information

Up until 23 April 2010, 757 people had participated in VIM since its commencement in November 2008 and a total of 379 customers were on VIM in WA at that time (79% of which were in the Kimberly region, with the remainder in metropolitan Perth).

Of those currently on VIM, 84% indicated they were indigenous, 73% were female and 65% did not have children.

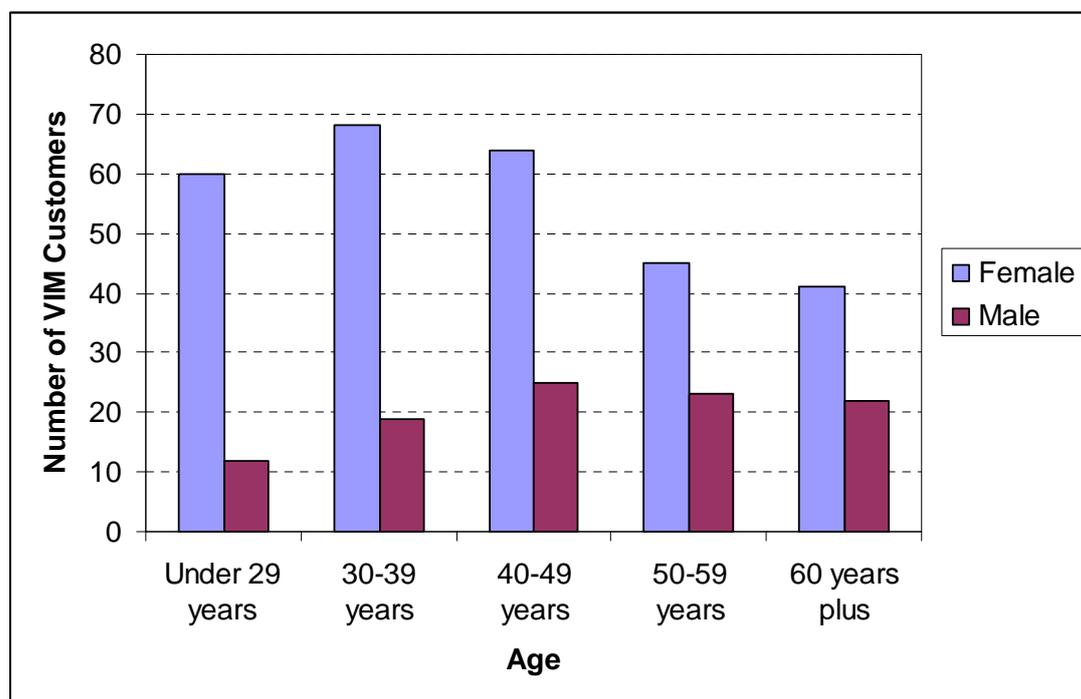
The majority of VIM participants were on Disability Support Pension (51%), followed by Newstart Allowance (13%), Parenting Payment Single (12%) and Age Pension (11%).

The most common marital status was separated or divorced (33%), followed by single (30%) and de facto (25%).

Of those on VIM in April 2010, 40% had been participating for less than 13 weeks, 39% for 13 to 29 weeks and 21% for longer (ignoring a small fraction with duration not recorded).

As shown by Figure 1 below, there was a relatively even spread by age, with the gender split becoming less pronounced in the older age groups.

Figure 1 – Number of VIM customers by age group and gender.



BasicCard Merchants

As at 30 April 2010, there were 633 merchants in WA participating in the BasicCard scheme, 114 of which were located in the Kimberly region where approximately 300 (or 79%) of the current participants are located. However, the Panel does not have information available to us on the proportion of relevant businesses who are participating in the scheme. This issue will be addressed in the evaluation currently underway.

Evaluation

The Department has commissioned an evaluation of income management in WA to be completed by mid 2010. The evaluation is collecting both qualitative and quantitative information to assess outcomes as well as the implementation of the income management trials. The evaluation and subsequent results on income management in WA cannot form part of this Review as it will not be completed within the Review's legislated timeframe.

The WA evaluation of income management trials focuses equally on both the Child Protection Scheme of Income Management and Voluntary Income Management. The evaluation will research the implementation, process and outcomes of the trials with a specific focus on whether income management effected significant change towards the two main objectives of the trials:

- To promote socially responsible behaviour, particularly in relation to children; and
- To ensure that priority needs of the individual, children and their partners are met.

It is important to note, however, that the majority of participants in VIM do not have children. Nonetheless, the evaluation appears to be designed to gather information relevant to a wide range of family types. Specifically, VIM evaluation questions relevant to all family types include:

- *Have individuals improved their financial and money management skills?*
- *Do individuals feel that they are better able to direct their money to meet their own and/or family's needs?*
- *Have there been any changes to the family dynamics (ie are women more empowered as a consequence of IM and if so, what are the implications of that)?*
- *Have individuals been provided with Commonwealth Financial Counselling or Money Management service to enable them to better manage their incomes?*
- *Have all processes between stakeholders been clear and efficient?*
- *Have individuals had appropriate and timely access to service providers?*

In addition, the survey instruments have been designed specifically to allow detailed data to be collected for those with or without children.

While results of the evaluation are not available at this point, future implementation of the new income management scheme elsewhere in Australia will be informed by

evidence gained. The evaluation will build on the evidence base as will future evaluation planned over the next four years.

Anecdotal Evidence

The Department has reported that anecdotal evidence suggests a positive impact for those on the scheme. Benefits vary from customer to customer, but may include a reduction in mortgage or rental arrears, greater success in savings for items such as furniture, enhanced ability to pay utility bills and increases expenditure of food and clothing. In addition, some customers who were previously on compulsory income management which was then revoked by the Department for Child Protection, realised the benefits and stayed on income management.

Panel Assessment

The Panel notes that this measure provides for people to voluntarily enter into an agreement with Centrelink for income management if they consider it will be beneficial to them, and to discontinue that arrangement at any time by providing written notice.

The Panel notes that the measure is subject to an evaluation at the time of this Review. While the results of this evaluation were not available for consideration by the Panel within its legislated reporting timeframe, the Department provided anecdotal evidence that the measure had contributed to beneficial outcomes for a range of clients in a variety of circumstances.

Given the legislation currently before the Parliament to introduce compulsory income management more broadly (along with a VIM component), the Panel considers it highly desirable that all aspects of the current trial are fully evaluated and the results are publicly disseminated as soon as possible.

Given the evolving nature of VIM, it is particularly important for it to be subject to continuing evaluation, including assessment of

- its cost effectiveness;
- how people enter and exit the program;
- the extent to which referrals to Commonwealth Financial Counselling or Money Management service are taken up; and
- the operation of the BasicCard retail infrastructure (particularly the availability of stores that offer the card and any cost impacts on clients).

Panel Recommendations

The Panel recommends that:

5. All aspects of the current VIM trial are fully evaluated and the results are publicly disseminated as soon as possible.
6. This evaluation should include an assessment of:
 - the cost effectiveness of VIM;

- how people enter and exit the program;
- the extent to which referrals to Commonwealth Financial Counselling or Money Management service are taken up; and
- the operation of the BasicCard retail infrastructure (particularly the availability of stores that offer the card and any cost impacts on clients).

Schedule 5

Eligibility for Partner Service Pension (PSP) Veterans' Entitlements Act 1986

Purpose of Legislative Amendment

This change meant the age at which partners of service pensioners are eligible for service pension was brought into line with the age at which veterans can receive service pension on the basis of age.

Partners already on payment are only affected if their pension is cancelled for any reason. Any subsequent claim for partner service pension is subject to the new age criterion. Where the partner of a service pensioner is unable to participate in the paid workforce, other income support payments are available through Centrelink.

Government Objectives

The measure is designed to encourage participation in the paid workforce where possible, which is strongly linked to a higher standard of living in retirement through increased superannuation and other savings accrued while working. It also reflects broader community expectations that people should be participating in the paid workforce where possible rather than calling on taxpayer funded income support.

Reaction to Proposal

The measure attracted criticism from the Partners of Veterans Association and the TPI Federation (the Australian Federation of Totally and Permanently Incapacitated Ex Servicemen and Women Ltd) on the grounds that it had eroded the special recognition that Veterans and their partners should receive.

Background

The measure increased the eligible age for partner service pension from 50 years of age to "qualifying age" which is equivalent to veteran pension age. Certain partners were later exempted from the measure through changes made in December 2008.

Previously partners of veterans were eligible to receive the partner pension at an age up to 10 years younger than the veterans themselves were eligible for service pension.

Taking effect from 1 July 2008, the change meant that the partner service pension eligible age for males increased from 50 to 60 years of age, and for females from 50 to 58.5 years of age. The eligible age for females will gradually increase to 60 by 2014 in line with the age equalisation regime.

Where the partner of a service pensioner is unable to participate in the paid workforce, other income support payments are available through Centrelink.

The age exemption for the partners of veterans receiving special rate disability pension under the *Veterans' Entitlements Act 1986* (VEA) or the equivalent under the

Military Rehabilitation and Compensation Act 2004 (MRCA), and for partners with a dependent child, was maintained.

This Review is not legislated to consider the additional amendments to veterans' entitlements under the separate Act '*Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (Further 2008 Budget and Other Measures) Act 2008*' that covers amendments pertaining to the reinstatement of age 50 for partners of Above General Rate (AGR) veterans and the new eligibility rules for separated partners.

Operation and Impact of Legislative Amendment

While the measure reflects broad community expectations that people should participate in the paid workforce where possible, it encountered some criticism from the ex-service community and in the Parliament.

The main concern was the absence of an adjustment period between the announcement of this measure at Budget time in May and the rule change taking effect from 1 July. A small number of couples claimed they had proceeded with retirement plans on the basis that the partners would be eligible for pension at age 50. The short lead-in time thus gave them little opportunity to re-consider their financial arrangements. Other feedback was that the changes meant younger partners would be required to approach Centrelink for their income support payment.

To balance the intended policy objectives of income support payments, and take into account community sensitivities, the Government identified that this measure had resulted in unintentionally harsh outcomes for some groups. In recognition of the level of care and support provided by partners to the most seriously disabled veterans, this legislation was amended by the Government in December 2008. The modification to the rule change alleviated the concerns of some sectors of the ex-service community.

The amendments reinstated the minimum eligible age requirement of 50 for partner service pension where the veteran:

- is in receipt of VEA general rate disability pension that is increased by subsection 27(1) items 1 to 6, extreme disablement adjustment, intermediate rate or temporary special rate (disability pensions); or
- has been assessed under the MRCA as having 80 or more impairment points.

While there was an increase in the rate of decline in the PSP cohort following the introduction of this and the '*Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (Further 2008 Budget and Other Measures) Act 2008*', no data is available on the impact of the measure being reviewed by the Panel in isolation.

The Department of Veterans' Affairs estimated that 618 clients will have been affected by the measure by the end of the 2009-10 financial year. Of these, some will have entered or remained in the workforce while others will be receiving alternate income support payments from Centrelink. The December 2008 changes (see below) are estimated to reduce this number to 594. This can be compared to the total number of PSP recipients which, at March 2010, was 85,058.

Financial data shows that the actual expenditure for the years after implementation closely matched the forecast expenditure taking into account the changes made by the various Budget measures. It can be concluded from this, that overall the Budget costings were fairly accurate. There is no data available on the financial impact of the measure being reviewed by the Panel in isolation. It is estimated that the measure will save around \$33 million to 2011-12.

Partners of veterans still have access to taxpayer-funded income support five years earlier than the non-veteran community.

Panel Assessment

The Panel notes that while the purpose of the measure was to encourage participation in the paid workforce where possible, with the benefits that would bring, it was unable to be provided with any information on the extent to which this objective was met. It notes that partners of veterans still have access to income support pension five years earlier than the non-veteran community.

The Panel notes that the Government recognised that some aspects of the measure were too harsh and subsequently amended the legislation to alleviate some concerns of the veterans' community.

The Panel notes the measure indicatively impacted some 594 customers and that the Department considers that the expected savings of some \$33 Million to 2011-12 will be broadly realised in respect of this measure (including the December 2008 changes). It also notes that those measures contained in the other Act (*Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (Further 2008 Budget and Other Measures) Act 2008*) were not in scope for the Review, however the data is combined.

While the Panel can understand the concerns of some veterans and their partners relating to the short lead time provided for adjusting their financial plans at the time of the measure's introduction, it considers that the longer term impact of the measure as amended will operate broadly as intended.

Schedule 6

Other Amendments

Purpose of Legislative Amendment

Schedule 6 contained 23 Items that were minor technical amendments, grammatical corrections or other basic clarifying changes to ensure the consistency of existing legislation. The principal purpose of Schedule 6 amendments was to clarify the application provisions or to prevent any cohort from being unduly disadvantaged.

The Items under Schedule 6 were:

Items 1-5 and 7-9.

Minor amendments to family assistance legislation related to previously introduced child support reforms. These amendments were made to:

- clarify shared care percentage for Family Tax Benefit (FTB)
- clarify the operation of certain aspects of the maintenance income test for FTB Part A

Items 6, 10-11, 13 and 15.

Minor amendments to family assistance legislation. These amendments were made to:

- ensure consistency in referring to 'income support supplement' paid by the Department of Veterans' Affairs
- a technical amendment was made to the claim provision for FTB.

Items 9A-9C

Amendments were made to reverse changes to the definition of adjusted taxable income for family assistance customers scheduled to commence on 1 July 2008 (but had been introduced as part of the 2006-07 Budget). The effect of these amendments was to:

- retain the current fringe benefit tax treatment for family assistance customers.
- introduce minor technical amendments to family assistance legislation related to the child support reforms
- introduce minor technical amendments to family assistance legislation, not related to the child support reforms

Items 16-17

Minor technical amendments to:

- clarify the application provisions for the new rules in relation to agreements and court orders made pursuant to Schedule 5 of the *Child Support Legislation*

Amendment (Reform of the Child Support Scheme–New Formula and Other Measures) Act 2006.

Items 18-20

These amendments were made to the *Child Support (Registration and Collection) Act 1988* to provide the Child Support Registrar with a discretionary power to deduct child support arrears from Centrelink and Department of Veterans' Affairs payments at less than the full prescribed amount in cases of hardship.

Item 21

Amendment to correct an error in the rate calculator reference.

Item 22-23

Amendment to correct grammar.

Government Objectives

Items 1-5 and 7-9.

These Measures were instigated to clarify FTB amendments to ensure that the child support reforms operate as intended.

Items 6, 10-11, 13 and 15.

These Measures develop consistent use of the term 'income support supplement' and update FTB claim provisions in line with previous amendments.

Items 9A-9C

These measures were made to prevent reductions in family assistance entitlements for charitable sector employees due to changes in the treatment of fringe benefits.

Items 16-17

These amendments were designed to provide clarity around the application of amendments and to ensure correct referencing in the transitional provisions.

Items 18-20

These amendments were created to assist those persons who were in financial hardship and in receipt of a pension, benefit or allowance to have their deductions reduced to an amount that is less than the amount prescribed.

Item 21-23

These amendments are very minor and are designed to ensure the measures operated as intended.

Reaction to Proposal

There was no public or opposition reaction any of the amendments except for Items 9A-9C.

Items 9A-9C

This measure reversed a component of a policy introduced under *Child Support Reforms – aligning income definitions* which had been announced in the 2006-07 Budget and was scheduled to commence from 1 July 2008. Just prior to the commencement of this change a number of community organisations had raised concerns about the use of the grossed-up value of fringe benefits in the media, arguing that this change would disadvantage low income workers in the not for profit sector. The Australian Services Union set up an online campaign, which resulted in some departments receiving hundreds of emails from concerned community sector employees. These correspondents were advised that the Government was introducing legislation to ensure that the net value of fringe benefits would continue to be used for family assistance purposes.

Background

Items 1-5, 7-9

Minor amendments were made to:

- clarify that a shared care percentage for FTB does not apply where a parent's care of a child is more than 65 per cent, and clarify the meaning of a 'regular care child'
- clarify the operation of certain aspects of the maintenance income test for FTB Part A, relating to the maintenance income ceiling and notional assessments (including in relation to the treatment of disability expenses maintenance).

Items 6, 10-11, 13 and 15

Minor amendments were made to ensure consistency in referring to 'income support supplement' paid by the Department of Veterans' Affairs and a technical amendment was made to the claim provision for FTB.

Items 9A-9C

The measures introduced in the 2006-07 Budget changed the definition of reportable fringe benefits for the income assessment of FTB and Child Care Benefit which were to take effect from 1 July 2008. As a result of the response of community and not for profit sector workers and organisations in June 2008 to the potential impact of this

change, on 19 June 2008, the Treasurer with the Minister for Families, Housing, Community Services and Indigenous Affairs announced that the Government would move amendments in the Senate so that the changes would not take place as part of the 2008 Budget Measures (which are the subject of this Review).

Had the 2006-07 Budget measures been allowed to take effect, the calculation of adjusted taxable income for FTB would have been based on what the employee would have to earn in after-tax income to afford the fringe benefit (the grossed-up value), rather than the value of the fringe benefit itself (the net value).

Items 16-17

Item 16 repealed and replaced item 73 of Schedule 5 of the *Child Support Legislation Amendment (Reform of the Child Support Scheme—New Formula and Other Measures) Act 2006*.

This measure provided legislative clarity around the application of the new rules relating to child support agreements and court orders that came into effect from 1 July 2008.

The amendments specify that where a child support agreement is accepted on or after 1 July 2008 and:

- where it only affects periods from 1 July 2008 onwards, then the new rules commencing from 1 July 2008 will apply;
- where it only affects a period prior to 1 July 2008 then the new rules will not apply to the agreement;
- where it affects periods both before and after 1 July 2008, then the pre-July 2008 rules would apply up to 30 June 2008 and the new rules would apply from 1 July 2008.

The amendments to the application provisions also provided that, where an application for a court order that is made on or after 1 July 2008, in relation to a period that occurs in part prior to 1 July 2008, the court must apply the law as it stood immediately prior to 1 July 2008 for the pre-July 2008 period. For the period from 1 July 2008, the court must apply the new 1 July 2008 rules.

Item 17 makes a minor consequential amendment to ensure correct referencing in the transitional provisions affected by the above amendments.

Items 18-20

Items 18-19 were changes that provided some protection for payers in receipt of social security payments or Veteran's Affairs payments by empowering the Registrar to make deductions that are less than the prescribed amount in the regulations where the Registrar is satisfied that the payer is in financial hardship.

While these amendments may mean some payees receive slightly less in periodic repayments of child support arrears, the amount of arrears will simply be recovered in smaller amounts over a longer period. As these provisions only apply to payers on social security benefits and are therefore likely to have low child support liabilities, child support payments are not likely to be the primary income source for the

receiving parent and therefore the small reduction in periodic payments of child support is unlikely to cause significant financial distress. It is also possible that while the payee is receiving a reduced amount of child support arrears as a result of this measure, they could receive a higher rate of Family Tax Benefit which would partly compensate them for the reduction.

Item 20 were transitional provisions to enable the regulations made before the commencement of these amendments to have effect for the purposes *Child Support (Registration and Collection) Act 1988*.

Operation and Impact of Legislative Amendment

Items 1-23

These amendments were minor and did not unduly disadvantage any cohort.

Items 9A-9C

Family assistance entitlements continue to be based on net value of fringe benefits, rather than the grossed-up value. This is expected to benefit up to 85,000 customers.

Public reaction

The Government's move to reinstate the use of net fringe benefits was also welcomed by community organisations such as the Australian Council of Social Services and Catholic Social Services Australia.

Panel Assessment

Items 1-5 and 7-9

Family assistance amendments were designed to ensure the child support reforms operate as originally intended. In this regard, the Panel is satisfied that the amendments operate as intended.

Items 6, 10-11, 13 and 15

Family assistance amendments were minor and were developed to ensure consistency and to update FTB claim provisions in line with previous amendments. These amendments were minor and did not unduly disadvantage any cohort. The Panel is satisfied that the amendments operate as intended.

Items 9A-9C

The Government recognised that charitable employees may be disadvantaged due to changes in the treatment of fringe benefits. These Measures were introduced so this cohort would not be disadvantaged. The Panel notes that this Measure had no effect on the definition of income for child support purposes – the child support definition of income continues to include the gross value of reportable benefits. Therefore, parents cannot avoid their child support obligations by converting their income into fringe

benefits. In this regard, the Panel is satisfied that the amendments operate as intended.

Items 16-17

The Panel notes that these items did not change the intent of the application provisions, they only made the provisions clearer as to how to apply the new rules in relation to agreements and court orders.

These amendments related to the new rules in relation to child support agreements and court orders that commenced on 1 July 2008 where an agreement accepted by the Registrar after 1 July 2008 or a court order made after 1 July 2008 had effect both prior to 1 July 2008 and after 1 July 2008.

The Panel is satisfied that there was no disadvantage caused by the changes to these application provisions and there was no negative reaction from any source to these amendments.

Therefore, the Panel is satisfied that these measures have operated as originally intended.

Items 18-20

The Panel notes that these changes operate to prevent particular child support payers experiencing financial hardship from experiencing further undue financial hardship through legislative requirements to deduct a prescribed amount of child support arrears from a parent's veterans affairs pension or allowance. While the Panel notes this may further reduce the income of payee parents, it is likely that the change in child support arrears payments would be relatively small (as the payment amount would already be small due to the payer's low income) and may be offset by increased family payments to the payee.

The Panel is satisfied that the operation of these measures operate as intended.

Item 21-23

The Panel is satisfied that the operation of these measures operate as originally intended.