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Submission to the Senate Community Affairs Legislation Committee on the

Social Services Legislation Amendment (Ending Carbon Tax Compensation) Bill 2017

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Introduction

The St Vincent de Paul Society welcomes the opportunity to provide feedback on the *Social Services Legislation Amendment (Ending Carbon Tax Compensation) Bill 2017*.

The St Vincent de Paul Society (the Society) is a respected lay Catholic charitable organisation operating in 149 countries around the world. Our work in Australia covers every state and territory, and is carried out by more than 64,000 members, volunteers and employees. Our programs assist millions of people each year, including people experiencing poverty and homelessness, people living with mental illness, migrants and refugees, and women and children fleeing family violence.

As an organisation committed to social justice and overcoming the causes of poverty and inequality, we recommend that the *Social Services Legislation Amendment (Ending Carbon Tax Compensation) Bill 2017* (the Bill) be rejected. One of the key factors driving poverty in Australia is the inadequacy of income support payments, particularly for people who are young, unemployed, have a disability or are raising children alone.[1] Instead of raising the level of income support payments, this Bill seeks to reduce these payments even further, pushing people who are already living below the poverty line into deeper hardship and destitution.

The Bill seeks to cut income support payments by abolishing the Energy Supplement for new recipients of income support and anyone who commenced a payment after 20 September 2016. This measure was first introduced in the 2016 Budget, and has been rejected by Parliament several times. If enacted, it would slash $933 million over three years from the social security system and affect 1.7 million people including Age Pension recipients, Disability Support Pensioners, Carer Payment recipients, Parenting Payment recipients, and people who receive Newstart or Youth Allowance. The Energy Supplement currently provides recipients with between $8 and $14 per fortnight, and was first introduced in 2012 as part of a package of measures to compensate households for the introduction of the carbon tax.

There is no sound basis for the Government's latest attempt to remove the Energy Supplement from the most vulnerable Australians. At a time when energy costs are escalating and many income support recipients are falling further below the poverty line, we believe the Government should be increasing woefully inadequate income support payments. Instead, this Bill would further erode Australia’s already fragile income support safety net. The justifications for the measure are flawed, with energy prices significantly higher than they were before the carbon tax legislation was repealed. The Society also contests the Government’s assertion that the Energy Supplement must be abolished to repair the Budget and guarantee the sustainability of Australia’s welfare system. This latest attempt to remove the Energy Supplement risks compounding the inequities in our tax and transfer system and exacerbating the disparities between the wealthiest and the least wealthy. In short, this Bill is unfair and morally, socially and economically indefensible.

Our concerns with the Bill are elaborated on in further detail below.

Our concerns about the Bill

Erosion of social safety net and income inadequacy

To further reduce the level of inadequate income support payments is unconscionable and goes against almost universal calls for an urgent and immediate increase to income support payments. This measure will compound the poverty and hardship of those struggling to survive on payments that are already well below the poverty line.

The Bill is being proposed in a context of growing inequality and a succession of savage cuts to Australia's social security system. Around 2.99 million people in Australia are living below the poverty line, including 731,000 children.[1] Family assistance and social security payments provide a vital shield against poverty. However, these support payments are frugal by international standards and, in some cases, are well-below what is needed to meet essential living costs.[1,2] One of the key factors driving poverty in Australia is the inadequacy of income support payments, particularly for people who are young, unemployed, have a disability or are raising children alone.[1] For people living on these meagre payments, the depth of deprivation and financial hardship undermines their capacity to meet basic living costs and participate in the labour market and wider community.

The removal of the Energy Supplement will only deepen these hardships and deprivation, and represents the latest in a series of cuts that have slashed nearly $15 billion from the social security and family payments system since 2014. These cuts have been justified on the grounds of "Budget repair" and ensuring that "Australia's welfare system is sustainable in the future."[3,4] Placed in this context, the current Bill is part of the Government's overall approach to Budget repair which seeks savings by disproportionately reducing the incomes of the poorest and most vulnerable.

We believe this approach is fundamentally flawed and unfair. Contrary to Government rhetoric, current income support payment levels have declined as a proportion of GDP, and over the past two decades social security payments have fallen further behind the minimum wage and the poverty line.[5] Australia's social security system is already highly targeted, with support to the bottom 20 per cent of households more concentrated than any other OECD nation.[6] Our social security expenditure is also low by OECD standards (at 8 per cent of GDP, compared to the 12 per cent average across the OECD). Given the already lean and highly targeted nature of the social security system, further cuts to payments are likely to have a larger impact on income inequality and poverty than in any other country within the OECD.[7]

There are alternative ways of reining in the deficit and repairing structural deficiencies in the Budget that do not require cutting support to the most disadvantaged and vulnerable in our communities. ACOSS has estimated that tightening the tax treatment of capital gains, negative gearing, superannuation, work-related deductions, and private trusts and companies could save approximately $12 billion per year.[8] By introducing a range of revenue-raising and alternative cost-saving measures, the Government could substantially reduce the Budget deficit and strengthen the sustainability of the pension and support payments system, without discriminatorily limiting the right to social security.

Given the relentless cuts to the income support system, cutting the Energy Supplement is economically, socially and politically irresponsible. With our spending already so tightly targeted to people on lower incomes, such an approach will hurt around 1.7 million people over the forward estimates – people who we should be supporting to improve their living standards.

Newstart and Youth Allowance

There is indisputable evidence of the inadequacy of unemployment benefits, and the rates of poverty among individuals on Newstart Allowance and the Youth Allowance are unacceptably high.[1] Based on Australian Bureau of Statistics (ABS) Survey of Income and Housing, a single person with no children and living on Newstart is surviving on $110 per week below the poverty line.[*] The gap between the Youth Allowance payment and the poverty line is even more pronounced, with a single young person with no children receiving $158.63 per week less than the poverty line. These figures take Rent Assistance into account, so the gaps are even higher for households not eligible for Rent Assistance payment.[1]

There has been a steady decline in the real value of these payments, which have not kept up with wages growth and increases in the costs of living. The base rate of the Newstart Allowance has not been increased in real terms since 1994, and Australia now has the second lowest unemployment benefit in relation to average wages in the OECD.[9] As a result, more than half (55 per cent) of all Newstart recipients are living below the poverty line. Removal of the Energy Supplement will cut the rate of the $38-per-day Newstart Allowance by $4.40 per week, thereby abolishing the first real increase to the payment in over 20 years.

Critically, ending the Energy Supplement will mean that *Newstart will actually be worse for the newly unemployed than if the Supplement had never been introduced*. We are disappointed that the Minister has repeatedly stated that this measure simply removes compensation that is no longer needed because of the repeal of the carbon tax. This statement is patently incorrect. When the Supplement was first introduced in 2013, the regular Consumer Price Indexation (CPI) indexation of Newstart was adjusted to offset indexation increases. Regular CPI indexation was therefore lower than it would have otherwise been. Consequently, if the Energy Supplement is removed, payments will be lower than what they would have been if no carbon price had been implemented.

Parenting Payments

Removing the Energy Supplement will only further increase the hardship of families on low incomes. If the Supplement is abolished, a single parent receiving the Parenting Payment Single payment will lose $6 per week, which equates to $313 over a year.

This cut would be the latest in a series of measures that have reduced the level of income support to single parents. This includes the loss of the Energy Supplement tied to the Family Tax Benefit, which occurred due the passage of the revised *Budget Savings (Omnibus) Bill 2016*. In addition to these most recent cuts, low-income families have been hit hard by a succession of cuts to family assistance and social security payments, including at least $13 billion that has been ripped from the family payments system since 2009.[10] More recently, the passage of the *Budget Savings (Omnibus) Bill 2016* will derive a further $2 billion in savings from the FTB system, which will be in addition to a further $1.6 billion in cuts that have passed through the Parliament since 2015. These reductions in

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[*] These figures are based on the standard definition of the poverty line as 50 per cent of the median income. According to the most recent quarterly update from the Melbourne Institute of Applied Economic and Social Research, the current Newstart Allowance (with Rent Assistance) falls $178.66 below the Henderson Poverty line for a single adult with no children.

family payments have coincided with a range of other changes that restrict access to social security for single parents, and remove several supplementary payments.

Accompanying these series of cuts to family and social security payments has been an increase in child poverty and financial hardship among single parent households. According to ACOSS's most recent Poverty Report, the total income of a household relying on Parenting Payment Single is $223 below the poverty line.[*] Furthermore, around 17.4 per cent (731,300) of all children in Australia are living in poverty, an increase of 2 percentage points over the past decade.[1] The rates of poverty are highest among single parent households, with more than one in three (40.6 per cent) of children in lone-parent families living below the poverty line. Since 2012, the poverty rate for children in lone parent families has gone up from 36.8 to 40.6 per cent.[1]

In a context of unacceptable levels of child poverty in families that rely on income support, cutting payments further through the removal of the Energy Supplement is unjust and morally reprehensible.

Pension and Carer Payments

If the Energy Supplement is removed, single age pensioners and disability support pensioners will lose $7.05 per week. A household that includes a recipient of the Carer Payment and a recipient of the Disability Support pension is set to lose $10.60 per week.

Such cuts are particularly concerning give the overwhelming evidence of poverty among pensioners and carers who rely on income support. According to ACOSS's Poverty Report, 36.2 per cent of those receiving Disability Support Pension live below the poverty line, as do 24.3 per cent of Carer Payment recipients.[1]

The impact of the Energy Supplement cut for age pensioners is also of profound concern. A report released by Per Capita and the Benevolent Society documents the unacceptable levels of poverty experienced by older Australians reliant on the Age Pension.[11] While the circumstances of Age Pensioners are diverse, a significant proportion struggle to meet basic living costs, forcing them to compromise on heating and utilities, choose between food and medication, and to forego other day-to-day costs in ways that contribute to social isolation and poor health.[11] This report echoes OECD data that shows that, in 2012, over a third of Australians over the age of 65 lived below the poverty line, which is the second highest rate in the OECD.[†,12] The OECD also reported that the Australian Government spends 3.5 per cent of GDP on the Age Pension, which is less than half the OECD average of 7.9 per cent.[12]

When the Government introduced and passed a one-off energy payment for pensioners earlier this year, it stressed the importance of a top-up payment given the "rapid rise in the cost of living" and "outrageously high energy costs in particular".[13] Such statements appear to be at odds with the stated rationale for removing the Enenrgy Supplement. While the one-off energy payment will

[*] This figure excludes the most recent cuts to Family Assistance payments, including the removal of the Energy Supplement associated with the Family Tax Benefit.
[†]The figure of 34% in poverty that has been calculated by the OECD is based on an analysis of all people aged over 65 – not just people receiving the Age Pension. Those who qualify for the age pension generally have a lower income than those who don't qualify, so the poverty rate of Age Pensioners would in fact be significantly higher than the overall rate of people aged over 65.

provide a top-up payment of between $75 and $125 per household, it is only around one fifth of the annual Energy Supplement.

Escalating energy prices

In the face of record increases in energy costs, it is imperative that the Energy Supplement is retained. The Supplement was originally introduced to offset extra costs of living, such as higher energy costs, associated with the introduction of the carbon tax. Under the guise of reducing energy costs, the Federal Government repealed the carbon tax in July 2014. However, as *Figure 1* below illustrates, the promised emergence of low-cost energy has clearly failed to materialise. Prices have risen dramatically, with energy prices on the forward electricity contract market now trading at levels that are double what the wholesale market price was under the carbon tax. Despite promises that energy prices would drop following the scrapping of the carbon tax, prices have increased 65 per cent in real terms from 2007 to 2016.[14] In some states, there has been a threefold increase in electricity disconnections as a result of non-payment due to hardship since 2008.[15] The consequences of these price increases are apparent among the people seeking support from the Society, with a growing number of individuals and families being forced to ration energy, forego heating or cooling, and skip other essential household items. Such desperate measures risk compromising their health and wellbeing.

FIGURE 1: Energy contract prices compared: 2013 (carbon price period) and 2018 (no carbon tax).

Source: AEMO, ASX Energy (at March 29)

Accordingly, the Society rejects the Government's reasoning that "as the carbon tax was repealed from 1 July 2014, there is no longer a need to provide this compensation."[16] This is clearly not an honest or accurate representation of current energy market settings and trends in energy prices.

For households who currently receive the Energy Supplement, rising energy costs have had a particularly severe impact. Low-income households spend more of their weekly income on energy than other households, even though they tend to consume less overall. On average, households in the lowest 20 per cent of income distribution spend close to 6 per cent of their weekly income on energy, compared to around 1% of income spent on energy by the top 20 per cent of income earners. Moreover, households that rely on government pensions and allowances as their main income source have the highest risk of utility stress.[17] The Government's statement that the payment is "no longer necessary" is at odds with clear evidence that low-income households are already struggling to meet rising energy costs.

Equity implications

As discussed above, the proposal to scrap the Energy Supplement is part of a raft of cuts to the social safety net that reflect a fundamentally unfair and inequitable approach to "Budget repair". The Government's inconsistent treatment of carbon price compensation is a further illustration of this inequitable and unfair approach.

The Energy Supplement was part of a package of measures that were introduced to compensate households for the introduction of the carbon tax. In addition to the Supplement for people on income support, a series of tax cuts for income earners were introduced, including an increase in the marginal tax rate from 30 to 32.5 per cent for people earning between $37,000 and $80,000.[18]

However, while this Bill targets income support recipients through the removal of the Energy Supplement, the personal income tax cuts that were introduced to offset the carbon tax for higher income earners remain untouched. In other words, the Government has chosen to remove compensation only from those on income support payments, while those on higher incomes retain the benefits of the carbon tax compensation.

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