The *Clean Energy Future* package, households on low incomes and the community services sector

A briefing on the Australian Government's climate change plan

ACOSS Paper 177

August 2011

CONTACT
Australian Council of Social Service
Locked Bag 4777, Strawberry Hills, NSW, 2012
T (02) 9310 6200 E info@acoss.org.au
www.acoss.org.au

This paper was prepared by ACOSS Senior Policy Officers Peter Davidson and Tony Westmore in consultation with the ACOSS Employment and Social Security policy advisers and ACOSS Energy and Climate Equity policy advisers. ACOSS retains responsibility for its content.

First published in 2011 by the
Australian Council of Social Service

Locked Bag 4777
Strawberry Hills, NSW, 2012 Australia
Ph 02 9310 6200 Fax 02 9310 4822
Email: info@acoss.org.au
Website: www.acoss.org.au

ISSN: 1326 7124
ISBN: 978 0 85871 019 1

Contents

Summary

Over the last few years ACOSS has advocated for the development and implementation of policies to address climate change. Our work in this area flows from an understanding that, people facing poverty and inequality will be affected first and worst by the impacts of climate change. They have the least capacity to cope, to adapt and to move. We have accepted the science of climate change in so far as it presents challenges to policy makers. Both climate change and responses to climate change will particularly affect people living on low incomes, and the community service sector. ACOSS wants to see policy responses that are effective in addressing climate change; in rising to the challenges of mitigation and adaptation. We have worked to ensure that policy responses are fair, that they do not further disadvantage people in vulnerable situations, and, where possible, that they improve opportunity.

Any strategy to substantially reduce carbon pollution will initially raise costs for industry and households, whether through higher prices, higher taxes or in other ways. The most cost effective approach, with the least harm to industry and households, is to put a price on carbon pollution. In doing so, it is essential that the Government provide adequate and timely assistance to households on low incomes who are particularly vulnerable to cost pressures. Low income households typically spend proportionately more on essential goods and services like energy and food that are relatively carbon intensive. Assistance should be provided through a combination of increases in social security payments, personal tax cuts and investments in energy efficiency measures. We welcome the design of the Government's package which includes each of these approaches. We do not consider that household assistance will weaken incentives to reduce energy use. On the contrary, if assistance is adequate and well-targeted, low and middle income households can improve their living standards if they use energy more efficiently – a win for households and for the environment.

Community service organisations will also be affected by climate change and policy responses such as a carbon price, as they have limited capacity to pass through cost increases and little capacity to invest in energy efficiency improvements. The services provided by these organisations are of critical importance to low income, disadvantaged and vulnerable individuals and families.

In making our assessment of the Government's *Clean Energy Future* package, these have been our primary considerations.

In this report ACOSS reviews those parts of the package which most directly affect people on low incomes and the community service sector. In particular, we assess the adequacy of household assistance proposed to offset higher prices flowing from the package, as forecast in modelling by The Treasury. Based on these data, the package introduces a price on carbon and begins our adjustment to a low carbon economy without adversely affecting people on low incomes.

The initial carbon price of $23 per tonne will have a modest impact on overall household living costs. The Treasury estimates that it will trigger an increase in the Consumer Price Index of 0.7% or $9.90 per week in average household living costs, of which about half is due to higher household energy bills.

We welcome the Government's commitment to meet at least 100% of the estimated increase in living costs for low income households. On Treasury estimates, the proposed household assistance (delivered through social security payment increases and tax cuts) is adequate to achieve this goal.

The increases in social security payments and tax cuts are also fair in the sense that they are mainly directed to households on lower incomes, who will be disproportionately affected by the carbon price and have the least ability to improve energy use-efficiency. However, it is inequitable that the package does not offer the same level of assistance to unemployed people, sole parents and students on income support as to age pensioners in comparable circumstances, as it would for seniors who are outside the social security system. This inequity stems from the current underlying inequities in the current social security payment system, and should be addressed as a matter of urgency, either through the climate change package, by implementing increases in Allowance payments as recommended by the Henry Review, or by extending the Utilities Allowance to those social security recipients who are presently ineligible.

Further, to protect the future living standards of people on low incomes, the Government should commit to further increases in social security payments above inflation if these are needed to fully offset the effects of increases in the carbon price.

The proposed tax cuts are progressive and welcome. They would deliver a higher increase in disposable incomes, relatively, for people on low incomes than for high income earners. This is appropriate given that the carbon price disproportionately increases prices for those on low incomes. The tax cuts would also improve the financial work incentives for unemployed people and carers returning to low paid employment and simplify income tax arrangements for the more than one million individuals who would no longer need to file a tax return.

ACOSS is concerned that the package does not explicitly recognise or address the likely impacts of a carbon price on the capacity of community sector organisations to deliver essential services. Many providers of community services, for example those providing residential care services, will likely experience cost increases similar to those faced by households; 0.7% of non-wage costs (although CPI is of course a consideration in wage indexation). Many welfare service providers spend disproportionately on essential goods and services likely to be impacted by a carbon price, notably energy and food. Indexation of grant income and contract fees is inconsistent as between the Commonwealth and the states and territories and, generally speaking, historically and cumulatively inadequate. For already stretched providers, the cost increases may lead to a reduction in the quantum or quality of services. Few services are provided on a fee-for-service basis. The scope to pass through costs increases is negligible.

We welcome the proposals for investments in energy efficiency while noting that they represent the beginnings of a much larger, long term project.

Three key questions about proposed household assistance

1. Is it adequate?

On the basis of published material, the Government has met its commitment that low income households will be eligible for assistance that at least offsets their expected average cost impact. Further, on implementation of the package in 2012 there is a reasonable buffer or margin of 'over-compensation' to take account of those low income households facing above-average price increases. The Low Income Supplement and Essential Medical Equipment Payment provide an additional safety net.

2. Is it fair?

It is fair that the package provides more assistance for people on low incomes given their exposure to price increases. However it is not fair that unemployed people, sole parents and students (in contrast to seniors outside the pension system) will not receive the same level of assistance as pensioners in comparable situations.

The Government estimates the expected average cost of living impact of a carbon price for an individual senior with no private income at $204 per annum, offset by payment increases of $338 per annum (a buffer of $134). However, it estimates the expected average cost of living impact of a carbon price for an unemployed adult at $117 per annum, offset by payment increases of $218 per annum (a buffer of $101
Similarly, although the estimated price increases faced by an unemployed sole parent with two children ($322 per annum) is almost the same as that for an unemployed couple with two children ($331), the payment increase for the sole parent is only $482 compared with $577 for the couple. These anomalies in household assistance for low income groups facing similar costs derive from current inequities in the social security system. For example, Newstart Allowance for unemployed singles without children is currently $128 per week less than the pension for a person in a comparable situation.

ACOSS proposed that instead of increasing income support payments for adults by the same percentage, recipients of the lower 'allowance' payments should receive the same maximum levels of household assistance, in dollar terms, as those paid to pensioners in similar circumstances. In that case, Newstart Allowees would receive up to $7 and $10 per week (for singles and couples respectively) instead of the $4 for singles, $5 for sole parents, and $8 for couples proposed in the package. This could be done at modest cost. There is a precedent for this approach, in this package, in the proposed assistance for Commonwealth seniors card holders (retired people not on pensions), who will receive the same level of assistance as pensioners although they are not eligible for a pension.

This inequity should be addressed as a matter of urgency, either in the carbon package itself, by implementing the $50 per week increase in Allowance payments recommended by the Henry Review, or by extending the $10 per week Utilities Allowance to those social security recipients who are presently ineligible.

3. Is it accessible, timely and sustained?

The fact that households do not need to apply for assistance because it is built into the existing social security and tax systems and will be paid automatically is a positive and important feature of the package. The first payments for social security recipients will be made in advance of price increases which start from July 2012. A Clean Energy Supplement will then be paid as a part of regular social security and family payments. The supplements are ongoing and indexed for inflation. Tax cuts will commence in July 2012 and July 2015.

The Government has committed to reviewing the adequacy of household assistance in each of the first three years of the scheme and making a thorough assessment of impacts and response ahead of the transition to a market price. The Government should commit to increasing the Clean Energy Supplement above inflation (in addition to the proposed second round of tax cuts) if this is needed to fully offset increases in costs for low income households.

Overview of package

Highlights

The Government released its climate change plan, the *Clean Energy Future* package on 10 July (details of the package are available at cleanenergyfuture.gov.au). The package includes a mechanism to price carbon pollution, complementary emissions reduction measures, assistance for industry and households, investments in renewable energy and clean technologies. The Government intends that legislation required to effect the package will be introduced to Parliament in September of 2011 and that the key components will be operational from July 2012.

Working alone and in partnership over recent years, notably with the Australian Council of Trade Unions (ACTU), the Australian Conservation Foundation (ACF) and The Climate Institute as the Southern Cross Climate Coalition (SCCC), ACOSS has advocated for the development and implementation of effective and equitable policies to address climate change. In November 2010 the SCCC outlined four foundations to drive a fair and inclusive transition to a low pollution economy. In April 2011 ACOSS published a detailed policy platform for a low pollution economy. And in August of 2011 we released a high level assessment of the package in light of our preferred positions.[1]

For the purpose of this paper we have included below a summary of the measures detailed in the package which is designed to reduce carbon pollution.

Target: The package aims to achieve the current bi-partisan target of a 5% reduction in Australian emissions from 2000 levels by 2020. The package announced a new and higher target, to be legislated, of an 80% reduction in Australian emissions from 2000 levels by 2050.

Carbon price: A price on carbon pollution will be introduced from July 2012. The carbon price will cover about two-thirds of Australia's emissions, produced by about 500 companies. These companies will be liable for their pollution and may pass this cost through to customers in the form of increased prices that may affect end-use consumers. The carbon price, initially $23 per tonne, will be 'fixed' for the first three years (but increasing by 2.5% in real terms in 2013 and 2014) and then move to a 'market' arrangement from 2015. It is anticipated that the market price in July 2015 will be in the order of $29 per tonne.

Climate Change Authority: A new and independent body will be established to monitor carbon pollution, the effectiveness of the price and other measures and to advise the Government.

Assistance for industry: A Jobs and Competitiveness program will provide assistance to industries such as cement, steel and aluminium processing that are both emissions intensive and exposed to international competition. This assistance is designed to protect capacity and jobs in these industries while encouraging transition to cleaner processes by reducing over time.

Investments in renewable energy and clean technologies: The package proposes the establishment of a Clean Energy Finance Corporation with $10 billion for loans, loan guarantees and equity investments in clean energy projects including renewable energy generation and improved energy efficiency.

---

1 Details on the SCCC four foundations, detailed policy platform and review of *Clean Energy Future* can be viewed online at http://www.climateinstitute.org.au/images/reports/sccc_foundations.pdf and http://www.climateinstitute.org.au/images/sccc_pp.pdf and http://www.climateinstitute.org.au/our-publications/reports/870-building-the-foundations-for-a-low-pollution-clean-energy-economy

Energy efficiency: The *Clean Energy Future* package includes measures that build on previous and current work to improve energy efficiency in low income households and the community welfare sector. The package provides for an extension of the Low Carbon Communities program ($330 million over four years), a household advice line and website, a Remote Indigenous Energy Program ($40 million over five years), and a household energy survey. The package provides for 'further work on a national Energy Savings Initiative' including detailed policy analysis, modelling and consultation with the community, state and territory governments and industry.

Modelled impact on households

In considering the need to provide assistance for households in response to the carbon price, the Government has relied on modelling by The Treasury of impacts on the cost of living. At the proposed starting price of $23 per tonne, the modelled impact is a 0.7% average expected increase in the cost of living (CPI) for households, or about $9.90 per week for an 'average' household. This increase is comprised of $3.30 for electricity, $1.50 for gas, $0.80 for food and $4.40 for 'other'. Of course, the way in which these 'average' increases will impact any particular household will depend on the characteristics of that household: including for example, how many people are in the household; whether or not they work; the kind and quality of the housing stock; where the house is located, and what kind of energy is used.

Assistance for households

The Government made several commitments to households including that:

- low income households (as defined above) will be eligible for assistance that at least offsets their average expected cost impact;
- assistance will be permanent;
- households with individuals with a concession card who have a medical condition resulting in high electricity costs will be eligible for additional cash assistance; and
- at least half the revenue from sale of permits will be distributed to households.

The proposed carbon price will apply from July 2012. The Government proposes that household cash assistance will be delivered through the existing social security and personal taxation systems.

In May or June 2012 there will be an up-front cash payment to social security and family payment recipients and veterans to cover the first 9 to 12 months of expected price increases (the 'Clean Energy Advance') and beyond that, an ongoing social security supplement (the 'Clean Energy Supplement') will be paid.[2] This supplement will be separately identified, although it will be included in regular social security payments. It will be indexed to the CPI in the same manner as the social security payment the person receives (e.g. Newstart Allowance). In addition to these social security increases, the first round of proposed tax cuts will be effective from July 2012.

A Low Income Supplement of $300 per year will be available from July 2012 to low income households who can demonstrate that their household assistance does not offset the average price increase they face as a result of the carbon package (for example, self employed people outside the social security system). Further, an Essential Medical Equipment Payment will be provided to those whose medical conditions result in unavoidably high electricity costs. Commonwealth Seniors Health Card holders will be eligible for the same assistance as age pensioners.

[2] With student payments there will be two up-front payments covering the first 18 months because those payments are indexed less frequently.

Table 1: Estimated levels of household assistance attached to each payment received through the social security system

Payment type	Household assistance	Amounts to be paid (lump sums or $ per week)
Age, Disability and Carer Pensions	Advance payment (for 9 months) in May or June 2012. From March 2013, regular fortnightly supplement equal to 1.7% of maximum pension rates (including to part-rate recipients)	Up to $250 for singles and $380 for couples (combined) Up to $7pw for singles and $10pw for couples (combined)
Veterans Affairs Service Pension payments	Advance payment (for 9 months) in May-June 2012. From March 2013, regular fortnightly supplement equal to 1.7% of maximum pension (including to part-rate recipients)	Up to $250 for singles and $380 for couples (combined) Up to $7pw for singles and $10pw for couples (combined)
Seniors Health Card (non-pensioners with income below $50,000 for singles or $80,000 for couples)	Advance payment (for 9 months) in May-June 2012. From March 2013, regular fortnightly supplement equal to 1.7% of maximum pension rates and an increase in the Senior Australians Tax Offset 'free area'	Up to $250 for singles and $380 for couples (combined) Up to $7pw for singles and $10 for couples (combined) $3pw for singles
Parenting Payment Single	Advance payment (for 9 months) in May-June 2012. From March 2013, regular fortnightly supplements equal to 1.7% of maximum payment rate (including to part-rate recipients)	Up to $220 Up to $6pw Note: Will also receive family tax benefit assistance (see below)
Newstart Allowance	Advance payment (for 9 months) in May-June 2012. From March 2013, regular fortnightly supplements equal to 1.7% of maximum payment rate (including to part-rate recipients) Note: family payments are also increased	Up to $170 for singles, $180 for sole parents, and $300 for couples (combined) $4pw for singles, $5pw for sole parents, and $8pw for couples (combined) Note: May also receive family tax benefit assistance if have dependent children (see below)
Youth Allowance, Austudy Payment and Abstudy	Advance payment (for 12 months) in May-June 2012 and a 6-month payment mid 2013.	Up to $180 for singles and $380 for couples (combined) in 2012; Up to $90 for singles and $190 for couples

	From January 2014, regular fortnightly supplements equal to 1.7% of maximum payment rate (including to part-rate recipients though standard income test applies)	(combined) in 2013* Up to $3pw for singles (away from home) and $7pw for couples (combined)*
Family Tax Benefit	Advance payment (for 12 months) in May-June 2012. From July 2013, regular fortnightly supplements equal to 1.7% of maximum payment rate (including to part-rate recipients in low-middle income families though standard income test applies)	Family Tax Benefit Part A: Up to $90pw per child under 13, $110pw per child 13-17** Family Tax Benefit Part B: Up to $70 per family Family Tax Benefit Part A: Up to $2pw per child under 13, $2pw per child 13-14** Family Tax Benefit Part B: Up to $1pw per family
Low Income Supplement	From July 2012, low-income households that do not receive sufficient assistance to offset average costs through Government payments or tax cuts can claim this payment.	$300 per year
Single Income Family Supplement	From July 2012, single income families with a primary earner on $68,000 to $150,000 will be eligible for this payment (intended to	Up to $300 per year
Essential Medical Equipment Payment	People holding a Commonwealth concession card who have high home energy costs because of a medical condition (e.g. they rely on essential medical equipment) will be able to claim this in addition to other assistance.	$140 per year
Public housing tenants	Assistance is intended to be excluded in state government public housing rent setting calculations so that public housing residents get the full benefit of assistance.	
Aged care residents	About half of the cash assistance provided to age pensioners in care will be paid to the provider to meet increased costs, and the other half paid to the pensioner	
Income tax changes	Effective July 2012 Increase in tax free threshold from $6,000 to $18,201 (increasing the *effective* threshold from $16,000 to $20,542) Reduction in Low Income Tax Offset (LITO) from $1,500 to $445 Increases in some marginal tax rates (15% to 19% and 30% to 32.5% Further tax cuts in 2015-16	Tax cuts of at least $6pw for taxpayers with taxable income below $68,000 Further tax cuts of at least $1pw for taxpayers with taxable income below $68,000

Source: Australian Government 2011, Clean energy future – supporting Australian households at http://www.cleanenergyfuture.gov.au/clean-energy-future/securing-a-clean-energy-future/#content05 and ACOSS calculations.
Note: Amounts to be paid are estimates only, since the supplements are based on a 1.7% increase in existing social security and family payments and we don't know yet what the levels of those payments will be in 2012. Not all levels of social security payments are covered by this table, only the most common payment rates. Advance payments usually cover the

first 9-12 months of the carbon price from July 2012 so the fortnightly supplements commence after this. Advance payments are rounded to the nearest $10. Supplement amounts and tax cuts are rounded to nearest $1. Tax cuts are described in more detail elsewhere in this report.
* For young people living away from home and independently of their parents, those on lower rates of Youth Allowance will receive lower amounts of assistance (1.7% of the rate of payment).
** Payments will extend to children over 15 years who are fulltime students and whose parents are eligible for FTB. The increase would be less for higher-income families only entitled to the 'minimum rate' of FTB Part A

The proposed changes to the income tax scales and tax offsets are outlined in Table 2.

Table 2: Proposed changes to income tax scales and tax offsets

Statutory rates and thresholds	Current		2012-13		2015-16	
	Threshold ($)	Marginal rate	Threshold ($)	Marginal rate	Threshold ($)	Marginal rate
1st rate	6,001	15%	**18,201**	**19%**	**19,401**	**19%**
2nd rate	37,001	30%	37,001	**32.5%**	37,001	**33%**
3rd rate	80,001	37%	80,001	37%	80,001	37%
4th rate	180,001	45%	180,001	45%	180,001	45%
Effective tax-free threshold	16,000		20,542		20,979	
LITO	1500	4% withdrawal rate from $30,000	445	1.5% withdrawal rate from $37,000	300	1% withdrawal rate from $37,000

Note: The point where LITO begins to phase-out will move from $30,000 to $37,000.

Source: Australian Government (2011), a clean energy future: p42.

The main changes in 2012-13 are:

- an increase in the tax free threshold from $6,000 to $18,201;
- a reduction in the Low Income Tax Offset (LITO) from $1,500 to $445, offsetting part of the increase in the tax free threshold;
- increases in the 15% and 30% tax rates (to 19% and 32.5% respectively) to quarantine the benefits of the rise in the tax free threshold to low and middle income-earners.

Assessment of proposed assistance for households

What financial assistance should do

Action to reduce our reliance on polluting industries need not come at the expense of the living standards of people on low incomes. The keys to protecting their living standards are an adequate system of cash assistance and practical help to minimise consumption of energy, for example to buy more efficient heaters. Cash assistance is vital because around half of the price increases facing households are not directly related to household energy (for example, increases in the cost of food) and it would not be possible to compensate for these price increases in other ways (such as help with energy bills). If the cash assistance covers the extra costs arising from the carbon package, then people on low incomes have an opportunity to come out better off by changing their energy use – a 'win' for the environment and a 'win' for people on low incomes. At the same time it protects those who are not in a position to do this.

While we support assistance for middle income earners to adjust to higher prices arising from the carbon package, ACOSS is mainly concerned about the living standards of those on low household incomes: broadly speaking households in the bottom 40% of the income ladder. These households include age, disability and carer pensioners, sole parents on Parenting Payment, unemployed people on Newstart and Youth Allowance, people on student payments, and low wage earning households with and without children.

Table 3: Income distribution in Australia (2007-08)

Income level	Average gross household income ($ per week)*	% mainly reliant on Government income support	% renting
Highest 20%	$3922	0%	23%
4th 20%	$1947	1%	29%
3rd 20%	$1287	2%	28%
2nd 20%	$759	24%	31%
Lowest 20%	$332	73%	37%

Australian Bureau of Statistics (2009), *Household Income and Income Distribution 2007-08.*
* Includes wages, investment income and social security and family payments (before tax).

For the purpose of the household assistance package, the Government has defined a 'low income household' as: singles without children whose gross household income is less than $30,000, couples without children on less than $45,000, sole parents on less than $60,000 and couples with children on less than $60,000 (Australian Government 2011, *Clean energy future*, p40).

To protect the living standards of people on low incomes, household assistance must be:

- *Adequate*
  It should more than cover the average increase in living costs faced by each group of low income households (for example, single pensions, single unemployed people and low incomes couples with two children). That is, there should be a 'buffer' between the average price impact for each low income group and their level of household assistance. It is necessary to 'over-compensate' to ensure that people are no worse off because the extra costs will vary from household to household – not everyone is 'average'. In this way, variations in household energy use (for example, due to where people live or the size of their

family) can be taken into account without undermining incentives to reduce energy consumption.

- *Fair*
  This means that the highest priority should go to those on the lowest incomes who would otherwise struggle to meet the extra costs or lower their standard of living. It also means that the 'buffer' between average price increases and household assistance should be reasonably consistent across each low income group. This means that each group has a similar margin for comfort that they will be no worse off financially.

- *Accessible*
  As far as possible, household assistance should be built into the social security and tax systems so that there is no need for people to claim it – it can be paid automatically. People should be aware of the increased payments, particularly any paid as lump sums, so that they can set them aside, if need be, to meet extra costs such as power bills.

- *Timely*
  Household assistance should be paid in time to assist people to meet the extra costs arising from the package, preferably in advance of the initial price increases and then in regular instalments to cover the ongoing extra costs.

- *Sustained*
  Since the higher costs are ongoing, household assistance should continue to be built into the social security and tax systems. Social security supplements should be indexed for inflation and they should increase above inflation in the event of a substantial rise in the carbon price in future.

Is the proposed assistance adequate?

The best way to judge this is the size of 'buffer' between average price increases and household assistance for each low income group. Ideally, household assistance should be well above the average price increases expected for each group to take account of the fact that many households in each group will face above average price increases. For example, a household living in a very hot or cold area is likely to have unavoidably high household energy costs.

The initial impact of the carbon price on the average household is estimated in the Treasury's modelling to be modest – an average increase in prices of 0.7%.[3] The average price increase for Australian households is estimated to be $9.90 per week in 2012-13, of which roughly half is due to increased electricity and gas bills. The modest impact of the carbon price means that the 'buffer' does not have to be large in dollar terms to protect households from a loss of living standards. The table below shows that the average price increases vary between different groups due to their different spending patterns. The largest average price increase is for sole parents in the bottom 20% of household incomes (1.1% compared with the overall average of 0.7%).

[3] The modelling assumes that price increases for producers are fully passed through to consumers and does not take account of any change in the spending patterns of consumers. It may therefore overstate the average price increases faced by households.

Table 4: Estimated price increases faced by different household groups in 2012-13

	Household income quintile (a)					
Household type and primary source of income	All	First quintile	Second quintile	Third quintile	Fourth quintile	Fifth quintile
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
All	0.7	0.9	0.9	0.7	0.7	0.7
Two income household, no children (b)	0.7	**	1.0	0.8	0.7	0.7
Two income household, with children (b)	0.7	**	0.8	0.8	0.7	0.7
One income household, no children (b)	0.7	**	0.8	0.7	0.7	0.6
One income household, with children (b)	0.7	**	0.8	0.8	0.7	0.7
One income single person household	0.7	**	0.9	0.7	0.7	0.7
Self-employed household	0.8	0.9	0.8	0.8	0.7	0.7
Household with primary income source from Commonwealth allowances (e.g. Newstart Allowance, Youth Allowance)	0.9	0.8	0.9	**	**	**
Married pensioner household	0.9	1.0	0.8	**	**	**
Single pensioner household	1.0	1.0	1.0	**	**	**
Sole parent pensioner household	1.0	1.1	1.0	**	**	**
Part-pension and self-funded retiree households	0.7	0.8	0.9	0.7	0.7	0.7

** indicates the sample size was too small to produce statistically reliable results.
Notes: These estimates assume that the carbon price costs are immediately passed through to consumers; that firms do not change their production processes; and that households do not change their consumption behaviour in response to the scheme. To the extent that households reduce their consumption of goods whose relative prices have risen, and increase their consumption of goods whose relative prices have decreased, the real impact on households would be expected to be lower.
(a) Income quintiles rank households from the lowest 20 per cent of disposable income to the highest 20 per cent. Modified OECD equivalence scales are applied to household disposable incomes to allow for comparisons across households of different sizes and compositions.
(b) Principal source of income is wages and salaries.
Source: Treasury estimates based on PRISMOD.

Source: Treasury (2011), *Strong growth low pollution, modeling a carbon price*, p126.

The table below compares Treasury estimates of the average price increases and household assistance levels for key groups of low income households. We focus on those on the lowest incomes – households whose private incomes are below $40,000. Those with zero private income would generally be eligible for income support and those with private incomes between zero and $40,000 would in many cases be eligible for full or part-rate income support payments or Family Tax Benefits if they have dependent children.

Table 5: Price increases, household assistance and 'buffer' for low income households in 2012-13 ($ per year)

	single (senior)	couple (senior) 70:30 split	single, no chn	couple, no chn 50:50 split	single parent, 2chn	couple 2 chn 70:30 split
zero private income						
price increase	204	284	117	212	322	331
assistance	338	510	218	390	482	577
buffer	134	226	101	178	160	246
(% of income)	0.7%	0.8%	0.8%	0.8%	0.5%	0.7%
private income $20,000						
price increase	275	355	191	329	386	393
assistance	338	510	845	390	1030	890
buffer	63	155	654	61	644	497
(% of income)	0.2%	0.4%	3.1%	0.2%	1.7%	1.1%
private income $40,000						
price increase	298	398	270	377	450	434
assistance	840	1259	303	1755	551	935
buffer	542	861	33	1378	101	501
(% of income)	1.4%	1.7%	0.1%	3.4%	0.2%	1.0%

Source: Australian Government (2011), *Clean energy future: supporting Australian households* and ACOSS calculations
Note: 'buffer' refers to Government assistance minus the average price increase for each group.

In all cases shown in the table the Treasury modelling estimates that these household groups would be significantly better off, on average. Those whose 'buffers' (or margins for error) are greatest include seniors with no private income (pensioners on the maximum rate) and low-income couples with two children (where income is split 70:30 between partners). Those whose buffers are smallest either have relatively high incomes for their household type and are not classed as 'low income' by the Government's definition (for example single seniors with $20,000 in private income and singles without children on $40,000 private income), or they are from a group that would be small in number (dual income couples with private income of $20,000). Other low income household groups modelled in the Government's *Clean Energy Future* package are also estimated to receive more in Government assistance than the average price increases they face.[4]

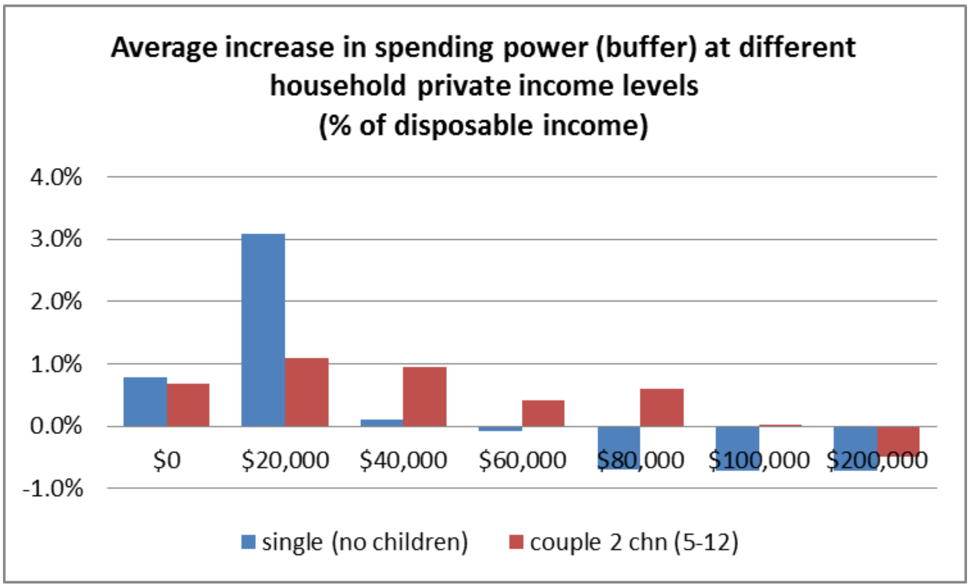
On these figures, the Government will meet its commitment that low income households will receive assistance that at least offsets their average expected cost impact. On implementation of the package in mid-2012 there is a reasonable margin of 'over-compensation' to take account of those low income households facing above-average price increases. The Low Income Supplement and Essential Medical Equipment Payment provide an additional safety net for those low income households facing above average price increases.

[4] Australian Government (2011), *Clean energy future: supporting Australian households*.

Is the proposed assistance fair?

The proposed household assistance is targeted broadly towards households on low incomes. This is important as the carbon price will have greater impact, relatively, on those households and they have the least capacity to adjust to the higher costs. The graph below illustrates the effect of this targeting of household assistance on the size of the 'buffer' for households on different income levels – in this case single person households of working age and couples with two children aged 5-12 years (with a 70:30 income split between partners).

Graph 1



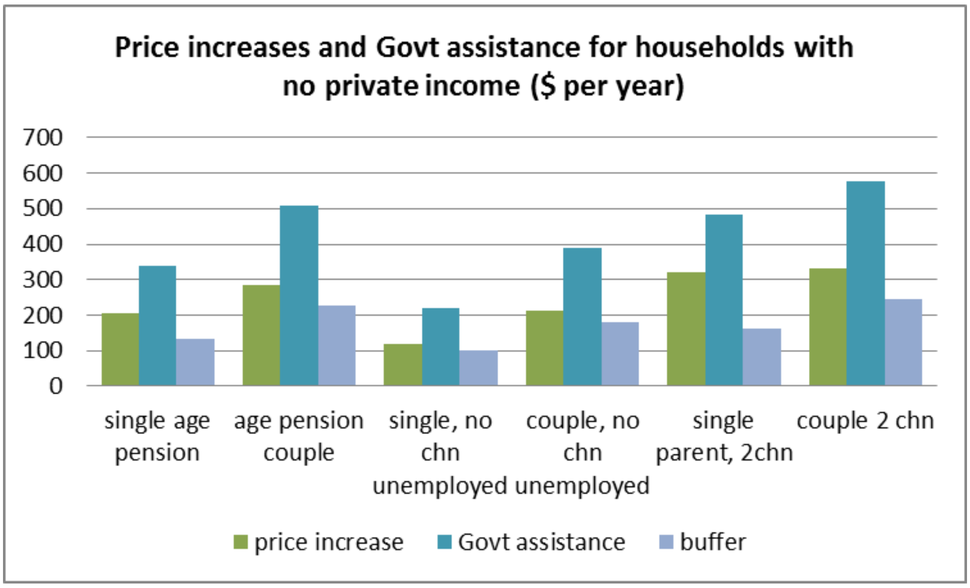
Source: Australian Government (2011), *Clean energy future: supporting Australian households* and ACOSS calculations
Note: 'Buffer' refers to Government assistance minus the average price increase for each group and is calculated in proportion to disposable incomes. A negative buffer indicates that price increases exceed household assistance. The household types are single person households of working age and couples with two children aged 5-12 years (with a 70:30 income split between partners).

The graph shows that in these cases the 'buffer' is highest (in proportion to household disposable income) among low income households and that high income households receive less assistance than their average price increases (the 'buffer' is a negative amount). The buffer does not decline evenly as household income rises (for example for a single person household it is higher at a private income of $20,000 than at a private income of zero). This is due to the fact the existing social security and tax systems are used to deliver household assistance. In some cases assistance through the social security system overlaps with that provided through the tax system, resulting in much higher levels of assistance overall.

This targeting of household assistance is a necessary compromise. It would not be possible to ensure that all households come out ahead in the short term without substantially eroding future Federal Budgets and/or by not providing assistance to industry for transition or to households for efficiency improvement. Given the need to carefully target household assistance, the emphasis on low income households is fair.

Another important aspect of fairness is to ensure that, as far as possible, the impact of the overall package (price increases and household assistance) on different kinds of low income households is consistent. ACOSS is particularly concerned about equity in the treatment of households that are fully reliant on income support, as many already struggle to afford basic living costs. The graph below compares average price increases, assistance and the buffer, for these households.

Graph 2



Source: Australian Government (2011), *Clean energy future: supporting Australian households* and ACOSS calculations
Note: 'Buffer' refers to Government assistance minus the average price increase for each group and is calculated in proportion to disposable incomes. The single parent household has 2 children 8-17 years and the couple with children has 2 children 5-12 years.

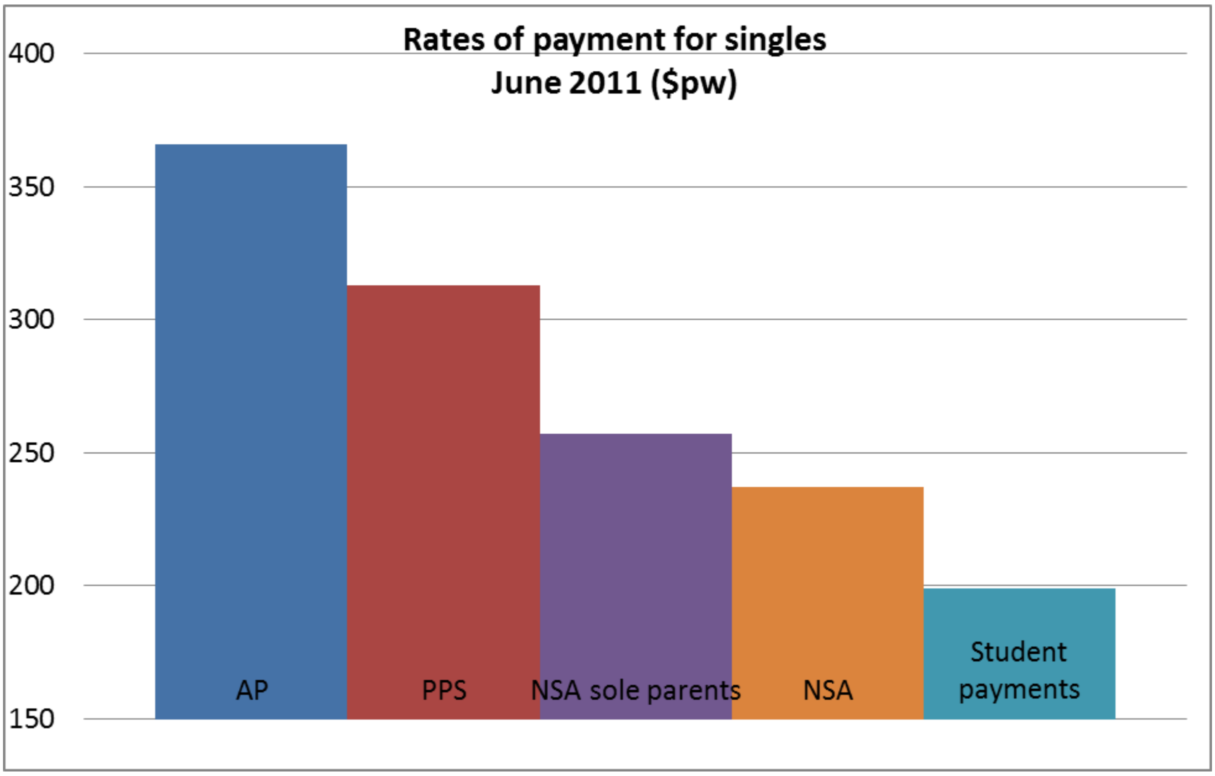
In all cases here there is a significant buffer, but it varies substantially between different household types. In particular:

- the buffers for unemployed households without children ($101 per year for singles and $178 for couples) are much less than those for age pensioners in comparable situations ($134 and $226 respectively);
- the buffer for a single parent with two children ($160) is much less than for couples with and without two children ($178 and $246 respectively).

This reflects the decision to increase existing social security payments by 1.7% across the board. It means that the level of household assistance is tied to the various levels of payments in that system. The problem with this approach is that the difference between levels of payment is not reflective of household expenses or needs. They are not an appropriate basis on which to award household assistance for price increases resulting from the climate package.

The main problem is the arbitrary gap between the current base rates of payment for pensions on the one hand and allowance payments for unemployed people and sole parents on the other. In June 2011, Newstart Allowance for a single adult was $128 per week less than the pension, Newstart Allowance for a sole parent was $108 less than the pension, and Youth Allowance for a person living independently of their parents was $166 per week less than the pension (graph 3).

Graph 3



Note: AP is Age Pension, PPS is Parenting Payment Single (mainly for sole parents with children less than 8 years old), NSA sole parents is Newstart Allowance for sole parents (those with children over 7 years), NSA is Newstart Allowance, and student payments refers to Youth Allowance and the Austudy and Abstudy Payments.

These gaps between payment levels are the result of historical inequities rather than objective assessment of relative needs. When pension payments were raised by $32 per week above indexation in 2009, the needs of those on the lower 'Allowance' payments and sole parents on Parenting Payment. Further, pension payments are indexed to movements in wages but allowance payments are only indexed to the CPI, so the gap widens every year.

Although the Treasury modelling suggests that average price impacts are lower for unemployed people than age pensioners, to the extent that this is true it would reflect the severe constraints on spending that unemployed people face when living on a payment of $238 per week. For example, a more adequate level of income support could make the difference between being able to afford to heat a home every night in winter and only doing so on the coldest nights. Research on deprivation in Australia found that 28% of households on Newstart Allowance (compared with 13% of all households) reported an inability to pay at least one utility bill in the last 12 months.[5]

Sole parents on income support also face severe budgetary constraints. The same research found that 57% reported an inability to pay a utility bill in the last year. Graph 2 showed that the buffer for a sole parent with no private income with two children was well below that for a couple without children and a couple with two children. Although the estimated price increases faced by an unemployed sole parent with two children ($322 per annum) is almost the same as that for an unemployed couple with two children ($331), the payment increase for the sole parent is only $482 compared with $577 for the couple. This also reflects historical inequities between social security payment levels. Those sole parents on Parenting Payment Single missed out on the $32 per week

5 ACOSS 2008, Missing out - hardship among low income Australians.

increase in other pensions for single people in 2009, and many were placed on the lower Newstart Allowance (instead of Parenting Payment Single) after the ‘Welfare to Work’ policy was introduced in 2006.

ACOSS proposes that, instead of increasing income support payments for adults by the same percentage, recipients of the lower ‘allowance’ payments should receive the same maximum levels of household assistance in dollar terms, as those paid to single and married pensioners respectively. In that case, Newstart Allowees would receive up to $7 and $10 per week (for singles and couples respectively) instead of the $4 for singles $5 for sole parents, and $8 for couples proposed in the package. This could be done at modest cost. There is a precedent for this approach in the proposed household assistance for Commonwealth seniors card holders (retired people not on pensions), who will receive the same level of assistance as pensioners although they are not eligible for a pension.

This inequity should be addressed as a matter of urgency, either in the carbon package itself, by implementing the $50 per week increase in Allowance payments recommended in the Henry Review, or by extending the $10 per week Utilities Allowance to those social security recipients who are currently ineligible.

In conclusion, it is fair that the package provides the greatest assistance for those on low incomes but it is not fair that unemployed people, sole parents and students do not receive the same level of assistance as pensioners in comparable situations.

Is the proposed assistance accessible, timely and sustained?

ACOSS welcomes the decision of the Government to deliver household assistance through the existing social security and personal taxation systems. This will enable assistance to be paid automatically to those who are eligible for social security payments, and through lower fortnightly income tax deductions from wages for those low and middle income earners. Household assistance schemes that require individuals to apply for support often have low take-up rates. It is also more cost effective for Government to use existing systems to deliver payments to households (administration and transaction costs are minimised).

Another positive feature of the household assistance package is its timeliness. Social security recipients will receive lump sum advance payments to cover the first 9 to 18 months of estimated price increases. This will assist people to budget for the extra costs. After this, the proposed Clean Energy Supplement is to be paid fortnightly or quarterly as part of regular social security payments. People will have the option to receive the Supplement on a quarterly basis to help with energy bills. Wage earners entitled to the tax cuts will receive an increase in their regular after-tax wages. To the extent that the higher tax free threshold replaces the Low Income Tax Offset (LITO), they will also receive additional after-tax wages instead of having to wait until the end of the tax year to receive the benefits of the LITO.

It is vital that the household assistance be sustained at adequate levels as the carbon price increases. The initial fixed carbon price for 2012-13 is $23 per tonne. This is projected to rise by 5% per year over the following two years, to $24.15 in 2013-14 and $25.40 in 2014-15. The Treasury estimates that at the transition to a market price in 2015-16, the market will price carbon at $29 per tonne.

As the carbon price increases, the value of the buffer between average price increases faced by low income groups and the Clean Energy Supplement must be maintained. The buffer is needed to take account of the higher than average price impact on lower income households generally (in proportion to their incomes), and the above average price increases faced by those groups of low income households (for example sole parent families) that unavoidably spend a high proportion of their budgets on essential goods and services including energy and food. For example, Treasury modelling estimates that a low income sole parent family will face an average price increase of 1.1% in 2012-13, well above the impact of the carbon price on inflation overall of 0.7% (see table 3). If these families only received the 'normal' increases in their social security payments based on the CPI, they would be worse off by 0.4% of their income in that year. To prevent outcomes such as this, social security payments are being increased in 2012-13 by 1.7%, which is 1% higher than the estimated average increase in prices for the community as a whole. The Government has committed to index the Clean Energy Supplements to the CPI to maintain their real value. That means the initial buffer (an average of 1% of each individual's social security payment) will be maintained. However, it would not be scaled up automatically to reflect future increases in the carbon price.

The Government proposes two rounds of tax cuts to assist low and middle income taxpayers with the increases in prices arising from the package. It estimates that the tax cuts in 2012 will be sufficient to cover the impact of the fixed carbon price to 2014-15 and that the proposed second round in 2015-16 will be sufficient to cover the impact of expected carbon prices to 2020.

Should a further round of increases in social security payments be needed to maintain the effectiveness of the buffer for households on low incomes as the carbon price increases, this should be provided.

The Government has committed to publicly review the adequacy of household assistance at the end of 2012-13 and in each subsequent year of the fixed carbon price, and ahead of the commencement of market pricing in 2015:

> *"The Treasurer and the Minister for Families, Housing, and Community Services and Indigenous Affairs will review the adequacy of the household assistance package annually in the Budget context over the fixed price period. This review will examine the real value of the assistance provided in this package taking into account:*
> - *movements in prices for the household consumption baskets used to calculate the assistance*
> - *indexation arrangements for the assistance*
> - *any new information about the composition of goods and services that make up the average consumption basket."* [6]

Modelling of the impact of the package on households should be publicly released in a timely way so that community organisations and other experts are able to assess the adequacy of household assistance and recommend any necessary improvements.

The Government has asked State and Territory Governments not to increase social housing rents to reflect increases in income resulting from the Clean Energy Supplements. Since these payments are specifically designed to offset the costs arising from a carbon price, it would be inappropriate for them to be taken into account in adjusting social housing rents.

Those social security recipients subject to the Government's Income Management scheme would not receive the full Clean Energy Supplements in cash. Along with compulsory Income Management generally, this would make it harder for them to adjust to increases in the cost of living flowing from the price on carbon. ACOSS considers that assistance should be provided in cash to all low income

[6] Australian Government (2011), *Securing a clean energy future*.

households to enable maximum flexibility in the way in which those households adjust to the cost increases flowing from the carbon price.

Proposed changes to the personal income tax system: impacts on incomes and work incentives

The proposed changes to the income tax scales and tax offsets are outlined in table 6.

Table 6: Proposed changes to income tax scales and tax offsets

Statutory rates and thresholds	Current		2012-13		2015-16	
	Threshold ($)	Marginal rate	Threshold ($)	Marginal rate	Threshold ($)	Marginal rate
1st rate	6,001	15%	**18,201**	**19%**	**19,401**	**19%**
2nd rate	37,001	30%	37,001	**32.5%**	37,001	**33%**
3rd rate	80,001	37%	80,001	37%	80,001	37%
4th rate	180,001	45%	180,001	45%	180,001	45%
Effective tax-free threshold	16,000		20,542		20,979	
LITO	1500	4% withdrawal rate from $30,000	445	1.5% withdrawal rate from $37,000	300	1% withdrawal rate from $37,000

Note: The point where LITO begins to phase-out will move from $30,000 to $37,000.

Source: Australian Government (2011), a clean energy future: p42.

The main changes in 2012-13 are:

- an increase in the tax free threshold from $6,000 to $18,201;
- a reduction in the Low Income Tax Offset (LITO) from $1,500 to $445, offsetting part of the increase in the tax free threshold;
- increases in the 15% and 30% tax rates (to 19% and 32.5% respectively) to quarantine the benefits of the rise in the tax free threshold to low and middle income-earners.

The effects of these changes are to:

- raise the *effective* tax free threshold (taking account of the LITO) from $16,000 to $20,542;
- have no effect on tax paid by individuals on up to $16,000;
- reduce tax by around $600 per year for individuals on $20,000;
- reduce tax by around $300 per year for those whose incomes fall between $30,000 and $65,000;
- reduce tax by around $3 per year for those whose incomes are above $80,000.

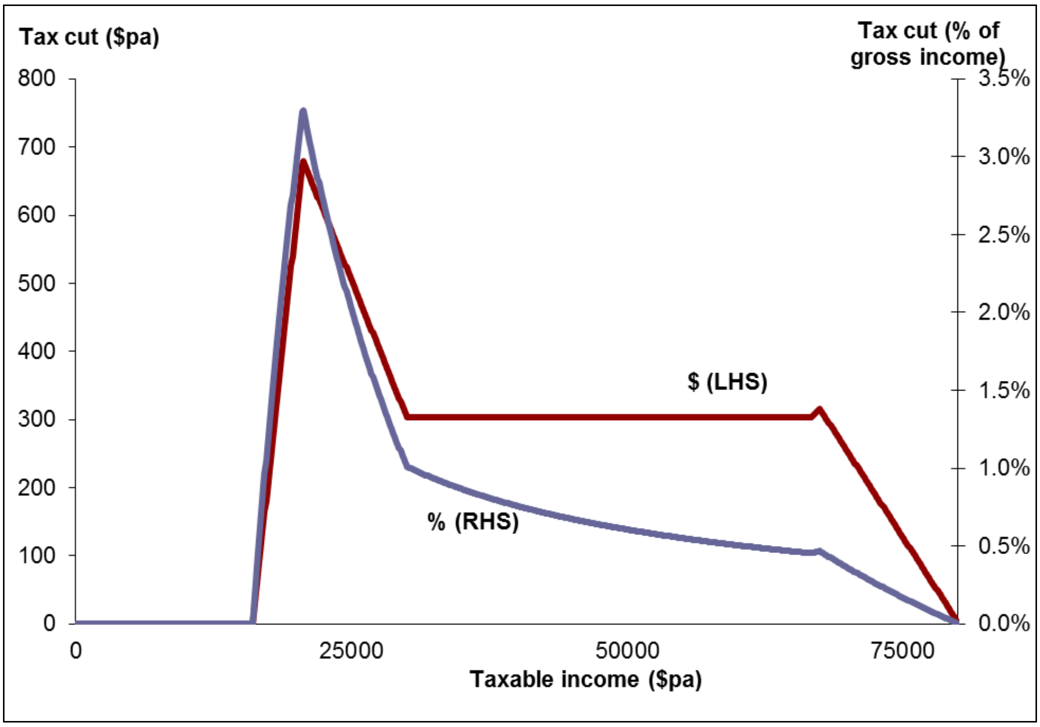
It is worth noting that due to the LITO the actual marginal tax rates currently paid by people on up to $70,000 are different to those in the published rate scale (see table 5):

- The LITO currently raises the tax free threshold for individuals on low incomes from $6,000 to $16,000 by offsetting any tax paid up that income level. That means that the increase in the *effective* tax free threshold from the carbon package is around $4,500 ($20,500 minus $16,000) rather than $12,000 ($18,000 minus $6,000).
- The current income test for the LITO imposes an extra 'hidden' 4% tax rate for earnings from around $30,000 to $70,000. That means their effective tax rates are reduced from 34% to 32.5% by the carbon package, not increased from 30% to 32.5% as suggested from the rates scale.

Normally an increase in the tax free threshold delivers an identical tax cut (in dollar terms) to all taxpayers regardless of income. However, to prevent high income earners from obtaining the same tax cut as those on lower incomes, the package also increases the bottom two tax rates. This does not result in an overall increase in tax for low and middle income earners because the increase in tax rates is more than offset by the increase in the tax free threshold.

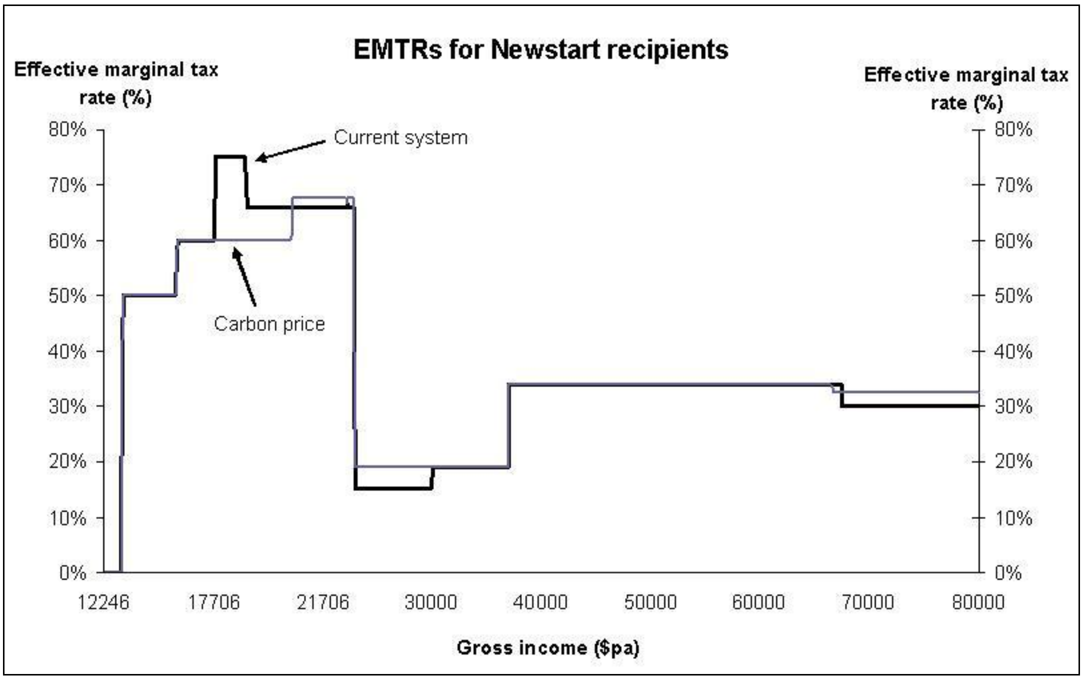
As a result of these features, the tax cuts are highly 'progressive' and welcome (apart from the fact that the bottom third of adults do not pay income tax because their incomes are too low). That is, they deliver a higher increase in disposable income to low income earners (in proportion to their incomes) than to high income earners. As we argued above, this is appropriate for the household assistance package because low income households face higher price increases, in proportion to their incomes, than those on higher incomes.

Graph 4: Proposed tax cuts in 2012-13 in dollars per year and as a % of gross income



The proposed income tax changes also improve work incentives for individuals on low incomes (for example unemployed people on Newstart Allowance and parents undertaking part time employment). This is also mainly due to the higher tax free threshold. Individuals who move from unemployment on Newstart Allowance to a part time job (and whose gross earnings plus Newstart Allowance are between $16,000 and $20,000) face lower 'effective marginal tax rates' (the claw-back of part of each additional dollar earned through the income tax system and social security income tests) because their income tax rate falls from 15% to zero (see graph 5). At slightly higher income levels (from around $20,000 to $30,000), their effective marginal tax rate rises due to the increase in the 15% tax rate). However the overall rate of tax on all of their income is still lower due to the higher tax free threshold.

Graph 5: Effective marginal tax rates for an unemployed single adult before and after the proposed tax changes (2012-13)



Note: Gross income includes wages and Newstart Allowance (which cuts out completely under the income test once an individual earns above about $22,000). Medicare Levy is not included.

Another way that the package improves work incentives for people on low incomes is that, by partly replacing the LITO with a higher tax free threshold, it allows them to keep more of their wages every fortnight. The reason for this is that half of the LITO can only be claimed at the end of the year through tax returns.

In conclusion, the income tax changes are strongly progressive, as they need to be to assist low and middle income households to adjust to higher prices resulting from the package. Further, they improve paid work incentives for unemployed people and carers considering taking on a part time job by reducing their overall income tax rates and allowing them to keep more of their fortnightly wages instead of claiming a higher tax offset at the end of the year. The higher tax free threshold would also simplify the tax system for many people by removing the need for over a million people to file income tax returns.

Impacts on the community service sector

ACOSS is concerned that the package does not explicitly recognise or address the likely impacts of a carbon price on the capacity of community service organisations to deliver essential services. Many providers of community services, for example residential care services, will likely experience cost increases similar to those faced by households; 0.7% of non-wage costs (although CPI is of course a consideration in wage indexation). Many community service providers spend disproportionately on essential goods and services likely to be impacted by a carbon price, notably energy and food. Indexation of grant income and contract fees is inconsistent as between the Commonwealth and the states and territories and, generally speaking, historically and cumulatively inadequate.

Community services include, for example, aged care, child care, services for people with a disability, meals on wheels and other in-home assistance. These services are a critical feature of Australian society and complement the income support system as well as health and education systems. These services are of particular importance to low income, disadvantaged and vulnerable individuals and households, many of whom have no, or very limited capacity to pay for the services they use. Any diminution in the quantity or quantity of these services impacts directly and immediately on individuals and families living in poverty and on low, fixed income households.

Community services rely heavily on direct government funding (around 70% of total income) and are usually contracted to provide specific services on behalf of government. In general terms, community services have struggled in recent years to meet community demand for their services while maintaining high quality provision. Indexation of funding has often either not been forthcoming, or failed to adequately cover the increases in cost structures of organisations, particularly in terms of the employment market and wages.

Furthermore, the legal frameworks governing not-for-profit organisations, while providing significant tax concessions to some community organisations, also place limitations on their capacity to raise fees and charges and to access capital through borrowings for business improvement. Very few not-for-profit community service providers have reserves, sinking funds or investments to assist with capital improvements to facilitate the transition to a low carbon operating environment.

The recently released Australian Community Sector Survey 2011[7], the annual ACOSS survey of the community service sector, reported that the majority of respondent organisations (55%) indicated that they were unable to meet the demand for their services. Almost all services experiencing heightened demand stated that funding levels had not kept pace with increasing demand. Many of these organisations also noted escalating costs associated with operating services, complying with contractual requirements, and managing volunteers. This drove some small and medium organisations to operating deficits in 2009-10, indicating how closely the lack of fiscal flexibility and the inability to reduce service levels is linked primarily to government funding, service contracting arrangements and increasing demands. For already stretched providers, the cost increases linked to pricing carbon pollution may lead to a reduction in the quantum or quality of services. Few services are provided on a fee-for-service basis. The scope to pass through costs increases is negligible.

---

7 ACOSS 2011, Australian Community Sector Survey 2011 Report Volume 1 http://acoss.org.au/images/uploads/ACSS_2011_Report_Volume_1_National.pdf

Improving energy efficiency

Over several years and in partnership with other organisations ACOSS has advocated for significant investments in improvements to energy-use efficiency for low income households. Better end-use efficiency should improve amenity and wellbeing, minimise consumption and bills, and reduce carbon pollution. Most recently, and in conjunction with the Brotherhood of St Laurence, the Energy Efficiency Council, the Property Council of Australia, the Clean Energy Council, The Climate Institute and Choice, ACOSS proposed a two stream approach to energy efficiency.

The first stream was for a staged investment in targeted support for low income households that would include energy use assessments, retrofits and assistance with the purchase of appropriate and efficient appliances along with advice on energy products and referral to financial counselling services when required. The second stream provided for the development of a National Energy Savings Initiative (NESI) as recommended by the recent Prime Minister's Task Group on Energy Efficiency. A NESI would provide for the development of a single national scheme and transition from the three existing state-based schemes, would include small to medium enterprises in scope, and would hypothecate some resources for investment in low income households.

The *Clean Energy Future* package includes measures that build on previous and current work to improve energy efficiency in low income households and the community services sector. The package provides for an extension of the Low Carbon Communities program, a household advice line and website, a Remote Indigenous Energy Program and a household energy. The package provides for 'further work on a national Energy Savings Initiative' including detailed policy analysis, modelling and consultation with the community, state and territory governments and industry. These are welcome initiatives but represent a more conservative approach than we had advocated.

Energy efficiency in low income households

The Low Carbon Communities program is extended by $130 million over the four years 2012 through 2016. There are two new sub-programs: the $100 million Energy Affordability Scheme for low income households will trial how best to improve energy efficiency in low income households and will be designed to build on programs delivered currently by community service organisations. The $30 million Household Energy and Financial Sustainability scheme will assist vulnerable low income households to better manage energy consumption and bill payment

Energy efficiency in the community services sector

There are no measures specific to the sector. However, the Low Carbon Communities program (that commenced with an $80 million commitment over the period 2010-12) is extended by $120 million over the four years 2012 through 2016 and provides for a competitive grants program, accessible to local government and community organisations, for investment in energy efficiency improvements.

There is a separate one year program that will operate in 2014-15 and offer grants to provide energy efficiency information to small- and medium-sized business and community organisations. The program provides for competitive grants to organisations that have 'established relationships' with businesses and organisations to provide sector-specific information on energy efficiency.