



Key messages

- + The Government is cutting income support for 2.2 million pensioners, allowance and family payment recipients¹ by removing the Energy Supplement (ES).
- + Removal of the ES will abolish the first above-CPI increase to Newstart in over two decades and comes off the back of removal of the \$4p/w Income Support Bonus. The current rate of Newstart is well below the poverty line at \$38 per day.
- + The ES is being removed on the grounds of there being no carbon price, but tax cuts compensating for the carbon price will continue, seeing someone on \$60,000 paying \$9.65 per week less in tax than with no compensation.

Background

In the 2016 Budget, the Coalition announced it would cease payment of the Energy Supplement (ES) to new income support recipients from September 2016. The ES is paid at 100 different rates depending on the base payment, ranging between about \$8 and \$14 per fortnight.² For a single Newstart recipient with no children, the ES is \$4.40 per week (\$228.80 per year).

Removal of the ES is expected to save \$1.3 billion through to 2019/20.³ Savings are earmarked for the National Disability Insurance Scheme Savings Fund. The Government has justified removal of the ES for new recipients on the basis of the carbon price no longer being in place.⁴

¹ Including Age, Disability Support Pensions, Carer Payment, Newstart and Youth Allowance, and Parenting Payments, *Department of Social Services*, Community Affairs Legislation Committee, 6 May 2016 <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22committees%2Festimate%2Fdefed424-187d-4867-b69b-1db271dd8152%2F0005%22>

² Ibid.

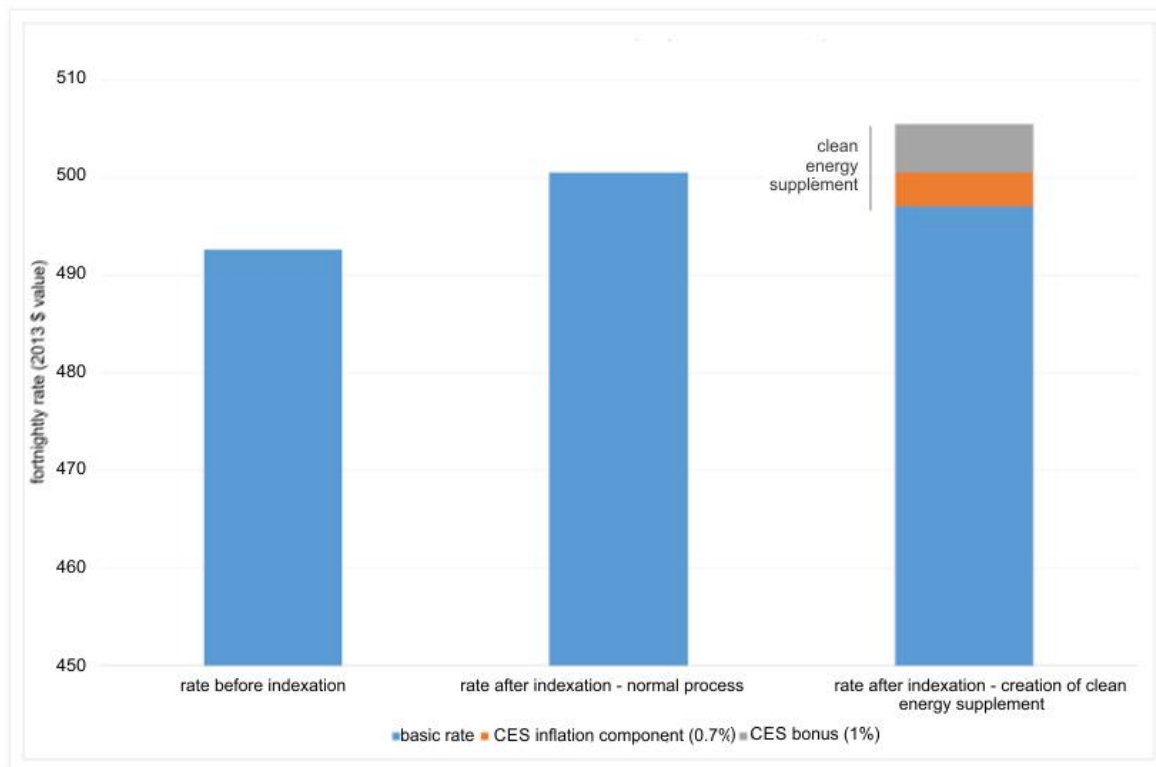
³ Ibid.

⁴ *Balancing the budget* Australian Government, 2016 http://budget.gov.au/2016-17/content/glossies/budget_repair/html/

The ES represents the first real increase to Newstart since 1994, when it rose by \$2.95 per week (above indexation).⁵ If the ES is removed, not only will it abolish the first real increase to Newstart in 20 years, it will reduce the payment for new recipients to lower than what it would have been without a carbon price, which is explained below.

The ES was introduced in 2012 to compensate for the price on carbon and has been paid fortnightly since March 2013. Allowances, including Newstart, are indexed to CPI each March and September. To ensure that payment recipients didn't get compensated twice through the ES and regular CPI indexation, indexation was adjusted to factor in the expected CPI increase because of the carbon price.⁶ Regular CPI indexation was therefore lower than what it would otherwise have been in March 2013. The upshot is that payments indexed to CPI only (including allowances) will be lower if the ES is removed than what they would have been if no carbon price had been implemented.⁷

Impact of the removal of the Energy Supplement on Newstart



Graph from David Plunkett: <http://ravebydave.blogspot.com.au/2016/05/malice-or-misunderstanding.html>

It has been well established that the Government should increase Newstart but this proposal will cut the payment. Australia has the second lowest unemployment benefit

⁵ *Australia's Future Tax System*, Commonwealth of Australia p. 519

⁶ *Review of the Clean Energy Future Household Assistance Package* Treasury & FaHCSIA 2013 https://www.dss.gov.au/sites/default/files/documents/05_2013/hap-review_may-2013.pdf p.2

⁷ *Welfare savings to fund the National Disability Insurance Scheme* Michael Klapdor, APH Budget 2016/17 http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201617/NDIS

in relation to average wages in the OECD⁸ and it now sits at 39% of the minimum wage (before tax). This cut also comes off the back of the loss of the Income Support Bonus, which equated to \$4 per week for a single Newstart recipient (the last payment will be made in September 2016). Combining the loss of the Income Support Bonus and the ES, a single unemployed person will be over \$8 per week worse off.

⁸ OECD (2014) Net Replacement Rate Initial (Previous earnings 67%)
https://stats.oecd.org/Index.aspx?DataSetCode=SOEX_AGG