

New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians: summary report

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New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians

Summary Report



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August 2017



Catholic Social
Services Australia



SPRC
Social Policy Research Centre

Main Findings

- New family budget standards have been produced that reflect changes in Australian society and advances in research methods and data availability since the mid-1990s.
- The new weekly low-paid budget standards vary from \$597 for the single adult to \$1,173 for a couple with two children (a 6 year-old girl and a 10 year-old boy).
- The corresponding budgets for the unemployed families vary from \$434 for the single adult to \$940 for a couple with two children.
- For low-paid couple families, the costs of the first and second children are around \$137 and \$203 a week, respectively.
- For similar unemployed families, the corresponding costs are \$106 and \$174 a week, respectively.
- The combined cost of the two children is around \$340 a week (or \$170 per child) for low-paid families and \$280 a week (or \$140 per child) for unemployed families.
- The budget standards for low-paid families are between 22% and 47% above a poverty line set at 50% of median income, while those for unemployed families are very close to the poverty line (except for the sole parent family).
- Existing social safety net provisions as at June 2016 provided an adequate income floor for low-paid single adults receiving the minimum wage and working full-time but not for those with a partner or children.
- For those out of work and reliant on Newstart Allowance the safety net provisions fall short of the budget standards estimates by \$96 a week for a single person, \$58 a week for a couple with one child and \$126 a week for a couple with two children.

Background

A budget standard indicates how much money a family needs to achieve a particular standard of living in a particular place at a particular time. It is derived by specifying the standard and then identifying all of the items required to reach it, pricing each item and calculating the cost of the total basket. Some items (e.g. milk) are bought and consumed regularly so calculating the weekly contribution to the budget is straightforward. Other household items (e.g. a refrigerator) will be bought infrequently and last for many years. In these cases, it is necessary to specify how long the item will last (its assumed lifetime) as well as its purchase price in order to derive the weekly cost.

Budget standards are generally used to estimate the income levels required to achieve a minimally adequate standard of living – a level below which no-one should be allowed to fall. The approach was developed in the UK at the beginning of the 20th century and was first applied in Australia by Justice Higgins, who used it to set the basic wage for a working family in the 1907 Harvester Judgement. After a recent revival of interest, the approach is now used in many countries to assess the adequacy of the different components of the social safety net, including social security benefits, family payments and the minimum wage.

Budget standards were derived for a range of Australian families in the mid-1990s by the Social Policy Research Centre (SPRC). The estimates were commissioned by the Australian Government but the results were never used to influence policy. They have, however, been used to inform decisions about the setting of the minimum wage, levels of child support and foster care allowances, and to estimate the amounts needed in superannuation benefits to maintain living standards after retirement. They have also been used by financial counselling agencies to provide advice to clients, and by the courts to help determine financial settlements following divorce, or in cases involving personal injury or death.

It is now over 20 years since the original SPRC budget standards were developed and many agree that they are past their 'use-by date'. Where they continue to be used, the original budgets have been updated in line with movements in the Consumer Price Index (CPI) to allow for general price rises. This approach makes no allowance for increases in community living standards, or for differences in the price rises of different items, changes in the items that people need to function effectively in society, changes in how or where people shop, or in what kinds of goods and package sizes are available on supermarket shelves. When the original budgets were derived, for example, mobile phones were still relatively rare and were not included, while supermarket 'Home-brand' items were only just emerging.

These factors suggest that the original budgets need to be reviewed to assess their current relevance and revised to reflect the changes that have taken place over the last two decades. This process has involved re-pricing some items, and modifying or replacing others. It has also been important to ensure that the new estimates reflect improved research methods and embody improvements in data quality and availability. The new estimates have also benefitted from the two decades of hands-on experience with budget standards accumulated since the original study was conducted.

This summary report describes the main features of a new budget standards project that has modernised the original SPRC budgets and made them relevant to current Australian

conditions. It summarises the project's methods and main findings and is designed for those who want to understand or use the new estimates without needing to be being familiar with each and every detail of their construction. The underlying concept of a budget standard is simple to grasp and the aim is to build on that understanding to promote the value, accessibility and use of the new estimates.

Those interested in finding out more about the details of what was done and how decisions were reached can find all of this information in the Final Report on the project which can be downloaded from the SPRC website at:

www.sprc.unsw.edu.au/research/publications/sprc-report-series/

Project Details and Methods

The overall approach involved replicating the methods and assumptions used in the earlier SPRC study whenever possible. Where there was a compelling case for change, the alternative options were examined and new methods or assumptions implemented. This approach maintained a degree of comparability with the earlier estimates but did not prevent improvements from being made when this was warranted. Most items in the budgets (food, clothing and footwear, and household goods and services) were identified and priced as before, in leading retail stores like Woolworths and Kmart.

One important difference from the earlier study concerns the treatment of housing costs, which have been treated separately. The cost of housing varies not only by the type, size and location of the dwelling, but also by housing tenure – home purchaser with a mortgage, outright owner, or public or private renter. These variations make it impossible to develop a representative housing budget that can be applied to all families, although an approach has been developed that captures (some of) this diversity and allows users to vary the details to suit specific applications.

This involved deriving estimates of the average levels of rents paid for various dwellings located in different locations within Australia's three largest cities (Sydney, Melbourne and Brisbane) using data published by the Real Estate Institute of Australia (REIA). These rent estimates were then used to gross-up the initial budget standards that covered the costs of all other (non-housing) items.

The standard of living that underpins the new budgets is the *Minimum Income for Healthy Living* (MIHL) standard that was first developed by public health researchers in the UK. The basic idea is that the budgets should allow each individual to lead a fully healthy life in all of its dimensions, in their roles as family members, workers and consumers. The MIHL standard is thus designed to ensure that each individual is able to achieve levels of consumption (of food, clothing, medications, transportation, personal care, and so on) and participation (in lifestyle, exercise and social activities) that are consistent with healthy living.

New budget standards have been estimated for six family types: single adults (female and male); couples without children; couples with 1 and 2 children; and a (female) sole parent with 1 child. The single female and single male budgets were later averaged to produce a gender-neutral single person budget. Adults were assumed to be between 35 and 40 years

of age, while the children are both of school age: a 6 year-old girl and a 10 year-old boy. The decision to include only school-age children reduces the need for child care that would have added to the budgets in some instances if the children had been younger, while the inclusion of older children would have also added to the costs of things like food, clothing and social participation. Each family is assumed to contain one adult (generally male) who is assumed to be either in work and receiving the minimum wage, or unemployed and receiving social security assistance in the form of Newstart Allowance (NSA) or Parenting Payment for the sole parent.

The new budgets embody a series of judgements about what is needed to reach the MIHL standard, and a huge amount of information about the kinds of things that Australians spend their money on, what activities they undertake, what items they own, how often they use health, child care and public transport services, and how often (or whether) they eat out, have friends over for a meal and take a family holiday each year.

They also reflect the input provided by a series of focus group discussions held with low-income Australians, who were asked to review the initial estimates and provide advice about their accuracy and relevance. This feedback affected revisions to the initial estimates, allowing the revised budgets to be better grounded in the realities of family budgeting and more aligned with what low-income people actually buy and do.

The estimates and underlying methods were also discussed at several stages by a Project Reference Group (PRG) that contained representatives from the project's three Partner Organisations and leading Australian experts in family budgets, labour market disadvantage and public health.

Finalising the new budgets involved comparing initial estimates with a range of other data to assess their relevance and consistency with what is known about the living standards of different family types. The impact of alternative assumptions was also explored and the estimates were revised to ensure their consistency with the focus group findings. This time-consuming process often involved replacing items or including new ones, each of which had to be identified and priced before the impact on the total budgets could be assessed.

It is important to emphasise that the guiding principle that underpins the new budgets was that all items, prices and lifetimes were chosen to ensure that the budgets reflect the *minimal* monetary amounts required to achieve the MIHL standard. The aim was to produce budgets that reflect how much is required to satisfy *basic* needs, not to allow people to acquire all that they want. There is no allowance for even the most modest or occasional 'luxuries' and wastage was kept to an absolute minimum. The budgets are thus extremely 'tight' and provide no room for further reductions without compromising the attainment of the MIHL standard.

The New Budget Standards

The new weekly budgets at the MIHL standard for low-paid and unemployed families are shown in weekly amounts in Tables 1 and 2, respectively. The tables show both the net-of housing budgets for each family and the grossed-up budgets that include housing costs.

After rounding, the weekly low-paid grossed-up budgets vary from \$597 for the single adult to \$1,173 for the couple with 2 children. The grossed-up budgets for the unemployed families vary between \$434 for the single adult and \$940 for the couple with 2 children. For a given family type, the budgets for unemployed families are between 15% and 25% below those for the corresponding low-paid families. This difference reflects several factors, including the increased costs associated with working, the higher MIHL standard applied to those in work and the cost saving strategies used by those who are unemployed.

Table 1: Budget Standards for Low-Paid Families, June Quarter 2016 (\$ per week)

Budget Category	Single Adult	Couple, no children	Family type		
			Couple, 1 child (G,6)	Couple, 2 children (G,6 & B,10)	Sole parent, 1 child (G,6)
Food	61.80	123.60	156.22	200.91	89.49
Clothing and Footwear	10.81	15.77	23.72	33.20	18.78
Household Goods and Services	79.23	99.59	112.72	139.10	90.46
Transport	77.71	120.75	144.72	144.72	100.39
Health	7.33	14.45	19.51	24.36	13.61
Personal Care	15.59	27.04	31.03	35.34	21.52
Recreation	29.04	39.54	62.06	76.99	50.64
Education	0.00	0.00	27.43	61.26	50.31
Total (excluding housing)	281.51	440.74	577.40	715.88	435.20
Housing costs (rent)	315.80	392.50	392.50	457.50	392.50
Total (grossed-up, including housing)	597.31	833.24	969.90	1,173.38	827.70

Note: G,6 = girl aged 6 and B,10 = boy aged 10

Table 2: Budget Standards for Unemployed Families, June Quarter 2016 (\$ per week)

Budget Category	Single Adult	Couple, no children	Family type		
			Couple, 1 child (G,6)	Couple, 2 children (G,6 & B,10)	Sole parent, 1 child (G,6)
Food	58.71	117.42	148.41	190.87	85.02
Clothing and Footwear	5.13	10.25	15.52	21.67	10.24
Household Goods and Services	68.37	88.28	100.59	124.33	79.01
Transport	44.24	84.94	91.52	97.89	100.39
Health	6.08	11.94	17.00	21.86	11.47
Personal Care	12.86	25.22	29.87	34.18	18.89
Recreation	15.00	25.50	43.32	56.64	31.91
Education	0.00	0.00	23.79	52.93	41.54
Total (excluding housing)	210.38	363.55	470.04	600.37	378.48
Housing costs (rent)	223.30	296.70	296.70	340.00	296.70
Total (grossed-up, including housing)	433.68	660.25	766.74	940.37	675.18

Note: G,6 = girl aged 6 and B,10 = boy aged 10

Looking first at the budgets that exclude housing costs, in all cases, the three largest areas of the family budget are food, household goods and services and transport. Together, these three areas account for between two-thirds and four-fifths of the budgets of low-paid families, and slightly more of the budgets of unemployed families.

However, the largest single contribution to the overall (grossed-up) family budget in all cases is the cost of housing, which alone accounts for over one-third of the total (grossed-up) budget for the unemployed couple with two children, and over half of the budget of the unemployed single adult. In all cases, the proportion of the total budget spent on housing exceeds the 30% benchmark, which is used to identify families facing housing stress – reinforcing the point that the budgets are conservative.

The Cost of Adults and Children

The budget standards can be used to estimate how the relative costs required to achieve a given standard of living (in this case the MIHL standard) vary with family size and composition. These relativities are captured in an equivalence scale, which expresses all costs relative to the cost (or budget) of a single adult. The most commonly used equivalence scale is the ‘modified OECD scale’ which takes the form: 1.0, 1.5, 1.8 and 2.1 for the single adult, couple, without children and couples with 1 and 2 children, respectively. The OECD scale implies that the second adult costs half (50%) the amount of the first adult, while each child costs the equivalent of 20% of the couple.

The (rounded) equivalence scale implied by the low-paid budgets is: 1.0, 1.4, 1.6 and 2.0, while that implied by the unemployed budgets is: 1.0, 1.5, 1.8 and 2.2. These scales imply that the cost of the second adult (relative to the first adult) is similar or slightly less than implied by the OECD scale, while the relative cost of children (compared to the couple) is slightly lower at the low-paid standard but slightly higher at the unemployed standard. Overall, the differences are not great and this suggests that the new budget standards do not differ markedly from other available estimates of relative family needs.

The budgets can also be used to estimate the absolute (monetary) costs of additional family members – adults as well as children. How the budgets vary with the size and composition of the family can guide decisions about the structure of social benefits, including the payments made to single and couple recipients, or to smaller and larger families, or to sole parent and couple families. These calculations should be based on the grossed-up budgets because housing costs vary with family size, even at a given standard of living.

The *cost of adults* varies according to whether the adult is the first or second member of the family. For the first adult, these costs are shown in Tables 1 and 2 as the cost of a single person and are equal to \$597 a week if they are a low-paid worker and \$434 a week if they are unemployed. The cost of the second adult is derived by subtracting these single person costs from the budgets for a couple without children. This produces estimates of \$236 a week (low-paid) and \$227 a week (unemployed). These cost estimates are below those for the first adult because of economies of scale – ‘two can live more cheaply than one’ – so that the couple does not need twice as much of every item as the single person in order to achieve the same standard of living. The couple is assumed, for example, to require an

additional bedroom compared with single people but this does not result in a doubling of the rent that they have to pay.

The *cost of children* can be derived by taking the difference between the budgets of families with different numbers of children, as is done in Table 3. For couple families at the low-paid MIHL standard, the costs of the first and second children are around \$137 and \$203 a week, respectively. At the unemployed MIHL standard, the corresponding costs are \$106 and \$174 a week, respectively – in both cases about 20% lower. Table 3 also shows the combined cost of the two children, which is around \$340 a week (or \$170 per child) for low-paid families and \$280 a week (or \$140 per child) in unemployed families. Again, the cost estimate is around 20% lower in the unemployed families.

It is important to note that these estimates are only relevant to children with the specific characteristics assumed in the family types covered in the study: i.e. to 6 year-old girls and 10 year-old boys. They do not indicate the costs of all girls or all boys, or of all one-child or all two-child families.

Table 3: Budget Standards Estimates of the Costs of Children in Couple Families (\$ per week)

Family type	Low-Paid	Unemployed
Couple, no children	833.24	660.25
Couple, 1 child (G,6)	969.90	766.74
Difference	136.66	106.49
Couple, 1 child (G,6)	969.90	766.74
Couple, 2 children (G,6 & B,10)	1173.38	940.37
Difference	203.48	173.63
Couple, no children	833.24	660.25
Couple, 2 children (G,6 & B,10)	1173.38	940.37
Difference	340.14	280.12
Difference per child	170.07	140.06

Note: G,6 = girl aged 6 and B,10 = boy aged 10

Comparing the Budget Standards with Other Adequacy Benchmarks

The most common benchmark that is used to set a minimum level of income is the poverty line, which generally reflects the income needed to support a minimal level of material consumption. The MIHL standard is intended to be higher than the poverty line because it also allows for a degree of social participation consistent with social inclusion and healthy living, and for the other factors that are reflected in the MIHL standard.

Table 4 compares the poverty line used in most studies of Australian poverty (set at 50% of median income) with the grossed-up budget standards. The budget standard estimates for low-paid families are between 22% and 47% above the poverty line, with the gap largest for the sole parent family with 1 child. In contrast, the grossed-up budgets for unemployed

families are very close to the poverty line in all instances except for the sole parent with 1 child, where the MIHL budget is almost 20% above the poverty line.

Table 4: Comparing the Grossed-up Budget Standards with the Poverty Line, June Quarter 2016 (\$/week)

Family type	Poverty line set at 50% of median income (1)	Grossed-up low-paid budget standard (2)	Ratio: (2)/(1)	Grossed-up unemployed budget standard (3)	Ratio: (3)/(1)
Single person	441.18	597.31	1.354	433.68	0.983
Couple, no children	661.78	833.24	1.259	660.25	0.998
Couple, 1 child (G,6)	794.12	969.90	1.221	766.74	0.965
Couple, 2 children (G,6 & B,10)	926.48	1,173.38	1.266	940.37	1.015
Sole parent, 1 child (G,6)	563.43	827.70	1.469	675.18	1.198

Note: G,6 = girl aged 6 and B,10 = boy aged 10

The general pattern displayed by these results is as expected. Those in work are expected to be able to achieve a standard of living that is well above the poverty line - otherwise Australia would have a permanent class of 'working poor'. This would be counter to the objective encapsulated in the Harvester Judgement, which was to ensure that the minimum wage was sufficient to keep all Australian workers and their families well clear of poverty. This goal is now pursued through the setting of both the minimum wage and family payments for workers with children, although the level of the minimum wage is still central (particularly for those without children). In contrast, the social security system is designed to meet minimal needs and alleviate poverty and thus the gap between payments and the poverty line is expected to be much smaller – as indeed it is.

If it is agreed that all families – whether in or out of work – should be able to receive an income that is sufficient for them to attain the MIHL standard appropriate to their circumstances, then the adequacy of existing social safety net provisions in achieving this goal can be assessed by comparing them with the new budget standards – as is done in Table 5. The safety net calculations take account of any additional benefits (e.g. Rent Assistance and Family Tax Benefits Parts A and B) to which each family is entitled and allow for the impact of income tests as appropriate and deduct any income tax liabilities, after factoring in relevant Tax Offset provisions and the Medicare levy.

Table 5: Comparisons between the Grossed-up Budget Standards Estimates and Existing Safety Net Incomes (\$ per week, June 2016)

Family Type	Grossed-up Budget Standard (1)	Low-Paid		Grossed-up Budget Standard (1)	Unemployed	
		Safety Net Income (2)	(2) minus (1)		Safety Net Income (2)	(2) minus (1)
Single adult	597.31	659.22	61.91	433.68	337.68	-96.00
Couple, no children	833.24	794.21	-39.03	660.25	552.84	-107.41
Couple, 1 child (G,6)	969.90	978.74	8.84	766.74	708.28	-58.46
Couple, 2 children (G,6 & B,10)	1,173.38	1084.64	-88.74	940.37	814.13	-126.24
Sole parent, 1 child (G,6)	827.70	872.56	44.86	675.18	627.79	-47.39

Note: G,6 = girl aged 6 and B,10 = boy aged 10

The comparisons indicate that the safety net is providing an adequate income floor for low-paid single adults receiving the minimum wage and working full-time but not for those with a partner or children. For example, for a low-paid couple with two children, the safety net income is \$89 a week below what the budget standards indicates that this family needs to meet the MIHL standard. Although the safety net income of the sole parent family is \$45 a week above the MIHL standard, this gap would disappear if the hours worked each week declined slightly from 20 to 17 hours, if fewer weeks were worked over the year, or if child care costs were higher than those factored into the budget standard.

The situation is far worse for those out of work and reliant on income support. In these cases, the safety net provisions fall well short of the budget standards estimates - by between \$58 a week for a couple with 1 child and \$126 a week for a couple with 2 children. For a single adult – the majority of those in receipt of NSA - the single rate of NSA is \$96 a week below what is required to reach the MIHL standard. The \$45 a week excess for the sole parent in work turns into a deficit of over \$47 a week if she is unemployed, highlighting the important role that access to paid work plays for sole parents.

Summary and Implications

The budget standards approach identifies the key decisions, choices and assumptions involved in estimating how much is needed to achieve a specific standard of living. The MIHL standard that underpins the new budget standards is designed to be consistent with government policy goals in relation to meeting basic consumption needs, achieving healthy living and providing for an adequate level of social participation and inclusion.

The budget standards approach addresses this task in a systematic and transparent way, while allowing the estimates to be varied to suit specific circumstances. The results provide an independent, evidence-based benchmark for assessing the adequacy of the incomes provided by key components of the social safety net – in this instance the adequacy of the minimum wage and Newstart Allowance, two of the key pillars of the income support system for working-age Australians.

The locational variation in housing costs raises concerns about the national relevance of a single budget standard that has national applicability but also about whether it is meaningful to have a single, standardised national safety net. The ability of a given level of income to support and sustain a given standard of living varies greatly by location (largely driven by differences in housing costs) and a safety net that better reflects this diversity could improve overall adequacy and deliver more equitable outcomes.

A key finding of the study is that the minimum wage currently provides a more adequate income floor for those in work and receiving the minimum wage than unemployment benefit in the form of NSA does for those out of work and unemployed. This difference raises the question of whether change is needed in the mechanisms used to set and vary the level of the latter payment. Currently this is entirely at the discretion of the government, whereas the minimum wage has traditionally been set independently – by the Minimum Wage Review process and the Minimum Wage Panel – that regularly calls for submissions, reviews the available evidence on adequacy and makes an informed determination about any changes.

The need to apply a similar mechanism to review and vary the level of Newstart Allowance was recommended by the Henry Tax Review and is consistent with the evidence presented in this study. This would also provide a framework for better ensuring that income floors for those in and out of work are not only adequate, but also consistent with other policy goals (in relation to ensuring that incentives to work are appropriate, for example).

The new budget standards project is designed to guide current adequacy assessments and allow others to draw on the results in a variety of contexts where adequacy issues are central. These issues affect the living standards of all Australians and thus impact on the overall level of inequality, an issue that is assuming growing importance and attracting increasing attention. It is difficult to see how any level of economic inequality can be tolerated by society if basic needs are not met at an acceptable level, particularly for those at the lower end of the labour market or out of work. These important adequacy issues will not go away, and budget standards research will continue to play an important role in helping to address them.

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