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

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Catholic Social Services Australia

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SPRC Social Policy Research Centre

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Research on budget standards draws on a huge array of information, data, experience, insight and advice and this study is no exception. Those inputs must be combined with the professional expertise of a dedicated team of researchers and that too has been a feature of the project that underpins this report. Without all of this effort and commitment, the research reported here would not have been possible.

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Most of the shelf pricing of items took place in Woolworths and Kmart and we thank both for allowing us to collect that critical information in their stores. The Department of Social Services (DSS) provided information that was used to estimate the social safety net incomes

presented in Chapter 5, and the Real Estate Institute of Australia (REIA) generously provided us with their Real Estate Market Facts (REMF) data that was used to estimate housing costs. While the support and contribution of all of these organisations is gratefully acknowledged, the research team is solely responsible for how the advice and data they provided has been used and interpreted.

Budget standards refer to an ever-changing world and research such as this will inevitably lag behind what is actually happening. Since the estimates reported here were completed, the Consumer Price Index has risen by a further 1.7%, Newstart Allowance has been increased (in September 2016 and March 2017) by just over 1.0% and the minimum wage was increased by 2.4% in July 2016, and by a further 3.3% from July 2017. These increases make the reported estimates slightly outdated but do not affect our broad conclusions.

Peter Saunders
Chief Investigator

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- A budget standard indicates how much income a particular family living in a particular place at a particular time needs to achieve a particular standard of living. It is derived by specifying every item that is needed by the family, pricing each item and summing to produce the overall budget.
- The budget standards method itself is over a hundred years old, having been first used in Australia to set the basic wage in the 1907 'Harvester Judgement'.
- The enduring value of the budget standards approach reflects its common-sense approach to how to set an income level that is adequate to meet individual and family needs.
- Budget standards estimates are used in Australia to help guide the setting of the minimum wage and to assess the adequacy of social security payments.
- Most applications rely on updates of the estimates produced by the Social Policy Research Centre (SPRC) in the 1990s, but these estimates are out-dated because of changes in social practices and community norms and advances in budget standards research.
- The aim of this study is to review and refine the earlier SPRC estimates to produce a new set of budget standards for low-paid and unemployed families that are relevant to contemporary Australian conditions.

Recent Research Developments

- Recent budget standards research developments have been led from the UK and from within the EU more generally.
- The UK Minimum Income Standard (MIS) is the product of a major programme of work reporting regularly on how much income households need to afford an acceptable standard of living. The estimates are used frequently in policy debates and by some charities to target financial support.
- The recent Reference Budgets study commissioned by the European Commission and conducted by a research team at the University of Antwerp has added new depth and quality to research in the field and provided a template for future developments.
- The standard to which the new budgets apply is the Minimum Income for Healthy Living (MIHL) standard developed in the UK public health literature. The MIHL standard is designed to ensure that all individuals are able to lead healthy lives and participate in society.

- Budget standards estimates draw on three kinds of data: expert (normative) data that reflects prevailing judgements on how much is needed to achieve specific standards; behavioural (survey) data that describes the spending patterns of actual families; and experiential (focus group) data that captures how real families budget and make ends meet.

Key Elements of the Approach

- New budget standards have been derived for five basic family types: single people; couples without children; couples with one and two children; and a sole parent with one child. Adults are assumed to be aged either 40 (men) or 35 (women), the first child is a 6 year-old girl and the second child is a 10 year-old boy.
- Adults are assumed to be either in work and low-paid or out of work and unemployed or not in the labour force. Those in work are assumed to receive the minimum wage, while those unemployed are assumed to be in receipt of Newstart Allowance (NSA) (or Parenting Payment in the case of the sole parent). Both sets of families also receive any other social benefits to which they are entitled.
- The new budgets are constructed in 8 broad areas: Food; Clothing and Footwear; Household Goods and Services; Transport; Health; Personal Care; Recreation; and Education.
- The budgets were initially priced in leading national retails stores like Woolworths and Kmart in the latter half of 2013, although the initial estimates were then subject to an extensive process of review, modification and refinement.
- The finalised budgets have been updated using CPI data to the June Quarter of 2016 to maintain their relevance.

The Focus Group Findings

- The focus group discussions were used to validate the assumptions used to develop the key budget components – items, quantities, lifetimes and prices – and to confirm assumptions made about shopping practices, participation in social activities, and so on.
- A series of low-income focus group participants were asked about the relevance of the budgets to their circumstances, and the adequacy of the estimated budgets to meet their needs to the MIHL standard.
- In total, 46 people across 7 Sydney sites participated in 7 focus group meetings held between March 2014 and May 2015. A separate female-only group meeting was arranged in order to get a better understanding of their unique perspective.
- The focus groups generated important insights into the strategies and actions employed by low-income Australians struggling to make ends meet on limited budgets. Comments were provided on the make-up of specific budgets and on the relevance of specific items.
- The discussions had an impact on the lifetimes assigned to some items, and ways

in which costs could be kept to a minimum by 'shopping around' and looking for bargains.

The New Estimates: Presentation and Analysis

- The new budget standards reflect an extensive review of the methods applied in the original SPRC study and incorporate a range of new information on the lifestyles, preferences, choices and living standards of Australian families in low-paid work or unemployed.
- The non-housing budgets have been grossed-up by including estimates of the weekly rents paid in different locations within capital cities in Australia derived from data on market rents.
- The grossed-up weekly budgets (rounded to the nearest dollar) for low-paid families in June 2016 are: $597 for a single person; $833 for a couple; $970 for a couple with one child; $1,173 for a couple with two children; and $828 for a sole parent with one child.
- The corresponding budgets for unemployed families are: $434 (single person); $660 (couple); $767 (couple with one child); $940 (couple with two children); and $675 (sole parent with one child).
- The budgets imply that the weekly costs of one child (a 6 year-old girl) are $137 (low-paid) and $106 (unemployed). The combined weekly costs for two children (a 6 year-old girl and a 10 year-old boy) are $340 (low-paid) and $280 (unemployed).
- The new budget standards for low-paid families are between 22 per cent and 47 per cent above a poverty line set at 50 per cent of median income. For unemployed families, the new standards are very close to that poverty line for single adults and couples with no or one child, but about 20% above it for the sole parent family.
- Single adults and the sole parent in full-time work being paid the minimum wage have disposable incomes that exceed the budget standards but the incomes of all other low-paid families fall short of the MIHL standard.
- For unemployed families receiving social security payments, disposable incomes are below the MIHL standard in all cases, with the shortfall varying between $47 and $126 a week.
- These shortfalls cast serious doubt over the adequacy of existing social safety net provisions and suggest that increased payment levels are urgently needed, especially for those in receipt of NSA.

Conclusions

- The goal of the research has been to review, refine, revise and update the Australian budget standards produced over two decades ago to make them relevant to current circumstances.
- This task has presented many challenges, but the research demonstrates that budget standards are still capable of generating income adequacy and living standard benchmarks.

- The findings highlight the role of key choices and decisions in assessing the adequacy of the minimum wage and NSA – two central elements of the Australian social safety net.
- The long-term decline in the adequacy of NSA is a major policy failure that needs to be redressed, informed by a process of regular and independent review like that used to set the minimum wage.
- The underlying challenge of judging income adequacy will not go away, nor will the contribution that budget standards research can play in helping to answer it.

1 Background to the Project

1.1 Introduction to Budget Standards

A budget standard indicates how much a particular family living in a particular place at a particular time needs in order to achieve a particular standard of living. It is derived by specifying every item that is needed by the family and each of its members – everything from the clothing worn to the food consumed, soap used, insecticide sprayed, petrol bought, bus fares paid for, furniture sat on, haircuts and holidays taken – then pricing each item and summing to produce the overall budget.

As Deeming (2005: 620) has explained it:

> 'The budget approach is in essence a simple and intuitive methodology … [that] … provides an explicit framework for selecting personal requirements needed or deemed necessary to maintain a particular predefined standard of living. Components are translated through prices into budgets required to purchase them'

The items included, how much they cost and how long they last will vary according to the standard of living that the budget is designed to support. Any specific budget is thus only relevant to a particular standard – hence the term budget standard. The standard itself can (in principle at least) be set at any level, although budget standards have traditionally been designed to represent *minimum* standards by estimating how much is needed to achieve an acceptable minimum standard of living.

The budget standards method is over a hundred years old, having first been applied in 1901 by Seebohm Rowntree, in his pioneering study of poverty in York (Rowntree, 1901). After many decades of neglect, the budget standards approach was revitalised in the UK context in the early-1990s by Bradshaw (1993) and since then the method has been attracting increasing international attention from researchers, policy makers, those who advocate on behalf of the poor, and other community groups with an interest in ensuring that minimum safety net incomes are adequate.

The enduring interest in and value of the budget standards approach reflects its common-sense approach to setting an income level that is adequate to meet a family's needs. The method mirrors how people go about the day-to-day business of satisfying their needs: What are my family's needs? Which items do we require to satisfy them? Where shall I buy them? How much do they cost? and How long will they last? How much do I need each week to purchase them? There are, of course, many different ways to answer these key questions and as Deeming has noted, the answers will depend in part on '*who* is defining the standard and *how*' (Deeming, 2005: 620; italics in the original)

These are complex issues and there is on-going debate about the merits of alternative approaches. Deeming argues that, on this issue:

> '… methodological pluralism should prevail. There is strength in the different budget

approaches; all are varied, and arguably, needed' (Deeming, 2017: 44)

It is against this background of significant challenges, evolving methods and applications that the research described in this report was designed and conducted. By providing a uniquely Australian perspective it adds another dimension to the pluralism that Deeming argues is needed.

It is important to emphasise at the outset that the fact that disagreements exist over which method is best does not negate the need for budget standards research. The value of such research lies in its ability to highlight areas where choices have to be made, set out the alternatives and provide a systematic framework for choosing between the alternatives and examining the impact of these choices on the results produced. These features are generally ignored or obscured in alternative approaches to defining adequacy. The transparency of the budget standards approach is thus a second important feature of budget standards research that explains its enduring popularity.

As budget standards research has evolved, there have been changes in terminology. A recent landmark report on a project commissioned by the European Commission and conducted by a research team based at the University of Antwerp prefers to use the term 'Reference Budgets' instead of 'Budget Standards' because of the normative connotation implied by the latter (see Goedemé, Storms and Van den Bosch, 2014). Others prefer the original term because it emphasises the role of the budgets in helping to set standards that can protect those who are most vulnerable. Despite this difference over terminology, the method developed by Rowntree and refined over the last three decades by Bradshaw and others remains largely unchanged: to specify and price a basket of goods, services and activities that will allow a family to participate in the life of the society and achieve a minimum standard of living.

The dual foundations of the Australian social safety net are an income-tested targeted social security system for those unable to work and an independently determined minimum wage for those who are in work. This approach makes it ideal for the application of budget standards research to assess the adequacy of those elements. Not surprisingly therefore, Australian budget standards research has a long history, dating back to the work of Justice Higgins that under-pinned the influential basic wage decision of 1907 (the 'Harvester Judgement'). Although the reliance on, and influence of budget standards research has waned since then, the approach continues to be used to help guide the setting of the minimum wage and as a way of assessing the adequacy of social security payments (see Fair Work Commission, 2011a; Australian Council of Social Service, ACOSS, 2012; 2014a).

The budget standards produced by the Social Policy Research Centre (SPRC) in the 1990s provided a modern-day update of the approach implemented by Justice Higgins and generated wide interest and a lively debate over their role in assessing the adequacy of social security payments (Saunders et al., 1998). These estimates are still used to judge the adequacy of social security benefits and minimum wage levels, but they are acknowledged to be out-dated and need to reflect changes in social practices, community norms and expectations and advances in budget standards research methodology and data availability.

These changes will influence what is regarded by the community as an acceptable minimum standard because such perceptions are known to vary with the overall standard of living. This has increased markedly in Australia over the last two decades. Information published

by The Melbourne Institute (2016) indicates, for example, that a commonly–used measure of overall living standards - household disposable income per head of population (HDIPC) - increased almost two-and-a-half times (or by 248 per cent) between financial year 1994-95 (when the original SPRC budgets were priced) and 2013 (when those presented here were priced). A change of this magnitude in the average level of economic prosperity will have a profound impact on what is regarded as an acceptable minimum standard of living and on the items required to support that standard.

Other factors have been changing in ways that require the SPRC budget standards to be revised in order to maintain their relevance. New items become available and popular among consumers and this affects how people run their lives and creates pressure for others to do likewise if they are to function effectively in society as individuals, as workers and as consumers. When almost everyone else has a mobile phone, it becomes impossible for anyone to manage without one, and an item that was once seen as a relative 'luxury' quickly becomes an absolute 'necessity'. Perhaps more importantly, government policies have changed in ways that directly affect how much money people need to spend out of their own pockets to meet their needs. At a national level, such changes include the introduction (or extension) of user charges required to gain access to basic services such as health care (under the Medicare system) and child care. There are also a number of charges or concessions/subsidies imposed by State or Territory Governments (in relation to public transport or energy prices or subsidies, for example) that ought to be taken into account in a budget standard if it is to be relevant in a specific location.

Of course, the more that the budgets are tailored to reflect such locational (or other) specifics, the less relevant and useful they become as national (or general) yardsticks. For this reason, these State-specific initiatives have not been included in the estimates presented later in this report, mainly because of the difficulty involved in including the many different provisions that exist across States/Territories in terms of their level and/or coverage and qualifying conditions. The estimates thus include only items that have *national* relevance and applicability – although they are designed to provide a platform onto which others can add specific features to suit particular applications.

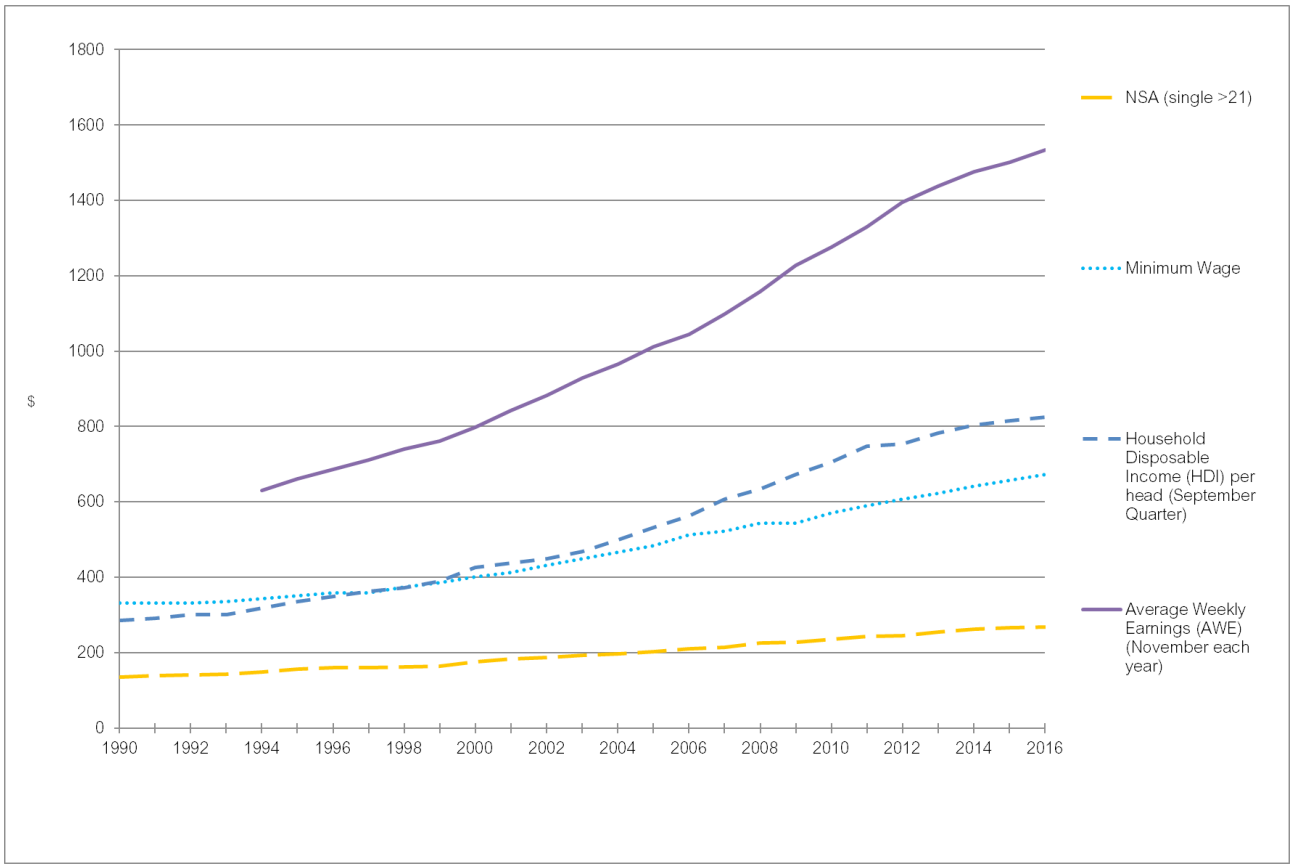
This focus on the national context is consistent with the goals of the research described in this report, which applies the budget standards approach to examine the adequacy of two of the main components of the Australian social safety net - the minimum wage and Newstart Allowance (NSA) – the main form of income support for people who are unemployed. Both are determined at a national level, albeit by very different mechanisms, and they affect the incomes and living standards of millions of Australian individuals and families at different points in their life cycle. Both also have an important impact on the overall distribution of income and thus on assessments of the degree of equity achieved between rich and poor (vertical equity) between different types of family (horizontal equity), between older and younger age groups (generational equity) and between those living in different locations (locational equity).

Figure 1.1 shows how the two social safety net components have moved over the last 25 years and compares them with changes in two important indicators of average community living standards – the level of average (adult, full-time) earnings and household disposable income per head. All four variables are expressed in each year in the prices prevailing in that year (i.e. in current prices) although adjusting for movements in the CPI will affect all four

in exactly the same way and hence not influence the differences between them.

The level of NSA has been adjusted in line with movements in prices for most of the period, so that its real value (after allowing for price increases) has remained more or less constant. In contrast, the real value of the minimum wage (which has been reviewed and set independently in most years) has varied over the period, declining up until about 1998 and rising steadily thereafter. Figure 1.1 indicates that the dollar gap between these two series has grown, from just under $200 in 1990 to just over $400 in 2016, with over half of this gap opening up in the last decade as the real value of the minimum wage has improved while the purchasing power of NSA has been allowed to stagnate. In contrast, while the other two series have also grown at a similar rate to each other, both have increased more rapidly over the period than either NSA or the minimum wage. A gap has opened up between the incomes received by average Australians and the incomes received by those at the bottom, either because of low-pay or unemployment. This indicates that two of the key components of the Australian social safety net have failed to keep pace with the rises in average community incomes and this raises questions about the ability of the safety net provisions to provide a level of support that can be regarded as adequate in current circumstances.

Figure 1.1 Movements in Alternative Income Series ($ per week in current prices)



Notes and *Sources*: Levels of both NSA and the minimum wage are measured at September in each year, the average weekly earnings series refers to November in each year (and only available after 1994) and the HDI series refers to the September Quarter in each year. NSA refers to the maximum rate of payment for single people aged 21 or over, does not include Rent Assistance, but does include (since 2013) the Energy Supplement. The minimum wage series is sourced from Bray (2013: Appendix A). The AWE series is sourced from the ABS publication *Average Weekly Earnings*, Australia (Catalogue No. 6302.0) and the HDI per head series has been taken from the September Quarter 2016 issue of *Poverty Lines, Australia* published by the Melbourne Institute.

The widening gap between minimum incomes in and out of work shown in Figure 1.1 reflects differences in how policy choices have affected each variable over the period. While the real level of NSA has, by government action, been maintained through automatic indexation, the

minimum wage has been subject to regular independent reviews (now conducted by the Fair Work Commission) and adjusted accordingly by an independent 'umpire'. Both have been allowed – by conscious choice or as a by-product of neglect – to fall behind average living standards as reflected in the variables charted in Figure 1.1.

The budget standards approach applied in this report allows not just the *levels* of these important variables to be monitored but their *adequacy* to be examined and assessed. This is an important task because the adequacy of the incomes that form the social safety net will affect the degree of exposure to poverty experienced by families in low-paid work, unemployed or unable to work because of a disability or retirement (see ACOSS, 2014b; Saunders, Wong and Bradbury, 2012; 2014; 2016). The balance between social security payments for those unemployed and the minimum wage also reflects the financial attractiveness of being in and out of work and thus affects the financial incentive to move between these two key labour market states.

These factors highlight the importance of ensuring that safety net incomes are adequate but also that work incentives are maintained – a point emphasised by the Henry Tax Review, which noted that:

> 'The primary focus of the income support system has been and should continue to be *the provision of a minimum adequate level of income* to people who are unable to support themselves through work or their savings. This focus on payment adequacy, however, has to be balanced with incentives to work. And payments need to be seen as affordable, sustainable and fair by the community.' (Commonwealth of Australia, 2010: 488; italics added)

Achieving both objectives simultaneously presents a major challenge that requires judgements to be made about what is economically and socially important in Australia. These challenges and complexities mean that research has an important role to play in producing the evidence that can inform public choices and make explicit the basis on which they are made. Although the focus of this report is on the role of budget standards in informing decisions about *income adequacy*, its findings are also relevant to these broader trade-offs between adequacy and incentives.

1.2 Defining Adequacy

Studies conducted by Australian Government agencies over the last three decades have consistently defined adequacy in terms of 'providing a basic acceptable standard of living, accounting for prevailing community standards' (Harmer Pension Review, 2009: xii-xiii; see Saunders and Wong, 2011). Translating this conceptual definition into practical measures of adequacy that attract widespread acceptance and use has, however, proved difficult.

Concern has been expressed by community groups that not all components of the current Australian social safety net satisfy this definition of adequacy. This is particularly the case in relation to NSA – the main form of income support for unemployed people – which for more than two decades has been indexed to movements in consumer prices and has thus fallen increasingly behind average levels of earnings, household incomes and pension payments, all of which have risen in real terms (as indicated in Figure 1.1). The Henry Review noted (Table F1-1) that the relativity between the single rate of NSA and the single rate of pension declined from 89 per cent in 1980 to 68 per cent in 2010 and was projected to fall further to

46 per cent by 2040 if current practices are maintained – an outcome that it described (p. 501) as likely to have 'major implications for payment adequacy'. This decline has made it increasingly difficult for those in receipt of NSA to participate fully in the kind of community life that others accept as normal.

The view that the level of NSA does not meet prevailing community standards was examined by a Senate Committee Inquiry in 2012, which received submissions from a broad range of interest groups, 'the overwhelming majority of which expressed the view that the current rate of payment was inadequate and impeded income support recipients' ability to meet the basic costs of living' (Klapdor, 2014: 1). The wide endorsement of this view, even by bodies like ACOSS and the Business Council of Australia (BCA), highlights the need to establish how much is needed to restore the payment to an adequate level. The BCA has gone so far as to argue that the level of NSA for single adults is such that it 'no longer meets a reasonable community standard of adequacy [and may now be so low that it] now presents a barrier to employment and risks entrenching poverty' (BCA, 2012: 1).

The social consequence of this inadequacy for the lives of those reliant on NSA is illustrated vividly in the interviews conducted by Morris and Wilson (2014). Some of the evidence presented in Chapter 4 reinforces these findings by revealing the problems confronting those who constantly have to make ends meet on a payment that is now widely seen as grossly inadequate. The decision to freeze the living standards of those in receipt of NSA may not have been a conscious decision on the part of successive governments, but it is the inevitable consequence of more than two decades of neglect.

There is, however, no universally accepted method for judging the adequacy of income support payments like NSA or other incomes (like the minimum wage) that form part of the Australian social safety net. The budget standards approach provides a way of assessing income adequacy, but only if the budgets are relevant to the circumstances and conditions facing real families. It is therefore crucially important that the needs themselves, the items required to fulfil them and the prices paid to acquire them are grounded in lived experience and thus reflect actual behaviour. One must also have access to information that sets out and quantifies these factors in a systematic and transparent manner and this is exactly what a budget standard does. By the nature of the exercise, the budgets must also embody normative judgments about needs, otherwise they will simply reflect what families (given their current incomes), not what they *should buy* (in order to satisfy their needs).

Previous budget standards research in Australia and internationally has demonstrated the difficulty involved in getting the right balance between the three key components of any budget standard: judgments about needs (*the normative component*); ensuring that the budgets are consistent with current consumption and participation patterns and community expectations (*the behavioural component*); and doing so in a way that is consistent with the lived experiences of actual families – particularly those on low-incomes that are closet to the minimum (*the experiential component*).

If too much attention is placed on the normative component to the neglect of the behavioural and experiential components, the standards may have little relevance to current practice and accepted norms. Against this, if too much emphasis is given to the behavioural and experiential components, it becomes harder to argue that the budgets provide a benchmark that is independent of current practices and constraints.

The budgets must embody enough of prevailing behaviour and practical experience to make them relevant, while incorporating a sufficient number of judgments about need to also make them normative and thus independent. Above all, they need to be based on the best available data, incorporate the best methodologies and above all, be grounded in the real experiences of the families to which they apply. The following chapters set out how the research was designed and conducted in order to achieve these objectives.

1.3 The Role and Impact of Budget Standards Research

It has already been noted that Australian budget standards research has a long and distinguished history. It began over a century ago when Justice Higgins applied the approach developed by Seebohm Rowntree to develop family budgets that formed the basis of the Harvester Judgement. Since then, following the work of the 1920s Royal Commission into the Basic Wage (the Piddington Commission) (Commonwealth of Australia, 1920) budget standards research has played an important role in Australian wage determination (see Hancock, 1998; 2004: Saunders, 2006). In the 1970s, the Commission of Inquiry into Poverty (1975) adopted a poverty line (the Henderson poverty line – see Chapter 5) that maintained the same percentage ratio of the basic wage plus child endowment (as it was then called) to average earnings. The budget standards underpinnings of the basic wage was thus embedded in Australia's only 'official' poverty line, the Henderson poverty line.

It has been argued – most forcefully by Castles (1985) – that Australia's reliance on an independently-determined, needs-based minimum wage has been a key feature of its unique approach to social policy, characterised as a 'wage earner's welfare state'. Under this approach, the minimum wage sets the safety net standard for those in employment to which other minimum incomes (for those unable to work) are adjusted. Although changes in global economic conditions and in policy settings and priorities have caused a reassessment of the overall policy approach, the minimum wage still exerts a major influence on the entire income structure, particularly as it affects those at the lower end of the income distribution.

The regular Wage Reviews conducted by the Fair Work Commission that set the level of the minimum wage continue to receive submissions in which budget standards estimates are presented as evidence in support of change (see, for example, Fair Work Commission, 2011a; 2011b). The impact of these submissions on the outcomes determined by the Wage Review Panel has varied, although with the passage of time, the budget standards estimates have become increasingly out-dated as they have often been based on the SPRC estimates derived in the mid-1990s – updated to maintain their real value by adjusting them in line with movements in the Consumer Price Index (CPI).

This adjustment process has become increasingly problematic as it takes no account of changes in anything other than the overall level of consumer prices. Reflecting this weakness, the Panel that conducted the 2013-14 Annual Wage Review noted that:

> 'We accept that contemporary budget standards measures can provide an effective means of measuring the needs of the low paid, which can be considered together with other relevant data. However, *the budget standards measures derived from the 1997 SPRC study (sic) do not provide useful contemporary information about the needs of the low paid*.' (Fair Work Commission, 2014: para. 390; italics added)

Despite this assessment, the CPI-updated SPRC budget standards still attract wide support.

One of the regular participants in the debate over setting the minimum wage, the Australian Catholic Council for Employment Relations (ACCER) has recently argued that:

> 'Indisputably, the best evidence in Australia about the needs of low income families is in the budget standards research of the SPRC … they are capable of providing a reference point, but not a standard, for low paid workers and their families.' (Lawrence, 2015: 127)

The view that more recent evidence is a pre-condition for budget standards to have a greater impact on wage-setting behaviour is consistent with the observation that the last serious attempt to derive a new budget standard estimate for selected working families in Australia resulted in a Submission to the 2004 Review that had a major impact on the substantial increase in the minimum wage awarded in that year (Saunders, 2006).

The last attempt to judge the adequacy of Australian income support payments – undertaken as part of the 2009 Pension Review (Harmer, 2008; 2009) – also acknowledged the relevance of budget standards, noting (p. 48) that the approach has 'a strong intuitive appeal'. The Pension Review used updated budget standards to assess the adequacy of the pension (Harmer, 2008: Chart 8) but expressed concerns about the approach, even though it produced estimates that were consistent with the broad thrust of the Review's recommendations. Budget standards estimates were also used in an earlier government assessment of the costs of children commissioned by the Ministerial Taskforce on Child Support (see Henman, 2007a; 2007b).

An extension of the SPRC budget standards estimates forms the basis of the Westpac/Association of Superannuation Funds of Australia (ASFA) Retirement Standard Benchmarks (see www.superguru.com.au/default.aspx) that are widely used to assess the level of superannuation benefits needed by different groups of Australian retirees in order to maintain a standard of living in retirement that reflects their pre-retirement standard of living. In this instance, new budgets were developed to reflect the needs of those more affluent older Australians ('self-funded retirees') who are mainly reliant on superannuation benefits rather than on the age pension (see Saunders, Patulny and Lee, 2005).

In another extension of the SPRC study, McHugh (2002) produced estimates of the costs of infants and younger children that exerted an important influence on the decision to extend and increase the payments made to foster carers by several State Governments. A related application of the SPRC approach was also used to produce the first ever estimates of the cost involved in raising orphans living in rural China (Saunders, Shang and Zhengang, 2007). These estimates formed part of a larger project examining the material needs of orphaned children in China that was influential in leading the Chinese Government to introduce a new cash allowance for orphans. This latter research has since been identified by the University of New South Wales (UNSW) as one of 'ten leading innovations that changed our world' leading in this case to that 'a significant improvement in the living standards of half a million vulnerable children' (see UNSW, undated).

Budget standards have also been used by groups like ACOSS to advocate for higher social benefits (e.g. ACOSS, 2008; 2012), and by others to provide money management and financial counselling advice, to assist the courts to make decisions regarding amounts paid in compensation to accident victims and to assess the ability of people to pay debts and/or service their loans. Elsewhere, the Minimum Income Standards (MIS) developed in the

UK that are based on a budget standards approach have become increasingly important tools for reviewing the adequacy and influencing the levels of minimum incomes (including payments for people with a disability). Recent applications include using the estimates to identify the characteristics of households with incomes below the minimum standard (Padley and Hirsch, 2016), to derive the additional costs faced by different groups of people with visual impairment (Davis, Hill, Hirsch and Padley, 2016) and to assess the adequacy of the Minimum Wage and Living Wage (Hirsch, 2015).

The EU publishes reference budgets to assist households with budgeting decisions as part of its social inclusion strategy (see www.referencebudgets.eu) and has recently funded research to develop comparable reference budgets for a range of families living in major cities in 6 EU countries (Goedemé, Storms and Van den Bosch, 2014, 2015a; Deeming, 2017). The 'dollar a day' international poverty line used by the World Bank to monitor trends in global poverty against the UN's poverty reduction goals is based on national poverty lines in the world's poorest countries that are themselves derived from a restricted budget standards approach, encompassing mainly nutritional needs and food budgets – see Ravallion, Datt and van de Walle (1991). These many applications illustrate the important role that budget standards research can play in informing a wide range of public and private decisions that would otherwise lack a robust basis in evidence.

In addition to the growing interest in budget standards estimates by a range of national and international government and non-government agencies, there have been important developments in the methods used to construct the budgets. This reflects growing interest in the topic among academics and other researchers in how the budgets are constructed and how they should be interpreted and applied. The recent EU Reference Budgets study referred to above contains a comprehensive review of recent developments and many of the issues involved in this assessment and other important developments are summarised in the following chapter.

One criticism that has been levelled at the budget standards approach is that it is necessary to make a large number of assumptions and judgements in order to specify the characteristics of every single item in the family's 'basket of goods', making the estimates arbitrary (see Whiteford and Henman, 1998). The response to such criticism is that this is an inevitable consequence of developing any benchmark for assessing income adequacy since – as the accepted definitions of adequacy cited earlier make clear – this task is in essence normative. The difference is that these assumptions and judgments are made explicit and transparent when a budget standard is constructed, but are implicit and concealed when other approaches (e.g. those based on aggregate income levels or poverty lines) are used.

Only when the budgets have been fully developed, is it possible to vary or omit certain items and examine the consequences, not only for the overall cost of the budget, but also for the standard of living or lifestyle that it is designed to support. The criticisms levelled at budget standards raise important issues about what items to include and why, and these need to be kept in mind, but they do not provide a case for dispensing with the approach altogether. It is only through the development of a comprehensive and coherent *framework* and the use of these to draw together the assumptions and judgements with relevant data that these important issues can be examined systematically. The flexibility of budget standards approach also allows users to vary particular aspects of the budgets and examine the impact of such changes.

When it comes to implementing the recommendations that flow from budget standards research - i.e. to increasing those payments that are shown to be inadequate – then a series of new issues emerge. However, these relate to the political considerations that are involved rather than to issues of research methodology, empirical validity or statistical robustness. It is often the case that research that generates implications that do not align with prevailing political priorities is portrayed as flawed, primarily because it has strayed into the 'firing line of politics'. Those who take this view confuse the production of uncomfortable findings with a lack of scientific rigour.

In fact, as noted earlier, many of the identified criticisms of budget standards estimates (e.g. the treatment of, and variation in, housing costs) apply equally to other adequacy benchmarks (e.g. relative poverty lines based on median income) that are in common use (see Pech, 2011). But the criticism is often levelled only at budget standards because there the issue is handled more explicitly. An example of this can be found in the reasoning of the Pension Review, which noted that: '… budget standards … *cannot provide an objective measure of need*' (Harmer, 2009: p. 48; italics added). This statement is correct, but only because it applies to *any* attempt to identify and measure needs, which must involve making normative choices that are relevant to a concept that cannot be measured objectively.

One response to the criticisms that have been levelled at budget standards is to omit items like housing costs that vary greatly between families, even those at the same or a similar standard of living. Because it is impossible to estimate a single figure that is representative of the housing costs facing families in different circumstances (even among those in a given tenure situation like home purchasers, or private renters), it has been argued that it may be better to omit this item altogether and leave it to others to include these costs separately to reflect specific applications (Henman, 1998a; 1998b). Again, it is worth observing that most other adequacy measures also do not vary by location (e.g. poverty lines set as a percentage of median income). The failure to incorporate a locational dimension is again not specific to budget standards (although it is acknowledged that measuring poverty after-housing costs does allow indirectly for regional variations in housing costs).

It has already been noted that a budget standard embodies three forms of input: normative, behavioural and experiential. Although all budget standards estimates combine elements of all three components, there has been a discernible trend in the literature towards giving greater emphasis to consumer/family input and less weight to the views of experts and to reliance on survey data (see Deeming, 2005; 2017). This reflects the view that families are the best judges of their own needs, and that expert input is often out of touch with reality, while reliance on survey data on actual spending patterns introduces an element of circularity since people spend what they can afford (or want), not what they need.

The new approach ensures that people are fully engaged at all stages of the development of the standards in order to ensure that the standards are 'rooted in social consensus about the goods and services that everyone … should be able to afford' (Bradshaw et al., 2008: 3). Although a worthy objective, this ideal is difficult to achieve in practice and, as Deeming (2017) has noted, the appropriate balance between the three forms of input remains highly contested and there is no consensus about which should be given greatest importance. One of the motivations underlying this study is that as the number of budget standards studies grows, so too will the accumulation of knowledge and expertise that is needed to achieve a greater degree of agreement about the 'best' ways of tackling the many problems that must

be confronted. As research capacity in the field of budget standards research expands so too will the quality of the results produced – an approach that reflects best research practice generally.

Underlying any budget standard is a standard of living that can be achieved (and sustained) by the calculated budget. The two standards used in the earlier SPRC study drew on the work of American economist Harold Watts (1980; 1993) who developed the concepts of Modest But Adequate (MBA) and Low Cost (LC) standards. However, the rather vague statements that define these two standards add to the practical complexity involved in setting them at the same level for different family types. This latter issue presents formidable problems when it comes to comparing families that have very different needs and spending patterns - for example young couples with and without children, or couple and sole parent families with the same number of children, or adults with and without children. These families differ enormously in terms of their levels and patterns of spending, the degree to which they can engage in cost substitution and how they allocate their time, but the budget standards approach focuses on only the first of these. This can produce anomalous results: for example, the difference in the budgets for those with and without an infant child may end up being rather small, on the face of it implying that the financial costs of having a young child are rather low. In fact, however, a large part of the difference in the budgets reflects the time constraints imposed on parents with young children, not their spending constraints, as the reduced spending by parents on social activities is replaced by increased spending to meet the material needs of the children.

A recent trend in budget standards research – emanating from within public health research in the UK - draws on the idea of a Minimum Income for Healthy Living (MIHL) as the foundation on which the standards can be constructed (Morris and Deeming, 2004; Morris, Deeming, Wilkinson and Dangour, 2010; see also for an application to New Zealand, O'Sullivan and Ashton, 2012). The MIHL approach does not explicitly address the time constraints referred to above, although it can do so indirectly (for example, parents can buy child care to free them up to pursue health-promoting activities) and is thus appealing on several levels.

The idea of healthy living reinforces the importance of ensuring that all family members can participate socially and are able to access the goods and activities that contribute to good health. The MIHL standard thus has direct relevance to the social inclusion policy agenda, since poor health and disability often act as barriers preventing those affected from participating. Secondly, the maintenance of good health has become a focus of policy in many different areas and has drawn attention to the need to develop a comprehensive, integrated approach. By providing a link to the healthy living concept and giving greater weight to the knowledge that exists among community members (both as citizens and as practising budgeters) the MIHL budgets are better grounded in existing knowledge and are more credible to a broader range of stakeholders and end-users.

1.4 Research Aims

Many of the issues raised by the developments reviewed above are unresolved and the subject of on-going research. However, their existence has reinforced the need to review and update the existing Australian standards so that they incorporate international

best research practice. It is also clear that there continues to be a strong demand for the development of measures that can be used – in conjunction with other methods and measures - to judge the adequacy of the incomes provided by existing policies and institutions. The growing need for evidence informed policy suggests that a new budget standards study is needed to ensure that the Australian evidence retains its relevance.

The goal of the research reported here is thus *to produce a transparent, detailed, state-of-the-art template and set of budget standards that can serve as adequacy benchmarks in contemporary circumstances and as a blueprint for the future*. This has involved reviewing, refining, modernising and updating the SPRC budget standards developed in the mid-1990s so that they can contribute to current debates about the adequacy of key components of the Australian social safety net. While also giving the estimates a firmer basis in recent research developments, a sharper focus and increased relevance, the project will also contribute to building longer-term research capacity by training a new generation of budget standards researchers.

The three principal goals of the research are thus:

1. To build on existing research to develop a set of contemporary budget standards that reflect the needs of low-income working and unemployed individuals and families that can be used to assess income adequacy and guide decision-making;
2. To forge a new link between income adequacy research and research on the requirements for healthy living in the home, school, workplace and when looking for work; and
3. To engage actively with Australian families and other end-users to ensure that the standards conform to prevailing community standards, practices and expectations.

The research was funded by the Australian Research Council (under Linkage Grant project LP120200481) and was conducted in partnership with three of Australia's leading non-government agencies: Catholic Social Services Australia; United Voice (National Office); and the Australian Council of Social Service (ACOSS), who provided a mix of cash and in-kind support. The project also benefitted enormously from the comments and advice provided by three leading researchers in the field (Professors John Buchanan and Adrian Bauman from the University of Sydney and (in particular) Associate Professor Paul Henman from the University of Queensland), who served along with representatives of the Partner Organisations as members of the Project Reference Group. It is important to emphasise that none of these organisations or individuals are responsible for the results produced, or how they have been used and interpreted in this report.

This report will be accompanied by a short 'plain English' summary of the project's methods, findings and implications for those mainly interested in the key points. The goal is to make the findings widely available so that they can be used to inform decisions, influence policy and, most importantly, to raise public awareness of the existence of budget standards research and generate wider debate over adequacy issues. The over-riding aim is to breathe new life into Australian budget standards research so that it can be routinely applied with confidence in a broad range of policy and other settings.

1.5 Outline of the Report

Chapter 2 expands on some of the issues raised above by reviewing in more detail recent developments in budget standards research and on the uses to which that research has been put. The review does not aim to be comprehensive, but focuses on those developments that have a direct implication on how the research was conducted. Thus, only limited aspects of the important research underlying the development of the Minimum Income Standards (MIS) for the United Kingdom now undertaken by researchers at the Centre for Research in Social Policy (CRSP) at Loughborough University (and before that, by CRSP and the Family Budget Unit at the University of York) are discussed. Similarly, no attempt is made to cover all of the many important insights and contributions that have emerged from the recent EC Reference Budgets study (or from the academic literature on budget standards and income adequacy more generally). Despite this, the chapter provides a concise summary of the research issues and developments that shaped how the current project was designed and conducted.

Chapter 3 describes in detail the methods used to construct the new budgets. The starting point for this discussion is the budgets developed by the SPRC in the 1990s and the basic principle was to adhere to the methods used previously unless there was a good reason to differ. In fact, in practice there were more deviations than was envisaged at the outset, many of them reflecting changes in individual practices and organisational behaviour, or responded to the criticisms levelled at the earlier study. Other differences were a consequence of adopting the healthy living MIHL standard rather than the MBA and LC standards as the basis for constructing the budgets. Others reflected the feedback provided during the focus group discussions (see Chapter 4), or decisions made about how the earlier approach could be improved, or to reflect the availability of new or better data. This has meant that the chapter is longer than anticipated, but it is important to document how the budgets were constructed so that others can replicate the approach or vary its components to see what difference it makes.

Chapter 4 describes the processes that were used to recruit participants into the focus groups and summarises the main findings that emerged from those discussions. The focus group component of the study was important because it was the vehicle through which the researchers engaged directly with families about their needs and how they went about meeting them through specific purchases and other actions. The approach provided the information needed to ensure that the budget standards are grounded in the lived experiences of those low-income Australians to which they are relevant. As will become clear, this was one area where what the project was able to achieve fell some way short of original expectations – mainly as a consequence of unforeseen problems encountered in recruiting focus group participants, particularly those in low-paid employment. Despite this, the discussions provided a range of valuable information that influenced what was done in several key areas. **Appendix A** provides further detail on how the focus groups were recruited and conducted.

Chapter 4 also provides a number of important insights into the lives of low-income Australians who are struggling to make ends meet in an environment where many others are experiencing rising real incomes and increased living standards. It documents the many difficult choices that those forced to survive on a low income have to make on a daily basis

and the sacrifices and foregone opportunities. It brings home the key message that living in poverty involves being deprived and facing exclusion on many fronts simultaneously. It reminds us that not everyone has shared in the rising prosperity that economic growth has delivered to the majority, that economic gaps have been widening, and that the important task of ensuring a 'Fair Go' for *all* Australians is unfinished business.

Chapter 5 presents and analyses the new budget standards estimates and examines what they imply about the adequacy of two key elements of the existing social safety net: the minimum wage and NSA. This involves expanding the estimated budgets to include housing costs to derive 'grossed-up budgets'. After reviewing several ways of doing this, the grossed-up budgets based on the preferred approach are presented and compared with existing poverty lines and with what each family type would receive if they were either employed and receiving the minimum wage or unemployed and receiving NSA. Differences in the (grossed-up) budgets for different family types are used to derive estimates of the different elements of family budgets, including the costs of adults and children, and the extent of economies of scale in family budgets.

Appendices B and C provide additional comparisons of the new budgets with the updated original budgets and with the latest ABS data on household spending levels and patterns.

Finally, Chapter 6 draws together the main findings, provides a summary assessment of what the project has achieved and describes the implications of its findings – for the adequacy of current arrangements and for policy and for future research. In relation to the policy implications, the goal is not to specify in detail how existing deficiencies should be addressed, since this can obviously take many different forms. The discussion focuses on those elements of current arrangements where improvement is most urgent. This analysis is accompanied by some concluding reflections on the current state of budget standards research and some suggestions for what is needed to build a stronger platform for future developments.

2 Recent Developments and Applications of Budget Standards Research

2.1 The Changing Research Landscape

This chapter provides an overview of recent developments in budget standards research as background to the material presented later. The aim is not to provide a comprehensive review of recent literature in the field since others (referenced in the following discussion) have already done this. Although the main focus here is on updating an existing set of budget standards estimates, it is important to ensure that the new estimates embody research developments and reflect current international 'best practice'. Reference has already been made to the limited recent Australian experience with budget standards research and it is to overseas developments that one must look for extensions to the approach. These developments have been led from Europe, specifically from the UK and, more recently, from within the EU more generally.

It is also important to acknowledge at the outset that budget standards continue to attract attention in North America, where Fisher (2007) has noted that they have a long history, having been first developed in 1891 and where important work undertaken in the 1950s and 1960s by Harold Watts (1980) laid the foundation for Bradshaw's revitalisation (Bradshaw, 1993). They also provided the impetus for Citro and Michael (1995) to propose a budget standards-based modernisation of the US poverty line (see also Johnson, Rogers and Tan, 2001). Several Asian countries have also derived budget standards estimates and some of them (including China and Korea) have based elements of their safety nets on these estimates.

A number of other countries have developed their own budget standards in recent years, including France, under the auspices of the National Observatory on Poverty and Social Exclusion (ONPES) and Japan, where an initiative by the Ministry of Health, Labour and Welfare led to the formation of a broad consortium of research institutes and academic departments that has developed a Minimum Income Standard for Japan using a budget standards methodology (see Davis et al., 2014 for a brief description of the approach, written in English). Although the developments in Japan are still in their infancy, it is clear that budget standards are being developed in many countries with different economic, social and cultural backgrounds.

The UK-Japan comparisons presented and analysed by Davis et al. (2014) highlight the value of the estimates and illustrate an important development in the recent literature: the application of a standard methodology in a comparative context. In describing their work, the authors emphasise the benefits of the approach, noting that:

> '… the fact that two different countries adopt somewhat different definitions of the minimum does *not* undermine comparability in MIS terms. On the contrary, it emphasises that in different cultural settings the level of the minimum must be derived using non-identical criteria. The key commonality is that in both cases the definition

> was based on detailed discussions with members of the public, and so reflects the same underlying method. MIS is not designed to produce an international standard, but does allow comparison of incomes in different countries relative to each country's own minimum standards' (Davis et al., 2014: 91; italics in the original)

The study ends by noting that the approach described is being applied in a number of other OECD countries, including - in addition to France - Ireland, the Netherlands, Portugal and Spain.

Italy can be added to this list, although the approach adopted there differs from the consensual approach that underpins the UK-Japan study. The Italian National Institute of Statistics (ISTAT) produces regular estimates of poverty in Italy using the concepts of relative and absolute poverty (see ISTAT, 2016). The threshold used to identify absolute poverty is based on a budget standards approach as the following statement makes clear:

> 'The estimate of absolute poverty defines as poor a household with a consumption expenditure lower or equal to the monetary value of a basket of goods and services considered as essential to avoid severe forms of social exclusion. Essential requirements are identified in adequate nutrition, availability of a dwelling and minimum necessary to dress, communicate, learn, move, recreate and be in good health' (ISTAT, 2016: 10)

This is one of the few instances where a budget standard has been used to set a poverty line, most other countries preferring to use budget standards alongside other measures to establish whether or not existing income provisions are adequate or to set the levels of income support, not as the basis for measuring poverty. However, the ISTAT approach highlights the close association between a budget standard and a poverty line that was the focus of Rowntree's original study. This relationship is examined further in Chapter 5, where the new estimates are compared with two Australian poverty lines.

In the UK, Bradshaw's research in the early-1990s led to the establishment of the Family Budget Unit (FBU) at the University of York and although the FBU still exists, recent work on the UK Minimum Income Standard (MIS) is now led by the Centre for Research in Social Policy (CRSP) at Loughborough University. As noted on the CRSP website, the scope and influence of its work on MIS have been expanding:

> 'A Minimum Income Standard for the United Kingdom is a major programme of work regularly reporting on how much income households need to afford an acceptable standard of living … The impact of MIS has been wide-ranging. It is used frequently in policy debate and analysis and at a more practical level by some charities to target financial support. MIS forms the basis for setting the Living Wage outside London, endorsed by the Living Wage Foundation and adopted by public, private and voluntary bodies … As well as calculating MIS levels for the UK as a whole, CRSP has done the same for rural areas in England and remote parts of Scotland, and for Northern Ireland. It has also explored whether environmental considerations may affect social definitions of a minimum, and whether older pensioners have different minimum income requirements from younger ones' (accessed from the MIS website at CRSP at: http://www.lboro.ac.uk/research/crsp/)

The growing influence of the MIS and its off-shoots and the increasing number of applications illustrate the potential of budget standards research to contribute to the assessment of income adequacy and related policy issues – as long as the policy and political climate is conducive.

These developments have not happened over night. Over the last three decades, UK researchers have been actively engaged in budget standards research and key funding agencies like the Joseph Rowntree Foundation (JRF) have invested in evidence-gathering and the infrastructure needed to support the research. This funding has allowed the researchers involved to address methodological and other criticisms of their work and seek further improvement (see Deeming, 2010; 2011). At the same time, there has been a concerted effort to ensure that results are widely disseminated and that government departments and non-government agencies with an interest in income adequacy, poverty and social exclusion are involved in the process. These developments highlight what can be achieved by budget standards research if it is properly resourced and promoted, and underline how poorly Australia has performed in recent years.

No single cause can explain why the UK has performed so well and Australia so badly in this field. *Funding availability* (or lack of it) is one issue, but this by itself will only lead to *funded projects* if the research is of a sufficiently high quality to be able to compete successfully with other demands on the limited research funds available. In addition, given that most of the funds for budget standards research are provided by non-government foundations keen to promote social change, there is a strong focus on funding research that can have a demonstrable impact. The political climate in Australia over the last two decades has not been conducive to budget standards research, with both major political parties focusing on issues of the targeting and conditionality of benefits rather than on the payment levels themselves (with the notable exception of the Pension Review referred to earlier).

One factor that has helped to reignite interest in budget standards research in Europe has been the growing interest in the issue of social exclusion and the associated rise to prominence of the social inclusion policy agenda. This has drawn attention to the need to better understand the factors contributing to different forms of exclusion, one of which is the cost involved in social participation, which the budget standards approach is ideally equipped to examine and quantify. Another key factor has been the willingness of UK researchers (and others) to acknowledge the limitations and weaknesses of the methods used in the earlier budget standards research and implement new methods that address them. In order to understand how this has happened, it is necessary to set out briefly the framework on which the earlier studies were based.

2.2 Basic Building Blocks

In order to develop a budget standard, two key ingredients are required. Firstly, it is necessary to specify the *standard* that the budget is intended to support and secondly, to identify and price the *items* that are included in the budget. Both tasks present formidable but different challenges. The first involves confronting the many conceptual issues surrounding the notion of the standard of living (see Sen, 1987) and arriving at an articulation that is brief and implementable – one that provides clear guidance to those responsible for constructing a budget.

The concepts of Modest But Adequate and Low Cost first articulated by Harold Watts as the basis on which to develop their budgets differ in that while the former is intended to provide access to available economic and social opportunities, corresponding to a level of decency that fits between survival and affluence, the latter is intended to capture a minimal standard

of living that requires the frugal use of resources but still allows a degree of economic and social participation. In practice, the MBA standard was assumed to fall around the median (mid-point) of living standards in the community as a whole, and the LC standard at around half this level (at about one-half of the median). There, however, are a number of inherent problems with both concepts, including how to give practical meaning to concepts such as 'frugal', 'decency' and 'affluence' that raise questions about what to include and exclude from the budgets and how to establish where the community living standard median lies.

In addition, the focus is on what people need to *consume* to achieve the specified standard and this can be criticised for being too narrow. As Bradshaw and colleagues have acknowledged:

> 'There will be arguments about the components of a modern budget standard just as there were about Rowntree's standards. The quality of people's lives cannot be completely represented by the goods they consume' (Bradshaw, Mitchell and Morgan, 1987: 180)

Running alongside these conceptual ambiguities are the many practical challenges involved in constructing a family budget that contains hundreds of items, each of which has to be identified and then priced. This must be done in a way that maintains the same underlying standard across families, otherwise it is impossible to establish how much of any observed difference in the budgets produced for different families reflects differences in the costs of achieving a given standard and how much reflects a change in the standard itself.

When it comes to constructing the budgets item by item, the FBU approach is based on a common template which draws on the three kinds of data identified earlier: normative, behavioural and experiential. The general trend in much of modern budget standards research – certainly that conducted in the UK – has been, as noted, to assign greater weight to the focus group input at the expense of input from experts (normative) and survey-based (behavioural). As Deeming notes:

> 'Focus groups enable researchers to gain insights into people's shared understandings of everyday life, including the ways in which individuals are influenced by others in a group situation … [They are] an important tool for determining decisions on the essentials of life; the 'data' are reliably grounded in the context of community, and the basket of commodities, when priced, can inform the development of reference budgets that reflect socially acceptable minimum standards of living' (Deeming, 2017: 35-6)

One of the most noticeable differences between the original budget standards developed by the FBU and those that underpin the MIS estimates is the greater but more deliberative role given to focus groups in the latter. This development reflects earlier work conducted at CRSP by Middleton (2000) and Middleton, Ashworth and Walker (1994) which demonstrated that it was possible to develop a consensual budget standard by bringing members of the public together in focus group meetings to reach 'agreement (consensus) about what people need as a minimum' and to use this as the basis for 'drawing up budgets to meet those needs' (Bradshaw et al., 2008: 2).

The first MIS report describes the approach adopted as a 'blend' between the methods adopted previously by the FBU and CRSP, noting that:

> 'The consensual budget standards (CBS) method developed over the last decade at CRSP takes a similar approach to the FBU, but, instead of panels of professional experts, ordinary people representing different family or household types were brought

> together to form budget standards committees considering minimum needs. The rationale for this is that people living in a particular household type are best placed to construct a budget for such a household. The CBS approach assumes that, for society to agree a particular minimum standard of living, there needs to be informed negotiation and agreement about what constitutes a minimum, via a derivative of focus group methodology' (Bradshaw et al., 2008: 3; italics added)

The shift in approach has been neatly summarised by Vranken (2010) as one in which the role of the focus groups has moved away from validating budgets designed by experts to one in which the focus groups now design and decide budgets that the experts then validate.

When put this way, it is clear that this is a significant shift, with much greater emphasis now placed on the ability of the focus groups to reach agreement and for the substantive components of that agreement to be robust and not subject to the specifics of how a particular focus group is run and who is attending. Without that assurance, the reliance on focus groups could produce a degree of 'consensus' that is unwarranted – at least as that word would normally be understood.

This concern is shared by members of the research team that has been involved in the EC Reference Budgets study referred to earlier, who argue in relation to the increased reliance on focus groups in the MIS approach that:

> '… if RBs [Reference Budgets] are based on focus group discussions, as in the consensual approach, the question arises what the outcome would be if other (though similar) people would have participated in the focus group discussions. Also, a lot may depend on *how* the focus group discussions, researchers and experts contribute to the outcome … seemingly innocuous changes in the procedure and in the way that the issues are presented to the participants should not have a large impact on the results' (Goedemé, Storms and Van den Bosch, 2014: 17)

The researchers go on to note that it was not possible to test the robustness of their focus group outcomes (mainly because of the small number of groups involved) although they did point out that differences emerged in the agreements reached by focus groups conducted in Ireland and the UK even though they were part of a common study which was based on the same underlying standard.

The emphasis given to focus group input remains controversial and despite recent UK developments, the MIS consensual approach was not incorporated into the EU study. The key question is whether and how focus groups can reach a consensus on the budgets that is detailed enough to allow the researchers to include and price specific items. This requires participants to have detailed knowledge about all items in the budgets, not just those that they themselves are familiar with, and for the group to be able to reach a consensus when there are differences of opinion and experience. It also requires that this consensus is similar between the different groups – otherwise it cannot be described as a social (as opposed to a group) consensus.

In the original Bradshaw study and in the earlier SPRC study, focus groups were not asked to reach a consensus on what should be included in the budgets, but rather to provide feedback on the general shape of the budgets, including how they were broken up into weekly amounts in each of the main budget areas: food; clothing; housing; transport, and so on, and on the assumptions used to construct the budgets (including where people shop

and how long items last for). This is a far less demanding task, but one that still allows the budgets to be better grounded in actual experience. Against this, it does not allow claims to be made about the budgets reflecting a consensus between actual families – a claim that, if it can be justified, can go a long way towards raising the credibility of the estimates and deflecting criticism that they are expert-led and thus out of touch.

2.3 The EU Reference Budgets Study

Thus far, the discussion has mainly focused on changes in the methods used to derive a budget standard – or at least, changes in the balance between the alternative inputs identified by Deeming. Other recent developments in the budget standards literature have been more profound. Many of these have emerged from the recent European Commission Reference Budgets (hereafter EC-RB) study that has already been referred to (Storms et al., 2014; Goedemé et al., 2014; 2015a; 2015b). Part of this project involved conducting a major review of budget standards research and much of that terrain will not be covered again here, although the following discussions seeks to draw out some of the findings that are most relevant to this project.

The EC-RB project began from the premise that the FBU approach 'lacked a clear rationale or guiding idea' (Storms et al., 2014: 19) which, in combination with concern over the reliance on focus groups to reach a consensus in the MIS approach, called for a new approach. One of the driving forces behind the EC-RB project was the EU social inclusion agenda and this explains the decision to develop a standard to which the RBs should apply that relates to that agenda. The research drew on theoretical research on basic needs conducted by Doyal and Gough (1991) which identifies a set of intermediate needs that must be satisfied at some minimal level if the two universal needs – physical health and personal autonomy - are to be satisfied.

Within this framework, the targeted standard was defined in terms of *the minimum financial resources required to participate adequately in society*. This definition drew on the targeted standard used in many existing national RB studies and has obvious relevance to and connection with the EU social inclusion agenda. It is worth emphasising at this stage that the main aim of the EC-RB project was to develop a framework for the development of RBs that could be applied *consistently* across all EU countries in order to produce *comparable* estimates of the minimum incomes required in each country to achieve an adequate level of participation. The need for comparability places additional demands on the approach selected and although this is an important factor to bear in mind when considering the EC-RB project as a whole, this aspect is not directly relevant here and so is not discussed further below.

Once the targeted standard had been set, the next step involved agreeing on a target population, or a set of families to which the new budgets will apply. Further assumptions then have to be made about the characteristics of the families and their members, including their state of health (assumed in all cases to be 'good'), their competencies (they are all assumed to contain well-informed people who are capable of making rational choices) and a set of rules for the treatment government-provided goods and services.

The researchers also identified a set of criteria that can be used to assess the quality of budgets. These are that they should be:

- valid, transparent and acceptable;
- robust;
- comparable;
- timely and susceptible to revision; and
- responsive to policy interventions but not subject to manipulation

These criteria overlap to a considerable extent with those developed earlier for the EU social indicators by Atkinson, Cantillon, Marlier and Nolan (2002) but their application in a budget standards context provides a framework for resolving the many choices and trade-offs that have to be confronted when developing a reference budget. The transparency, robustness and comparability criteria, for example, help to explain why the EC-RB research team chose not to follow the MIS approach in giving more weight to focus groups. Similarly, the acceptability criteria can explain the comment that:

> ' … if the RBs are to generate wide public support, the resulting monetary amounts should broadly correspond to what people intuitively believe are the minimum necessary resources for achieving the targeted living standard' (Goedemé et al., 2014: 16)

In this case, however, questions can be raised about how people's 'intuitive beliefs' are established and why adherence to this principle does not compromise the RBs' ability to provide an *independent* benchmark for assessing income adequacy.

These observations should not detract attention from the extremely useful work that has been done by the research team responsible for developing the new EC-RBs. There can be little doubt that the research provides a comprehensive and authoritative assessment of the role, construction and interpretation of budget standards/reference budgets that will serve as a valuable resource for future generations of researchers in the field.

An example of how the EU Reference Budgets study is already being used as a template for further work is the recent study by Cussó-Parcerisas et al. (2016) which applies the framework to develop budgets for a range of Spanish family types. The standard to which the budgets apply is (as in the broader EU study) one which captures: 'the minimum financial resources needed to participate adequately in a given society which allows people to fulfil their social roles' (Cussó-Parcerisas et al., op.cit.: 3). Budgets were constructed for the following 8 broad areas: (1) healthy food; (2) suitable clothing; (3) rest and leisure; (4) personal care and health care; (5) maintaining significant social relations; (6) safety in childhood; (7) mobility and (8) housing - although housing costs were calculated and included separately because of the complexities involved in their estimation. This application of the methodology is likely to be the first of many and it is encouraging to note that (despite the differences in nomenclature) the main ingredients of the application share many similarities with those adopted here and described further below.

2.4 The Healthy Living Standard

It is important to acknowledge one other branch of the budget standards literature that is of more direct relevance to the current project. This relates to work instigated by UK public health expert Jerry Morris and his colleagues in developing the concept of a minimum

income for healthy living (MIHL) that provides a formulation of the targeted standard to which family budgets can be developed (Morris, Donkin, Wonderling, Wilkinson and Dowler, 2000: Morris and Deeming, 2004; Morris, Wilkinson, Dangour, Deeming and Fletcher, 2007; Morris, Deeming, Wilkinson and Dangour, 2010). As the last of these studies explains, the approach involves a four-stage process: (1) draw on available public health research to identify personal needs in key areas of health for particular population groups; (2) translate this information into ways of living using existing surveys of lifestyles and public opinion; (3) cost these lifestyles in current circumstances; and (4) derive the out-of-pocket costs to individuals, after allowing for prevailing public provisions.

The approach has broad appeal because it specifies the targeted standard in a comprehensible way that few can disagree with: the concept of healthy living is now widely used to promote everything from dietary guidance, the need for appropriate regular exercise, the use of sunscreen, wearing appropriate clothing and footwear and access to relevant facilities in the home, workplace and other institutional settings. The list illustrates the broad scope of the healthy living concept and highlights why it can be used as a targeted standard in the current context. All existing budget standards studies incorporate elements of the MIHL concept: thus, food budgets are always based on recommended nutritional requirements, while items that appear in the clothing and footwear, health care, transport, housing and personal care budgets also comply with existing (normative) public health recommendations.

Although the budgets derived here cannot be claimed to be as firmly underpinned by public health research as is the case for the UK research cited above, the MIHL concept has guided the approach taken to review and revise the original SPRC budgets. This can best be seen by noting that all four words in the MIHL concept played an important role in guiding the research: **Minimum** – the focus is on identifying the minimal level of consumption that is consistent with the underlying ideal; **Income** – the focus is on how much money is needed each week to purchase the necessary items; **Healthy** – this is the key attribute that determines the items that are needed to ensure its attainment; and **Living** – which puts the focus on how people lead their lives and what is needed for them to attain and maintain the appropriate standard.

Throughout their development the revised budgets have been continuously reviewed to ensure their consistency with the concept of healthy living – as it affects people (adults and children) in their roles as consumers in the marketplace, as students at school, as parents in the home and as workers in the workplace. This focus on healthy living provides an important link between budget standards research and wider debates on social participation and inclusion, thereby increasing the relevance and value of the estimates in a range of public policy contexts.

2.5 Uses of Budget Standards

The discussion so far has focused on alternative approaches used to *derive* a budget standard. It is important to complement this discussion with a few comments about the *uses* to which budget standards have been put in those countries where the research has been most active. In their recent review, Storms et al. (2014: Table 13) identify a number of uses to which RBs have been (and are being) put in different EU countries. The list of applications

includes: to assess the extent of poverty; to assess the adequacy of social benefits; to assess the adequacy of minimum wages; to assess the validity of relative income poverty thresholds; to generate equivalence scales; to derive credit scores and assist with financial education and counselling; to determine eligibility for income support by social welfare offices; and to assess rent norms.

Bradshaw (2016) has recently noted that budget standards have been used extensively by the courts in the UK to help them establish what level of fines to impose and the level of compensation for personal death or injury. The Australian experience confirms that a similar demand from the courts followed the release of the previous SPRC study, and that demand shows no signs of abating. The new MIS has been a critical input into the setting of the London Living Wage (which is higher than the official Minimum Wage), with 'thousands of employers throughout the UK agreeing to commit to pay their staff the Living Wage rather than the Statutory Minimum Wage' (Bradshaw, 2016: 2). Again, as the earlier discussion reveals, the Australian experience is broadly similar, with the SPRC budget standards playing an important role in debates over the adequacy of the minimum wage and as a benchmark for determining future increases (Pech, 2011).

2.6 Concluding Comments

This chapter has reviewed some of the main recent developments in budget standards research and has highlighted several issues that need to be addressed when constructing a budget standard. The main message that emerges from the discussion is an important one. It is that *budget standards research is not only alive and well in those countries that have traditionally emphasised its importance, but is also growing in importance in many other countries*. This is particularly the case in Europe but extends beyond there to include many of the countries in the Asia-Pacific region.

Australian budget standards research has to date been largely ignored by those in government who have most to gain from ensuring that more and better research is conducted. This will only happen once a critical mass of researchers is established to ensure appropriate peer review processes are in place to guarantee research quality and excellence. The fact that judgements are a critical input at all stages of the development of a budget standard does not mean that the results are of no use. Decisions about adequacy have to be made on a regular basis and although there is no scientific basis for establishing 'How much income is enough?' to merely ask the question draws attention to the information and evidence - and judgements - that have to be made to answer it.

Budget standards research has the potential to provide a framework for identifying which of those judgments have the greatest impact on the findings and a process for allowing the implications of alternative judgements to be compared and evaluated. Given the importance of the issues at stake – the adequacy of the living standards that can be supported by the existing social safety net – there is no rational basis for rejecting the role that budget standards research can play in influencing these critical social choices.

3 The Approach Adopted – Key Methods and Assumptions

This chapter describes in detail the methods that were used to construct the new budgets, focusing on the underlying general principles and the specific instances where what was done differed significantly from what was done in the previous SPRC study (Saunders et al., 1998). Some readers may find it helpful to have a copy of the earlier report at hand when they read this chapter since this will make it easier to follow the basic approach that serves as the benchmark against which to compare the deviations described below. Alternatively, one can consult the papers by Henman (1998) and Saunders (1998) that summarise the earlier report.

To reinforce a point made earlier, these differences between what was done in each of the two studies occurred either when it was not possible to replicate what was done earlier (for reasons which will be outlined in each instance) or because new assessments of best practice and/or new data availability meant that a superior approach could now be implemented. Against this, funding for this study restricted what could be done in the time available – despite it being more cost effective by drawing heavily on the methods developed earlier.

Further details of the differences between the new estimates and those derived (and updated) from the earlier study are contained in **Appendix B**.

3.1 General Approach – Key Elements

The construction of a budget standard is a three-stage process in which needs and the broad areas of expenditure are first identified, the items required to satisfy those needs are then specified and these items are then priced. The resulting dollar amounts (expressed throughout this report in dollars per week) are then added up to derive the total in each budget area and these are then summed again to produce the overall budget.

In practice, this involved taking the original SPRC MBA budgets as the starting point for development of the new budgets for low-paid workers, and modifying them to ensure that each main budget area included items that were necessary to attain the healthy living objective. Once this had been achieved using available data, the resulting low-paid budgets were further modified to make them relevant to unemployed individuals and families. This involved making a number of modifications, including varying the number, quality, lifetimes and/or cost of items as appropriate to produce a lower overall standard without compromising the healthy living achievement.

The focus on healthy living provides an important new link into wider debates on participation, opportunity, development and inclusion, thus making the healthy living budgets relevant to a wide range of current social policy issues and public policy challenges. It also makes the research more aligned with the imperatives that are driving the current government's economic and social agendas, including the emphasis given to increasing

workforce participation among older Australians in order to ease the financial burdens associated with the ageing of the population. A healthier workforce-age population will develop into healthier cohorts of older Australians, reducing demands on the health care system and increasing the numbers who have the capacity to continue working after reaching the age of 65.

Three important differences

Although replication and revision of the original budgets has been the general approach adopted, it is important to highlight three areas where the new approach differs from that used earlier. These three differences relate to the standards to which the new budgets apply, the family types for which budgets have been constructed and the treatment of housing costs.

1. The underlying standards: The original Modest But Adequate (MBA) and Low Cost (LC) standards were replaced by the Minimum Income for Health Living (MIHL) standard. It has already been noted that the definitions of both the MBA and LC standards raise a series of questions that cast doubt on their ability to underpin a robust budget. Both are linked to the median standard of living in the community, but this raises further questions about how it is measured, for example whether or not it refers to income alone or to a broader measure and whether and how differences in household need should be taken into account.

In contrast, the MIHL approach involves identifying the ingredients of a healthy life in all of its dimensions, including diet, clothing, personal hygiene, health promotion, exercise and other forms of social engagement and activity. The idea is to use available information and/or guidelines relating to each dimension and ensure that the budgets contain the items needed to ensure that the healthy living objective is achieved. This approach does not specify a community benchmark (linked, for example, to the median income or standard of living) to which the budgets should correspond. Instead, the intention is to ensure that the budgets reflect what is needed (in this case) by low-paid workers and those who are unemployed to achieve the healthy living outcomes associated with the MIHL standard.

2. Family type coverage: The new budgets apply to a smaller range of families than the original study, which constructed budgets for 46 household types at each of the two standards – leading to over 90 separate budgets in all. The households (the terms household and family are used interchangeably here because each household is assumed to contain only one nuclear family) varied according to the age of its members (adults and children), its overall size and composition (single people, couples with and without children and sole parent families), housing tenure (owners, purchasers and renters) and the labour force status of adult members (employed full-time, employed part-time, unemployed and not in the labour force). This resulted in a complex project and a huge number of detailed differences that were often difficult to justify.

In contrast, this study focuses on two broad family types identified by the labour force status of the main adult - low-paid and in work or unemployed and out of work - with a limited degree of variation in both cases according to the characteristics (age, gender and labour force status) of other adults and the ages and gender of children. Developing budgets for this smaller range of families is a more manageable task and one that focuses on families that are at the forefront of policy attention (as evidenced by the earlier comments from the

Henry Tax Review).

While there are accepted international standards for defining who is unemployed, the definition of low-paid is more problematic. Most studies define the low-paid as those receiving hourly earnings below two-thirds of the median, although this can translate into varying dollar amounts according to which data source is used to identify the median and how those with more than one job are treated. A recent report from Fair Work Commission (2014) discussed the alternatives, noting that:

> 'There is no single contemporary measure available to assess either the needs of the low paid or the extent to which those needs are being met. A variety of proxy measures must be used' (Fair Work Commission, 2014: para. 322)

This report does not seek to impose a single definition of low-paid, although it does aim to produce evidence that can be used to assess the extent to which the needs of the low-paid are being met at an acceptable level. As will become apparent later, the data used to validate the new budget standards estimates are not ideally suited to identifying who is low-paid and a broad definition has had to be used. In terms of the practicalities, the focus is on those who are paid at, or close to, the minimum wage as determined by the Annual Wage Reviews conducted by Fair Work Australia.

Unemployment is defined in accordance with the definitions adopted by the International labour Organisation (ILO) and, in Australia, most of those identified as unemployed are eligible to receive Newstart Allowance (NSA) through the social security system. Currently, the real value of NSA is maintained through its automatic indexation to price movements but because other payments are indexed to movements in earnings which have been rising in real terms, this has resulted in a sustained decline in its value relative to other payments and to earnings and community incomes (see Figure 1.1).

The pressing need to improve the adequacy of Newstart Allowance has already been acknowledged, having received widespread attention at the 2011 Tax Summit (see Martin, 2011) and been the subject of a growing chorus of calls for improvement from bodies like the Australian Council of Social Services (ACOSS, 2012), the Australian Human Rights Commission (AHRC, 2012) and the OECD (2012). During the 2016 federal election campaign, the ALP committed itself to review the payment if it won government but this idea has not featured on the Coalition Government's agenda.

As noted above, the needs of the low-paid and the adequacy of the minimum wage have also received attention from Fair Work Commission (FWC), who regularly conduct public consultations on the issue as part of its review processes (see for example, FWC, 2011a). With between 7 and 9 per cent of all adult employees estimated to receive the minimum wage or less (Nelms et al., 2011) and with unemployment accounting for around 6 per cent of the labour force (ABS, 2016c), the two groups together could account for as many as 1.5 million labour force members - and more if their families are included. Ensuring that payments to these two groups are adequate is thus a key task – one that can contribute to a fairer future for all Australians.

3. The treatment of housing costs: One of the main criticisms levelled at the earlier budget standards study was that because the budgets had been developed for families living in Sydney, their relevance to the costs facing those living in other parts of Australia was limited. Many factors contributed to this difference, although the one that was most

frequently highlighted was housing costs, which were (and still are) far higher in Sydney than in other parts of Australia (see Chapter 5). Even within one location, housing costs vary according to dwelling size and type and housing tenure and the earlier study was unable to come up with a satisfactory way of taking account of these variations. Mortgage costs for home purchasers, for example, vary according to the size of the loan, the conditions on which it was secured and the time at which it was taken out. There is also the additional complexity associated with the fact that the purchase of a home involves a degree of wealth accumulation or savings, whereas the budget standards focus on current consumption needs and thus exclude any provision for saving (or future consumption).

These considerations led those involved in the earlier study to argue that the housing costs assigned to those renting privately should be used because at least here it can be argued that there is a direct correspondence between the amount paid and the quality of the dwelling. However, even private rents for a dwelling of a similar type vary enormously according to location, when the rental agreement was signed, the length of the lease period and whether or not it operates through a real estate agent.

This discussion also raises the deeper issue of whether or not to take account of locational differences in *all* of the elements that are used to construct a budget standard. It is not only house prices that vary with location, but so do retail prices more generally reflecting variations in prices of such basic items as food, petrol, public transport and the cost of many social activities. Interestingly, the significance of these issues has not been given as much prominence in debates over the adequacy of social security payments, where uniform nationwide provisions has been the accepted norm (with the notable exception of Rent Assistance, which varies with the level of rent actually paid). Nor has the locational specificity of other adequacy benchmarks (e.g. needs-based poverty lines, or relative measures that are linked to median income) been raised as a problem when using them to assess income adequacy or measure poverty (aside from debates about whether or not to deduct housing costs from income).

Despite these considerations, there is no doubt that the treatment of housing costs in budget standards research raises legitimate concerns about the robustness and applicability of the estimates. For this reason, it was decided not to include housing costs in the initial budgets but to leave it to users to add them in separately if they wish. This gives users the flexibility to tailor the estimates to suit specific uses, or to experiment with alternative treatments of housing costs to examine how sensitive the estimates are to such variations.

This approach does, however, create problems in understanding the budgets since people are used to thinking in terms of total amounts that include housing costs. For this reason (and because the social safety net is designed to cover all basic costs, including housing costs) several alternative ways of incorporating housing costs are explored later (in Chapter 5).

3.2 Specifying Family Types

The first step in determining the detailed budgets involves specifying the family types for which the budgets are relevant. The characteristics of the family types covered in this study are shown in Table 3.1. The family types have been selected to cover areas of direct concern in relation to income adequacy issues, and to allow comparisons to be made about relative minimum incomes within and between the two broad labour force status (LFS) categories:

low-paid and unemployed. Budgets have been derived separately for male and female single persons (although these are merged later into a gender-neutral budget) in order to facilitate comparisons with the other family types, particularly those in-work, where the employed member can be either male (in couples) or female (in the sole parent family).

Within the low-paid couple families, it is assumed that one of the two adults (for convenience, the male) is assumed to be employed full-time (working 38 hours a week) and receiving the minimum wage, while the female is assumed to be either unemployed or not in the labour force (NILF) depending on whether or not there are children in the family. The male in each of the unemployed families is assumed to not be employed at all (even part-time) but is eligible for, and receives the maximum rate of NSA, while the female is also unemployed. The sole parent is assumed to be either working part-time (for 20 hours a week, at 4 hours a day over five days) and receiving the minimum wage, or unemployed and receiving the relevant social security payment.

Table 3.1 Specification of Family Types

Low-paid working families	Unemployed families
W1 Single person (male, 40; female, 35)	U1 Single person (male, 40; female, 35)
W2 Couple (M, 40 & F, 35) without children	U2 Couple (M, 40 & F, 35) without children
W3 Couple as above with girl, 6	U3 Couple as above with girl, 6
W4 Couple as above with girl, 6 and boy, 10	U4 Couple as above with girl, 6 and boy, 10
W5 Sole parent (F, 35) with girl, 6	U5 Sole parent (F, 35) with girl, 6

It is common in budget standards studies to manipulate the budgets for different family types in order to estimate how much the costs of meeting the needs of individual family members contribute to the overall family budget. Thus, comparisons within each family category can be used to estimate the cost of children by comparing the budgets of couples with and without children or with different numbers of children. Similarly, the degree of economies of scale in family size can be derived by seeing how the budgets vary as family size increases.

Budget standards can also be used to estimate the costs of sole parenthood by comparing the budget for the sole parent family with that of the couple with one girl (after taking account of the cost of the second adult in the couple family) or by combining the budgets for a single female and the derived budget for the 6 year-old girl in a couple family with that of the budget of the sole parent family. Comparison of the budgets for families of a given type with different labour force status can also be used to estimate the costs of working.

These latter cost estimates (of sole parenthood and of working) have not been derived here because the calculations used to produce them were judged to require too much of the estimates, particularly the need to ensure that the different budgets all apply to *exactly* the same standard of living. In any case, the main costs associated with sole parenthood are not financial or monetary, but reflect the time constraints facing sole parents who have to fulfil the many demands on their time that are normally shared between two parents. The costs of working are also less of a policy concern now that those who are unemployed are required

to undertake regular job search interviews (a policy that is now enforced far more vigorously than when the original study was conducted) and thus must incur similar work-related expenses to many who are in work. In any case, the study design shown in Table 3.1 assigns a different standard of living to families with members who are in and out of work, effectively precluding using the budgets to estimate the costs of working at a given standard.

It is also important to note that these derived cost estimates are only strictly relevant to the specific characteristics of the individuals in each family. Thus, the estimated cost associated with the first child in the family refers specifically to the cost of a 6 year-old girl (compare family types W3 and W2, or U3 and U2) while the additional cost of the second child refers specifically to a 10 year-old boy (compare family types W4 and W3, or U4 and U3). To describe these cost estimates as the costs of the first and second child in *all families* is thus not warranted.

These considerations are important because the costs of children vary not only with their age, but also with gender when there are multiple children in the same family. This latter point is of particular relevance to older (high school-age) children, because although they may be expected to share a bedroom if they are both boys or both girls, this is not feasible if one is a boy and the other a girl. This has implications not only for the number of bedrooms and hence the overall size of home that is needed by the family, but affects the family's furniture, energy and other (e.g. transport) requirements. This discussion highlights the difficulties involved in estimating 'the' cost of a child, since this will often vary according to the specific circumstances that exist in the family.

There is an additional factor that is relevant in the current context that is of even greater importance. This relates to the fact that the budgets exclude housing costs and this is known to be a major component of some of the costs described above – particularly the cost of children. For this reason, the estimates of the additional costs of children presented in Chapter 5 are based on budgets that have been grossed-up to include an estimate of housing costs.

With these qualifications in mind, the following equations can be used to estimate these variables from the basic budgets:

1. Marginal cost of the first child (girl, aged 6): W3 minus W2 or W5 minus W1 (low-paid); U3 minus U2 or U5 minus U1 (unemployed)
2. Marginal cost of the second child: (boy, aged 10): W4 minus W3 (low-paid) or U4 minus U3 (unemployed)
3. Economies of scale in family size: comparisons between W2, W3 and W4 (low-paid) or between U2, U3 and U4 (unemployed)

Finally, it should be noted that there are some differences between the family types specified in Table 3.1 and those used in the earlier study (See Saunders et al., 1998: Table 2.1). These differences are relatively minor but will affect comparisons between the different estimates: for example the age of the boy in the couple family with two children was 14 years in the earlier study but 10 years here.

3.3 Other Major Differences

Main budget areas

One important difference from the earlier SPRC study relates to the identification of the main budget areas. The budgets in the previous study were broken down into the following 9 areas: Housing; Energy; Food; Clothing and Footwear; Household Goods and Services; Health; Transport; Leisure; and Personal Care. This classification differs slightly from the 8 budget areas used to construct the new budgets, which are (in the order in which they are presented and discussed later): Food; Clothing and Footwear; Household Goods and Services; Transport; Health; Personal Care; Recreation and Culture (shortened to just Recreation hereafter, since the budgets make no allowance for participation in cultural activities); and Education (which includes the cost of child care).

The differences are the omission of the housing budget discussed above, the re-naming of the new Recreation budget (which reflects changes in the ABS classification), the incorporation of the Energy budget into Household Goods and Services and the introduction of Education as a new budget area (although its focus is on child education and no allowance has been made for adult education). The latter change reflects interest in the costs associated with children's schooling and also follows ABS practice which has introduced this as a new category in its Consumer Price Index (CPI) publication (see for example, ABS, 2011a; 2016a).

The minimum income for healthy living (MIHL) standard

The use of the MIHL standard in place of the MBA and LC standards used previously has practical and monetary consequences across many of the detailed budget areas. However, most of these differences are not that great since the earlier budgets also assumed that all individuals had no on-going health problems and lived healthy lives. At all stages of their development, the new budgets drew on information and reflect the feedback provided by the focus groups (described in detail in the following chapter 4) in order to maximise their consistency with the actual experience of real low-income families.

It is important to emphasise the point made earlier, that the new MIHL standard for low-paid workers is intended to be lower than the previous MBA standard, which was designed to apply to a standard of living that is around the median. It is common to define low-wage workers as those earning less than two-thirds of the median wage (OECD, 2016) and this benchmark provides a better guide to where the new low-paid standard is intended to fall (although it is not clear what percentage of median income among families corresponds to two-thirds of the minimum wage of individuals). In contrast, the new MIHL standard for the unemployed is intended to be similar to the old LC standard (which was designed to be a benchmark for assessing the adequacy of social security payments), so that the experience and evidence developed in the earlier study is more relevant.

Appendix B compares the new budgets (excluding the housing component) for low-paid and unemployed families with the previous MBA and LC budgets, updated to the September Quarter 2016 in line with movements in the main components of the Consumer Price Index (CPI). In all cases, the new MIHL budgets are below the updated MBA budgets, with the shortfall varying between 7.3 per cent for the couple with one child and 17.5 per cent for

the couple without children (see Tables B.3 to B.7). The shortfall is smaller for families with children because those constructing the new budgets have gone to considerable length to ensure that all of the needs of children are met appropriately at the MIHL standard. These shortfalls caution against using the new budget standards as a straight replacement for the updated MBA budgets in specific applications, since the two are not comparable.

From hypothetical to representative families

Another important change from the previous study involves a switch from developing the budgets around the notion of a *hypothetical family* towards using a (statistically) *representative family* as the basis for the construction of many elements of the new the budgets. The previous study identified hypothetical families living in a specific location within a specific suburb of Sydney as a way of grounding the budgets in actual experience. For example, the transport budgets were developed by estimating how far families living in that location would have to travel to visit a local doctor, get to and from the local shops and school, travel to and from their holiday location, and so on. The distances travelled and associated petrol costs (or bus fares) were then estimated, aggregated and priced using information on petrol prices and/or bus fares. One disadvantage of this approach is that it made the estimates dependent on the specific features of the chosen suburb in ways that undermined the representativeness of the resulting budgets. For example, how well the area was serviced by shops, and by key services in education, child care, health care and public transport had a large impact on distances travelled and hence on the travel budget.

In order to overcome these problems, the new budgets are assumed to be relevant to an average family of the relevant type, which is assumed, for example, to travel by car each year a distance equal to the average for all Australian families of that type. This introduces a behavioural element into the estimates (since distances travelled by car in part reflect how much money is available in the family budget for petrol) but the estimates were reviewed by the research team to ensure that they were also consistent within and between the two standards as well as with relevant normative criteria.

One consequence of adopting the new approach is that the available data often covered the averages for all families so that no account could be taken of the greater needs that might apply to the lower income families that are the focus of this study. For example, the use of health services was based on population-wide service usage estimates, yet there is evidence that indicates that lower income people are generally sicker than others and hence tend to need to use health services more often than others (Australian Institute of Health and Welfare, 2012a; 2012b). This suggests that it is appropriate to make a higher allowance for service usage and hence for any associated costs (travel, as well as any out-of-pocket costs) associated with accessing health services by the low-income groups that are the focus of this study. However, no account has been taken of these differences when constructing the new budgets, which means that they are likely to under-estimate the true costs in some instances.

Lifetimes

One issue that was the focus of extensive reflection, discussion and experimentation relates to the assumed lifetimes of what can be called 'durable goods', i.e. those goods that last for more than 12 months. Goods that fall into this category include large household items like

furniture, the family car (where relevant) and whitegoods like a refrigerator and TV set, but also those items of clothing that are assumed to last for more than one year. The standard treatment of these items involves calculating the weekly cost by dividing the purchase price by the assumed lifetime (specified in weeks). For example, a $600 TV set that has a lifetime of 10 years will add $60 to the annual budget or $1.15 a week, while a man's jacket that costs $200 with an assumed lifetime of 8 years will contribute $25 per year or $0.48 a week (a year is assumed to contain 52.14 weeks when constructing the budgets). Clearly, the assumed lifetimes will impact directly on how much of the observed shelf price of each item will be reflected in the final budgets. Reducing the assumed lifetimes will increase the budgets, and *vice versa*.

As indicated in Chapter 4, there was extensive discussion in several of the focus groups about the strategies that were used to extend the lifetimes of many items in order to reduce costs and live within one's means. It was argued, for example, that a common practice involved 'clothes swapping' as a strategy for extending the lifetimes of clothing (particularly children's school clothing) that can be out-grown very quickly, as children mature. Thus, mother A might pass on her daughter's school dress to mother B who has a younger child that can wear it, while gaining a replacement garment from mother C who has a slightly older child who has grown out of her dress. By taking advantage of hand-me-downs in this way, clothes can be circulated and their usable lifetimes extended (and hence their weekly cost reduced) for several families simultaneously.

The trend towards built-in obsolescence is another relevant (but counter-acting) factor to take into account when assigning lifetimes. This is of particularly significance in relation to the quality and durability (and hence the weekly cost) of household durable items and articles of clothing. This factor is particularly important because many items were priced in low-cost retail outlets, leading to a high probability that usable lifetimes will be low. In contrast with clothes-swapping, which extends the lifetimes of the relevant items, built-in obsolescence works in the opposite direction by shortening item lifetimes.

The selection of appropriate lifetimes was the subject of extensive discussion in the earlier report and this proved to be the case again. A review of the lifetimes imposed in the previous study suggested that, in some instances, they were set too high and no longer seemed appropriate in contemporary circumstances. Some examples from the previous report (see Saunders et al., 1998: Appendix 12.A) are: a woman's blouse (6 years) and shoes (6 years); a man's winter pyjamas (8 years) and tie (7 years); TV trolley (15 years); lounge chair (17 years); flat bed sheet (20 years); carving knife (25 years) and sink plug (20 years).

Although the purchase price of some of these items was low and the estimated weekly cost even lower, the large number of items that had an assumed lifetime of more than one year means that the cumulative impact on the budgets can be substantial. For example, total spending on durable goods in the previous low cost budget standard for a couple with one child (a 6 year-old girl) accounted for $81.20 a week or one-sixth (16.8 per cent) of the total budget for that family (Saunders et al., op. cit.: Table 12.14). There is no doubt that the cost of buying many of these goods has declined since the original budgets were priced and this has been accompanied by a shortening of the period for which many of them can be expected to last. Since the former decline is captured in the lower shop prices used to cost the budgets, it seems reasonable to also take account of the latter, and many item lifetimes were reduced to reflect this.

A further complication in setting item lifetimes is associated with the fact that variations were made in the lifetimes of many items to reflect differences in usage patterns among different family types – specifically between families with and without children. In general, it was assumed that wear-and-tear of many household items (e.g. items of furniture) would be greater leading to reduced lifetimes (by one year for each child) where there are children present. In contrast, the lifetimes of many household items were extended for those who were unemployed as a way of reducing costs for those on a limited budget (a strategy confirmed by the focus groups).

In seeking to replicate the earlier budgets, the research team reviewed the lifetime assumptions and it was decided to reduce the lifetimes of large durable items by 50 per cent to reflect built-in obsolescence. This adjustment did not apply to the food, personal care, clothing and footwear and health budgets, where lifetimes were unchanged. The new approach was also not applied to small items like cleaning cloths where built-in obsolescence is not an issue, nor to cases where changes in packaging sizes required consumers to purchase more items thus extending the lifetime of the packet as a whole beyond the one-year threshold. Where the item lifetime equalled an odd number of years, the new lifetime was set at half of this, and then rounded up to the nearest whole number. Where the adjustment would have brought the new lifetime below one year, the new lifetime was set equal to one year.

In relation to children's clothing and footwear, item lifetimes were not reduced because the 'swapping strategies' highlighted by the focus groups had the effect of extending lifetimes and thus offsetting the reductions that resulted from built-in obsolescence. Although it can be argued that clothes-swapping is a behavioural adjustment to low income that should be over-ridden by a normative choice to reduce clothing lifetimes, it was decided that the evidence on clothes-swapping provided by the focus groups was sufficiently compelling to warrant its inclusion as a factor affecting the revised estimates.

One item that warrants further discussion in this context is the family car. A family car was included in the budgets for low-paid families, but not for unemployed families – except for the sole parent, where a car was seen essential for allowing the sole parent to fulfil both parental commitments and job search requirements. The broader decision about who was allocated a car was in part based on evidence from SPRC deprivation research, which indicates that although slightly less than a majority of all adults thought that a car was essential for everyone, the level of support exceeded the 50 per cent support threshold among those aged over 30 (see Saunders and Wong, 2012: Table 4.1).

A related difference from the approach used in the earlier study relates to how the weekly cost of the car was derived. In the original SPRC study, the annual cost of the car was set at a fixed percentage (the annual depreciation rate) of the original purchase price and this was then converted into a weekly amount. Given the difficulty associated with accessing reliable data that could be used to set the depreciation rate of older cars, it was decided to follow the approach used in the UK MIS approach and treat the car in the same way as all other durable goods, and assume that the cost would be equal to the difference between the purchase price (PP) and re-sale price (RP) averaged over the ownership period. The annual cost of the car was then estimated by subtracting RP from PP (where both are expressed in the year in which the budgets were priced) and dividing by N, where N is the assumed ownership lifetime. The car selected was the same as in the previous study - a Toyota

Corolla - although it was assumed to be slightly newer than before, bought when 5 years old and sold when 10 years old (implying an assumed lifetime of 5 years).

Pricing

In general terms, the approach adopted to gather the information required to price the budgets was the same as before. Leading retail outlets were used to identify specific items and price them by observing what was available on supermarket shelves or showroom floors. Most of the items were identified and costed in leading national stores like Woolworths and Kmart. This standardisation makes it easier for others to price the budgets in other locations and/or at other times (although it should be noted that even within stores with a national network of outlets, prices may vary by location).

It should also be acknowledged that participants in some of the focus groups conducted with the unemployed indicated that the chosen stores were seen as relatively expensive for those on a small budget who 'shop around' to find cheaper prices at other stores (e.g. Aldi) or only use these stores to purchase items that are on special (see Chapter 4). A small 'opportunistic' deduction of 5 per cent across-the-board has been made to reflect this practice in the Food budget, but not more generally.

In most instances, the items included in the new estimates were initially priced in the latter half of 2013 (i.e. in the pricing window between 1 July 2013 and 31 December 2013). Those items that could not be priced in that window were priced later and, the observed prices were deflated back to the pricing window (which was taken in practice to correspond to the average of the CPI values for the September and December Quarters of 2013) in line with movements in the relevant CPI component using the CPI data released quarterly by the Australian Bureau of Statistics (see ABS, 2016b).

As explained later, the budgets were reviewed and modified as they were developed and this process often involved having to re-price current items or identify and price new items outside of the pricing window. This reduced the proportion of items whose prices were actually recorded in the pricing window as the modification and refinement stage of the research (described in more detail at the beginning of Chapter 5) affected more of the budgets and hence more items than had been anticipated.

In order to increase the relevance of the estimates, the priced budgets have all been updated to the June Quarter of 2016 in line with movements in the CPI (see Chapter 5 for more details). The CPI used to inflate (or update) the budgets is the 'All Groups CPI' series that covers the 8 capital cities – the 'headline' series that is given prominence when the CPI data are released. It might be considered more appropriate to use the Sydney CPI since the budgets have been priced in Sydney. However, the use of retail outlets that have a national presence and other methods used to price the budgets have been designed to make them relevant to the whole of Australia, not just to Sydney. This position is reinforced by the decision to omit housing costs, since it is in relation to housing costs that the price gap between Sydney and the rest of Australia is largest. (Chapter 5 explains in detail how the preferred housing cost estimates were derived). The approach again provides a platform that allows others to update the budgets using data that has national relevance and applicability.

The use of the CPI to inflate the budgets is standard practice in the budget standards

literature and, over the short-term – a period identified in the earlier report as covering up to about 7 years – will not induce major errors into the estimates. As the trends illustrated in Figure 1.1 demonstrate all too well, there is a risk that adjusting incomes only for movements in consumer prices will, over the longer-term, maintain the real (purchasing power) value but lead to a cumulative decline in their value relative to those incomes that are increasing in line with economic growth and community prosperity. This suggests that, beyond the seven-year time horizon, it is preferable to review and revise the entire budgets to ensure that items, quantities and lifetimes as well as prices are reviewed and adjusted to reflect changes in community norms and average living standards.

Additional methods

As in the previous study, a series of 'rules of thumb' were used as the basis for choices made whenever possible in order to increase transparency and reduce the need to make a large number of independent but essentially arbitrary assumptions. Under the *ownership rules*, for example, items are included in the low-paid family budgets if there is evidence that they are consumed (in the case of material items), accessed (in the case of services), or participated in (in the case of social and other activities) by a majority (at least 50 per cent) of all working families of that type (i.e. with or without children, two-parent or sole parent). This threshold was increased to 75 per cent when deciding what to include in the unemployed family budgets. Where information on ownership rates was lacking, the approach replicated what was done last time but took account of the fact that rising living standards over the last two decades would have increased these ownership rates.

Another source of information (referred to in the earlier discussion of the treatment of the car) was that produced by two recent SPRC surveys of deprivation and social exclusion that asked random samples of the adult population drawn from the electoral rolls whether or not they regarded a list of basic items essential for all Australians, i.e. that they were things that 'no-one in Australia should have to go without today' (see Saunders, Naidoo and Griffiths, 2007; 2008; Saunders and Wong, 2012: see also Saunders and Wilkins, 2016). The degree of community support for some of the items included in these surveys being essential for all Australians (e.g. a car or an annual family holiday away) was used as the basis for determining whether or not to include them in the budgets – particularly those for the unemployed families.

Table 3.2 lists the 24 items that were regarded as essential 'for all Australians' by a majority of participants in both of the SPRC deprivation surveys, conducted in 2006 and 2010. These items should, by definition, be included in the budgets, unless there is a compelling argument not to. Some of the items shown in Table 3.2 are not items in the material sense that is relevant when constructing a budget standard because they refer to the quality of specific commodities rather than the items themselves. Examples include 'a decent and secure home' and 'a roof and gutters that do not leak'. Others, such as 'computer skills' are not relevant in a budget standards context, while 'presents for family of friends at least once a year' are not included because of the 'gifts in equals gifts out' assumption, which excludes all gifts, whether given or received.

Table 3.2 Need Classification of the Essentials of Life in 2006 and 2010

Basic Material Needs	Children's needs
Warm clothes and bedding, if it's cold	Children can participate in school activities & outings
A substantial meal at least once a day	A yearly dental check-up for children
A washing machine	A hobby or leisure activity for children
Accommodation Needs	Up to date schoolbooks and new school clothes
A decent and secure home	A separate bed for each child
A roof and gutters that do not leak	**Social Functioning Needs**
Secure locks on doors and windows	Regular social contact with other people
Furniture in reasonable condition	Presents for family or friends at least once a year
Heating in at least one room of the house	Computer skills
Health-related Needs	A telephone
Medical treatment if needed	A week's holiday away from home each year
Able to buy medicines prescribed by a doctor	**Risk Protection Needs**
Dental treatment if needed	Up to $500 in savings for an emergency
	Home contents insurance
	Comprehensive motor vehicle insurance

Source: Saunders, 2013: Table 1

Although the list of items in Table 3.2 affected what has been included in the budgets, there is one important exception. This relates to the item 'Up to $500 in savings in an emergency' which is not included because there is no provision in the consumption-oriented budget standards framework to include savings (even though they are often used to finance future consumption). There is also the problem of deciding how much to assign as weekly saving in order to reach a target level of accumulated saving.

Although the logic of the budget standards approach provides the rationale for omitting any allowance for saving, it has to be acknowledged that this omission means that the budgets leave absolutely no fall-back to cover unexpected emergency outlays that will inevitably arise when key items (e.g. a refrigerator) breakdown and must be repaired or replaced, or when unanticipated health-related expenses have to be met. The omission of the saving item might be seen by some as undermining any claim that the budgets allow enough money to attain and maintain an adequate and acceptable, if minimal, standard of living. There is validity in this view although the logic of the budget standards approach necessitates that the savings item is excluded.

3.4 Other Deviations from the Earlier Methods

Aside from the specific cases described above where changes were made to the methods adopted in the earlier study, there are a number of other instances where the experience of working with the previous budgets over the last two decades has highlighted limitations and weaknesses that warranted making an adjustment. Where this was the case, the old assumptions or methods were reviewed and revised. (Two members of the original budget

standards team – Peter Saunders and Marilyn McHugh - have worked extensively with the old budgets in the intervening period and their experience was influential in identifying areas and methods where improvement was needed).

One area where past experience has had an important impact on the approach adopted relates to the overall levels of the original budgets. One criticism of the earlier study was that the budgets produced were too high. One reason for this was that the method fails to take account of the options of choosing between items that meet similar needs. The ownership rule takes no account of this possibility but focuses on each item in isolation. Thus, consider two items - A and B - that meet similar needs. If two-fifths (40 per cent) of families choose item A and two-fifths choose item B while the remaining one-fifth can afford to buy both items, then the ownership of each item is three-fifths (40 per cent plus 20 per cent), which exceeds the 50 per cent threshold for inclusion. Consequently, both items are included in the budgets, even though only one-fifth of families actually own both items.

This study provided the first real opportunity to reflect more broadly and systematically on these kinds of issues and more generally on the overall approach and specific methods and assumptions used in the earlier study. The starting point for the new approach was to avoid any criticism that the estimates are too high by deliberately choosing the conservative option whenever a choice had to be made between competing options and there is no evidence to support the choice of one over the other. This approach applied not only to the new items that were included in the budgets, but also when considering whether or not to include or revise items that had appeared previously. The focus was thus very much on producing *minimum* budgets, as required by the MIHL standard. Whatever the merits of the view that the previous budgets erred on the generous side it is very difficult to sustain the claim that this is also the case in relation to the new budgets. They are extremely tight and leave no room for even the most modest of 'special treats'.

The following examples reinforce this point by illustrating some of the ways in which the new budgets were kept to a minimum consistent with a frugal use of available economic resources. One general decision that was applied across most budget areas was to build into the budgets a strong reliance on the purchase and use of 'non-brand' or 'generic' (Store-brand or Home-brand) items. Such items had only just emerged on supermarket shelves when the earlier study was conducted but are now commonplace and these items were included whenever they were available on the shelves at the time of pricing.

In addition, as noted above, no allowance has been made for any form of saving, leaving no scope to meet unexpected expenses. The budgets also take no account of one-off expenditure items. An example is the rental bond that all families must pay when they enter into a rental agreement. Even though this is often re-paid when that agreement is terminated, the money still has to be found 'up front' at the time of signing the agreement. The same point can be made about any repair cost that are an inevitable consequence of household items breaking down. Most families have to meet these costs at some point, yet again no provision has been made for them in the budgets. The budgets do, however, include provision for payment of the premiums on insurance but only in relation to motor vehicle ownership and household contents insurance at the low-paid standard (and, for the former, for the unemployed sole parent).

The main instances where a different approach to that used before was taken are listed

below, with more detail provided in the discussion of the main budget areas that follow:

- Items included in the earlier budgets were no longer available: This occurred frequently in relation to the food budget, where package sizes often differed from those available in the 1990s. When this occurred, the new package size was used to estimate the current cost of purchasing the original quantity of the item. A few items included in the original budgets could not be replicated and in these instances, the closest possible item was included.
- New items were introduced: This is mainly relevant in relation to new forms of technology, particularly around communication and social media that require access to the internet - there was no mobile phone in the original budgets as they were relatively rare in 1995! Tying the new budgets to the MIHL standard also required the inclusion of new items that reflect the assumed healthy lifestyle. This was particularly noticeable in the Recreation budget, where new activities have been included for both low-paid and unemployed families.
- Correcting errors: A small number of errors were found in the documentation of the original budgets that required correcting. More frequently, the original spreadsheets (which provide the details of every specific item, including the item description, package size, assumed lifetime and price were not always consistent with the general rules that underpinned the budgets (e.g. about how lifetimes vary with family circumstances). When this occurred, any apparent 'errors' were replaced by consistent application of the general rules.
- The focus group participants often had very strong views about the inclusion/exclusion of certain items or about their appropriate prices or lifetimes. For example, as noted earlier, item-swapping with friends was a commonly-used way of extending lifetimes for items such as children's school clothes. Unless there was a good normative reason not to do so (e.g. in relation to tobacco products, which were excluded on normative grounds) these comments were incorporated into the items (and lifetimes) included in the budgets.

The above discussion provides information on the general methods that were used to revise the budgets. The following section provides a more detailed account of the methods used to construct the new budgets in each of the main budget areas. The statistical sources cited in the budget area descriptions are included in the Reference list at the end of the report.

3.5 Detailed Methods and Assumptions by Budget Area

This section highlights specific instances where it was not possible or considered appropriate to replicate the methods used to derive the original budgets. Since straightforward replication was used in the vast majority of cases, only those areas where a markedly different approach was applied are discussed.

Food

The food budget includes very little allowance for the social aspects of eating, with 'eating out' kept to a minimum, restricted to low-cost outlets and included in the Recreation budget as part of the 'Holiday Food Loading' for the weeks holiday. The food budgets in the earlier

study included an allowance of 5 per cent for wastage and this was applied again to the new budgets for low-paid families, but not for the unemployed. As noted earlier, an across-the-board 'opportunistic' deduction of 5 per cent was applied to both the unemployed and low-paid food budgets to reflect shopping around and the purchase of items on special. These two adjustments cancel each other out in the case of the low-paid food budgets but lead to a 5 per cent reduction in the cost of the unemployed food budgets.

The original food budget was designed to ensure that the dietary profiles of all individuals were consistent with the prevailing dietary recommendations for energy and nutrients. The approach duplicated that used in an earlier study undertaken by the Australian Institute of Family Studies (Lovering, 1984) and the results produced were consistent with those produced by that study. The food budget for each individual was developed to reflect the usual purchasing patterns of Australian families, obtained from the analysis of national food survey data. The food budgets for adults include a modest allowance for alcohol, consistent with the healthy living concept. It was assumed that the individual food budgets are the same for each person, regardless of their employment status.

One important limitation of the new approach is that it was not possible to confirm that the new food budgets satisfy the current dietary guidelines in terms of nutritional inputs. This is unlikely to be a problem for any individual change because the original and new items were always very similar, but it is possible that when taken across the many hundreds of items that appear in the food budget, a large number of small changes could add up to an overall change that contravened the nutritional guidelines – although we are confident that this has not happened.

While no additional items were added to the food budget, there were some small variations from the original budgets, specifically:

- The precise timing of pricing was different from the original budget (October, compared with February previously) and this difference may have affected the cost of seasonal food items, particularly fruit and vegetables. These seasonal price variations meant that some fruit and vegetable items were priced outside of the main pricing window.
- There were several examples where food items could not be matched to the original food budget. In these instances, the closest possible similar alternative was included. This impacted on the price of some items but the overall effect is very small.

Clothing and Footwear

Unlike previously, the new clothing and footwear budgets do not include an across-the-board reduction of 5 per cent to reflect items purchased in store sales. This was because the new budgets have mainly been priced at shops that already have low prices. The new budgets assume that clothing items for children have lifetimes that are pushed to the limit of what is practically feasible given how children's size increases as they age and the durability of items purchased at the lowest prices in low-cost retail outlets.

The main general assumptions used to construct this budget (aside from the changes in assumed lifetimes already discussed) were:

- All clothing and footwear items are assumed to be of a 'Home-brand' variety unless otherwise specified. For example, adults have been allocated only one pair of 'brand-name' shoes, while children have been allocated two pairs of 'brand-name shoes' – 1 pair of sneakers and 1 pair of school shoes.
- Price and item lists remain the same for each adult regardless of their employment status. However, item lifetimes for unemployed adults were double those for low-paid adults, while the lifetimes for all children's items in unemployed families (except shoes, where lifetimes were the same) were 50 per cent higher than for children in low-paid families. Lifetimes are the same for females not in the labour force and unemployed females, while those for the employed (part-time) sole parent are the same as for employed females working full-time.

The clothing and footwear budgets contain a very long list of items since the wardrobes must meet the clothing needs of all individuals in a variety of work-related and social settings. The clothing items were identified separately for each individual in the family and then aggregated to obtain the family budget. The retail store Kmart was used to identify and price most of the clothing and footwear items, supplemented where necessary by stores like Big W, Williams Shoes, Target, Lowes and Rebel Sport.

Household Goods and Services

This is one of the most complex budget areas because it covers such a wide range of items from furniture, white goods, cutlery and dinnerware to tables, chairs, teaspoons and tea cups. The issues raised earlier about a trade-off between the quality and lifetime of an item thus had to be faced many times over – a task that was compounded by the fact that the assumed lifetimes of many items of furniture also varied according to whether or not there are children in the family, and how many. To add to these complexities, the budget also includes the cost of household utilities that were previously in a separate Energy budget.

One significant difference between the original and new budgets relates to where household goods were priced. The original budgets had significantly more 'brand' items and the assumed lifetimes reflected the quality and cost of these items. The majority of pricing for the new budgets was done in Kmart with the exception of larger white goods. This change – and the implied increase in the number of Home-brand items - explains why many of the original lifetimes were reduced. Item lifetimes for unemployed families were generally set by adding two years to the corresponding low-paid family item lifetimes (with the exception of disposable items such as dishwashing detergent, kitchen foil and toilet cleaner, where it was assumed that since the items are essential for all families, the assumed lifetimes would be the same for all families).

The usage and hence cost of all household services was dependent on the number of people in each family. All families were allocated the service costs associated with internet, electricity and mobile phone costs for each adult. The only difference being (as noted earlier) that the low-paid budgets included an allowance for home contents insurance (valued at $10,000). All items were allocated per family, although for some items (e.g. towels and pillows) quantities depended on the number of people in the family.

Transport

The transport budget covers a wide range of items that differ between the two family labour force status assumptions. The main difference (explained and justified earlier) is that low-paid families and the unemployed sole parent have been allocated a car and the associated costs including the cost of the vehicle itself and the cost of petrol, comprehensive motor vehicle insurance, tyres and servicing. Allowance has also been made for the fact that circumstances will arise where family members will have to rely on public transport and be required to pay fares occasionally. In contrast, aside from the sole parent, the unemployed households have no car and are assumed to be completely reliant on public transport.

An important change in this budget from the previous study is the switch from a *hypothetical family* to an *average (representative) family* described earlier. This change is particularly relevant for the transport budget for the car-owner families, which is now based on average distances travelled rather than on calculated travel purposes and distances for families living in a specific suburb. Data from the *NSW Transport 2012/13 Household Travel Survey* was examined to establish average travel distances according to trip purpose and family type. This data was then used together with average petrol prices for Sydney to calculate the petrol costs component of the transport budget. All of the car accessories were priced in Kmart, while other car-related costs were mainly priced on-line.

In terms of transport costs for unemployed individuals, adults were allocated a total of 7 return bus rides each week. It has been assumed that most of these bus rides would be used to get to a local 'service hub' which generally includes Centrelink offices, health and employment services, supermarkets and grocers, and general department stores. Given that the unemployed adults are receiving NSA, it is likely that the majority of these trips would also be used to attend the local employment service and to attend interviews with potential employers. Other return bus trips have been allocated for visits to the cinema, to see a GP and for dental visits as well as for holiday travel and (a minimal amount) for unforeseen travel. Discount multi-trip ('Travel Ten') cards have been assumed to be bought to minimise costs. (The Opal Card had not been introduced in NSW when the budgets were originally priced).

Children in unemployed families have been allocated two return bus fares per week for travel associated with a social or recreational activity. Adults in unemployed families have been allocated one additional return bus ride each per month if they have children. No transport costs associated with school attendance have been included because children are assumed to walk to and from school, car-pool with parents or other adults (low-paid families) or receive a free bus pass.

Although the State Government provides public transport concessions in New South Wales, these are not available in all locations, and different concessions are available in other States. Reflecting this diversity, no account has been taken of these concessions when deriving the transport budget. This seems to be the best way to ensure that the budget is nationally relevant, although it does artificially increase the transport budget slightly for the unemployed.

In addition to the above, for low-paid families, it has been assumed that:

- They purchase and own a 5 year-old Toyota Corolla Sedan which they sell after 5 years;

- They incur no car cleaning costs but have been assigned cleaning products;
- They have been allocated one car maintenance service per year;
- The cost of comprehensive car insurance has been included;
- Road toll charges have been included for driving on the annual week's holiday but otherwise it is assumed that all travel will avoid tolls to save on costs;
- A small number of parking costs have been allocated to families with children for the day trip to the aquarium;
- Those families with a 6 year-old girl have been allocated a child seat to meet existing child restraint laws;
- The adult male has been allocated some public transport costs but families are assumed to car-pool whenever possible, to minimise the reliance on public transport costs; and
- All of these costs are assumed to be the same regardless of the employment status of the female in the family.

For the unemployed (but not sole parent) families, it has been assumed that:

- All travel is by public transport (bus);
- Each adult with a child/ren in the family receives an additional monthly return bus trip for unforeseen travel related to the presence of children;
- Children always travel with an adult;
- Travel to GP/ dental will be in addition to normal travel given the focus on health living for all family members;
- Where relevant, adults are assumed to use two of their bus fares to travel with their child/ren per week;
- Each child has two return bus fares per week allocated for travel associated with a social/ recreational activity; and
- Families have been allocated one return bus ride to the train station plus a return train fare for their week's holiday destination (Kiama).

For both low-paid and unemployed groups, it has been assumed that:

- All families have been allocated 4 taxi trips (maximum distance 10km) per year; and
- The female single person and sole parent families have been allocated two additional taxi rides (maximum distance 10km) per year.

Health

The health budget assumes very little usage of (and hence few costs associated with) health services and facilities (even by children) because of the assumption that all family members are healthy and incur few out-of-pocket health care expenses. It was noted by members of the Project Reference Group (and by several focus group participants) that those at the bottom of the income distribution tend to have worse health than those closer to the average

and thus that the assumption of good health 'on average' was inconsistent with evidence on social gradients in health, which indicates that those at the bottom having poorer health (see AIHW, 2012a) and thus require greater use of health services and associated medications.

While the logic of this argument is difficult to refute, no adjustment was made to reflect it - in part because of lack of data that could inform how large such an adjustment should be for the different family types. It is acknowledged that this decision almost certainly means that the health budgets are on the low side.

Although the health budgets assume that all household members are 'healthy', this does not mean that the individuals within each household do not make any use of existing health facilities and services and thus incur no health costs. Even healthy people occasionally get sick and have to visit the doctor and purchase prescribed medications and the budgets allow for these contingencies and any associated out-of-pocket costs – drawing on data on how often average (healthy) Australians visit the doctor and other medical professionals.

The health budget also includes a number of other items that are related to people's health, including dental costs, pathology (for females 35-44 years), pharmaceuticals, and non-prescription medications. Other health-related items (e.g. private health insurance) were not included because data from the *2011-12 Australian Health Survey* (ABS, 2012c: Table 4.3) shows that only 33 per cent and 45 per cent of households in the bottom two income quintiles have private health insurance coverage – in both cases below the 50 per cent threshold for inclusion.

The main source of data for determining utilisation rates for the different populations was the *ABS Australian Health Survey: Health Service Usage and Health Related Actions, 2011-12*, which provides information about the frequency of visits to the GP, as well as visits to specialists broken down by age and gender. In order to calculate the weekly and annual costs, the ABS health survey data was used to determine what proportion of the population visited particular services (or purchased particular items) each year, and on average how many times per year this happened.

It was assumed that all unemployed individuals qualify for a Health Care Card and unemployed and low-paid households with children qualify for Health Care Cards because they will either be receiving Parenting Payment or the maximum rate of Family Tax Benefit (FTB) Part A (DHS, 2016). A Health Care Card covers the costs of GP visits for medical practices that bulk-bill. The number of GP visits per year does, however, impact on the calculation of costs for pharmaceuticals.

Specialist services were not included in the calculations because the ABS health survey data shows that the proportion of the population who visited a health specialist in the previous 12 months was 29.9 per cent for males 35-44 years and 40 per cent for females 35-44 years – neither of which reach the 50 per cent utilisation rule for inclusion. A pathology test for women aged 35-44 years was however, included even though the ABS *Patient Experiences Survey* (ABS, 2014b, Table 2.2.) shows that only 46.4 per cent of females aged 35-44 years had a referred pathology test. A pathology test was also included for women aged 35-44 years under the normative assumption that women should have a pap test for cervical cancer screening once every two years. The cost of this item varies between the low-paid and unemployed groups because the unemployed group would be eligible for the Low Income Health Care Card and therefore face a reduced cost under the MBS approved

item list (MBS, 2014).

Most people visit the dentist at least once per year for a clean and check-up, but different services are needed. The AIHW *Oral Health and Dental Care in Australia* survey was used to determine the utilisation of dental items by gender and age (AIHW, 2012b). All targeted age and gender groups met the 50 per cent rule for visits to the dentist in the previous 12 months. Based on these figures, it was assumed that individuals visit the dentist at least once each year. The AIHW data shows that children (aged 5-14 years) visited an average of 2.31 times per year and adults (aged 25-44 years) visited an average of 2.13 times per year. Children averaged 0.20 extractions per year and 0.43 fillings. Adults averaged 0.25 extractions and 0.80 fillings. These figures, together with data from the Australian Dental Association Fees Survey were used to determine the average incidence and cost of these services.

The calculation of pharmaceutical costs was based on information provided in the *General Practice Activity in Australia: Bettering the Evaluation and Care of Health* (BEACH) Survey (Britt et al., 2014) was used. It indicates that on average there are 103 medications recorded per 100 visits. The number of prescriptions per GP visit was 84 per cent and 83 per cent for males and females, respectively and because the figures were not broken down by age, the average rates were used. The most frequently prescribed pharmaceutical is amoxicillin, which was costed from the PBS Online database (PBS, 2014). The concession rate was applied for family types eligible for a Low Income Health Care Card.

The oral contraceptive pill was also included in the budget because the *Australian Study of Health and Relationships* (Richters et al., 2003) found that 70.8 per cent of women aged 16 to 59 years used contraception, and the oral contraceptive pill was the most common method. The cost of oral contraceptives was based on the PBS on-line database. For the non-prescriptive medications, the same utilisation rates were used as the earlier study. Data on prices was obtained from observing shelf prices at The Chemist Warehouse in December 2014.

Personal Care

The personal care budget is one of the smallest budgets in terms of the number of items included. It provides a bare minimum level of spending even for females who (as the focus group participants indicated) often spend more than has been allowed on personal grooming items. The budget covers such things as soap and other personal hygiene items, haircuts, sun screens, insect repellents, a watch, a pair of sunglasses and shaving equipment. As in the previous study, many of these items were considered to be used by all family members and were not allocated to specific individuals, while others (e.g. make-up for women and shaving equipment for men) were assigned to individual family members.

It has been assumed that all families have the same list of personal care items, quantities and lifetimes, with the exception of the frequency of adult haircuts, where it was assumed that low-paid adults get their hair cut more frequently than unemployed/NILF adults. For a similar reason, employed females have been allocated more make-up than their unemployed/NILF counterparts. The new personal care budgets allocate all children one paid haircut per school term i.e. 4 haircuts per year, while the frequency of adult haircuts is dependent on their employment status.

Recreation

The Recreation (previously Leisure) budget allows for a minimal level of leisure activity and social participation. Holidays are kept to a minimum in terms of duration and locations have been chosen to minimise accommodation and travel costs. A small 'holiday food loading' allowance was made for extra spending on food while on holiday although the normal food budget was assumed to also apply over that week. The method used to develop the recreation budget was less sophisticated than that used in the original study, which used ABS data on time use patterns within different family types as the basis for identifying leisure patterns and the associated need for leisure goods. The original Leisure budgets were used as the basis for the new Recreation budgets, but no amendments were made to reflect any changes that may have occurred in time use patterns themselves.

A number of changes were made to the original budgets to ensure that the healthy living concept was firmly embedded in the new Recreation budgets. All items were again assumed to be of 'Home-brand' variety wherever possible and the lifetimes of these items (e.g. DVD and CD players) for unemployed families were set at double those for low-paid families. All recreational activities/entertainment items were assumed to have the same fixed lifetime of one year regardless of the employment status of the individual or family.

Additional specific assumptions used to construct the Recreation budget include the following:

- Items for the female who is not in the labour force have the same lifetimes and quantities as the unemployed female;
- Items for the employed (part-time) sole parent have the same lifetimes and quantities as for the employed (full-time) single female;
- Day trips were allocated only to families with children; and
- All households have been allocated an annual holiday, although the destination and quality of accommodation varies depending on the employment status of the family.

Again, the majority of pricing was conducted by observing shelf prices in Kmart with the exception of a few items that were priced in Big W, Bing Lee, Fantastic Furniture, Hoyts Cinemas or Rebel Sport.

One of the main changes to this budget has been the inclusion of an increased level of physical activity for all individuals (regardless of their employment status) in keeping with the healthy lifestyle focus of the new budgets. All adults have been allocated the cost of weekly swimming pool entry, the 6 year-old girl has been allocated a mix of swimming lessons and swimming pool entry over the year while the 10 year-old boy has been allocated the cost to join the local soccer competition. These physical activities together with the assumption that all individuals will be regularly participating in free physical activities such as walking and running will ensure that all family members receive the benefits from participating in regular physical activity.

Education

The Education budget includes almost no allowance for child care in all families except the sole parent families because the assumed ages of the children (6 and 10 years old) mean

that both are in school and thus can be cared for by their mother who is either in part-time employment and able to arrange her working hours (assumed to be 20 hours each week) to fit around her care responsibilities, or to be unemployed and thus able to provide care as required. A modest allowance of two days a week of approved formal (paid for) after-school care has been included to cover emergencies for the low-paid sole parent family. The unemployed sole parent has been allocated one day a week of approved formal after-school care to allow her to participate in job search activities.

Child care during the school vacation period (assumed to be 12 weeks a year) is covered by the mother taking all four weeks of her annual leave during these periods in order to care for her child, paying for six weeks of approved vacation care, and relying on family members and/or friends, to provide an additional two weeks of informal care. The parents are assumed to be entitled to receive Child Care Benefit (CCB) and Child Care Rebate (CCR) which reduce out-of-pocket costs for those using approved care

The other main assumptions used to construct the Education budget are set out below:

- Education costs are assumed to only apply to families with either the 6 year-old girl or the 10 year-old boy – no allowance has been made for adult education;
- Where appropriate, school uniforms are of 'Home-brand' variety unless otherwise specified;
- The item list, quantity and amount spent on children's clothing and footwear items are independent of employment status (although, as noted earlier, the assumed item lifetimes are dependent on employment status);
- School uniform lifetimes for the unemployed families have been calculated by adding 50 per cent to the lifetimes assigned to low-paid families, with the exception of shoes (where lifetimes were assumed to be the same);
- Stationary, books and folders, fees and lunch accessories all have fixed lifetimes and remain the same regardless of employment status;
- Children's shoes have the same lifetime regardless of the employment status of family members.

As mentioned earlier, the introduction of a separate Education budget reflects the interest in the costs associated with schooling. While the inclusion of items for educational purposes is not new, the introduction of a budget devoted entirely to education needs is new. Education items were spread across a number of budgets in the original study, mainly the Household Goods and Services and Clothing and Footwear budgets. However, the list of items mainly covered uniform and stationery items. The new education budget list of items is more extensive than the original and focuses on ensuring that children are able to participate in all aspects of schooling.

The list of items was compared with The Smith Family's *Back to school Cost Estimate January 2014* (2014) to compare item lists and costs. All stationery and uniform costs were priced either in Kmart, Lowes, Target or a local uniform supplier. Schooling costs were based on the average cost estimates produced by The Smith Family given the broad range in schooling costs. Examples of school costs included school fees, school photos, school camps and excursions. The budget also includes the costs of a reasonably-priced tablet

for the 10 year-old boy to be used for educational purposes. This is in line with the list of school items by The Smith Family but it has become common practice for many primary and high schools to have a 'bring your own device' (BYOD) policy. These BYOD policies were commonly mentioned by focus group participants.

3.6 Summary

The detailed assumptions and judgements spelt out in the above discussion are all designed to ensure that the new budget standards represent the minimum amounts needed to attain the 'healthy living' standard. The resulting budgets provide the families who must rely on them with no room to manoeuvre when it comes to satisfying their needs and having anything left over at the end of each week. They reflect informed judgements made across two studies about how to satisfy minimal material needs, as well as what the focus groups told us were necessary to survive on a low income. No allowance has been made for any saving to meet the unexpected emergency expenses that affect many families. These factors support the view that it is possible to make reductions in the quantities or prices that make up the budgets without compromising the healthy living standard that they are designed to support.

4 The Focus Group Findings

4.1 Overview

It has already been noted that focus group discussions play an important role in the development of a budget standard. Ever since Rowntree's approach was modernised by the Family Budget Unit (FBU), focus group interviews have been used as a way of testing and/or validating the normative and behavioural assumptions used to develop the key budget components – items, quantities, lifetimes and prices – and to confirm the relevance of the underlying behaviours – shopping patterns, budgeting practices, social activities, and so on. The original justification for the approach was that this ensured that the budgets embodied elements that were consistent with what families actually do when deciding what to buy.

More recently, as noted in Chapter 2, focus groups have played a more deliberative role in the budget development process, not only being asked to confirm decisions and choices made by others (normally by experts) but to pro-actively suggest what form these should take and reach a negotiated agreement (or consensus) on the most appropriate methods.

It is common for both roles – advisory and deliberative - to be required of focus groups at multiple points in the budget standards development process. The earlier SPRC study, for example, followed the process implemented by the FBU and ran two rounds of focus groups: one early in the process to obtain feedback on proposed items, quantities, lifetimes and prices contained in the original estimates; and at a second stage to review the estimates that had been revised in light of that earlier input and reflect on the final budgets themselves (see Saunders et al., 1998: Figure 2.1). At no point in the SPRC study were the focus groups participants asked to reach agreement on the feedback provided, although the comments made generated a debate that often (but not always) resulted in an agreed group position on the issue.

Since that time, the general trend internationally in budget standards research has been to assign greater weight to the views of the focus groups, but also to give them a more deliberative role and require them to reach an agreed position whenever possible. This provides a more robust basis for gathering the data and makes it clearer what the focus groups were asked to reflect and pass judgement on. The shift has also involved an inevitable increase in the complexity of the task assigned to the focus groups and that in turn has required the researchers to be more explicit about what they are being asked to reflect on. Their task is thus not only to provide guidance on *what the budgets should contain*, but also to help establish *what they actually do contain* and thereby lend greater legitimacy to the estimates by road-testing them against practical knowledge and experience.

The study that produced the original Minimum Income Standards (MIS) for the UK incorporated input from focus groups at the following 5 distinct phases of the construction process:

- orientation (to discuss the concept of a minimum standard) – 8 groups
- content (to negotiate a list of minimum requirements) – 15 groups
- check-back (to agree on the content of the final budgets) – 10 groups
- final negotiation (on specific budget areas) – 3 groups
- geographic check (to examine location effects) – 3 groups

When compared with the two-stage process described above, this more complex and demanding list highlights the shift towards greater reliance on focus group input and the expanded range of issues that group participants have been expected to comment (and reach agreement) on.

It was not possible for this project to replicate the UK MIS approach. It was, however, determined at an early stage that the focus group input was critical although it was also decided that the participants would not be asked to reach a formal agreement on the views expressed. As in the previous SPRC study, their role was primarily advisory, to act as a sounding-board against which to check the appropriateness of the items included, and their quantities, lifetimes and prices – in aggregate and across each main budget area. A two-stage process was again envisaged in order to ensure that their views were adequately and comprehensively incorporated into the estimates.

As will become apparent, it was not possible for a variety of reasons to stick to the original plan for engaging with the focus groups. A reasonable assessment is that not as much was achieved from this component of the study as had been hoped. However, this does not mean that the exercise was not helpful in guiding the research process in several important ways that are highlighted in the following discussion. It is also important to note that the focus group discussions themselves provided an important insight into how unemployed and low-paid Australians manage their budgets on what are often very limited resources. The analysis that follows thus represents an important contribution to our understanding of how people living below the poverty line make ends meet in an affluent country where many others are far better-off.

4.2 Recruitment, Conduct and Participant Characteristics

Recruitment sources

As mentioned previously, one of the key elements of this study was to use the focus group discussions to tap into the relevant needs and experiences of low-paid and unemployed families. This is important, as a way of ensuring that the budget standards estimates accurately reflect their experiences and embody their normative views about what people in their circumstances actually need. In order to achieve this, the focus group participants were asked about:

- the relevance and applicability of budgets to their families;
- the items, quantities and prices included in the budgets; and
- the adequacy of the overall budgets to meet the minimum healthy living standard.

The over-riding aim was to ensure that the budget estimates were firmly grounded in the

actual circumstances of these families.

The original plan was to conduct two rounds of 9 focus groups, 6 with low-paid workers and 3 with unemployed people, while separating each of these groups into three demographic categories: individuals; couples (with and without children); and sole parents. The groups were to be consulted first to provide input on a preliminary set of estimates (based largely on the price-updating of the original SPRC estimates), and later to comment on the revised budgets that incorporated new information (including that provided in the initial discussions) and revised judgements. Ideally, the plan was to involve the same people in both rounds, although it was recognised from the outset that this was unlikely to be achievable in practice and was, in any case, not essential for the discussions to achieve their intended purpose.

While recruitment for low-paid workers proved to be a major challenge, recruiting the unemployed participants was much easier. Project Partner Organisation Catholic Social Services Australia (CSSA) brokered contact with CatholicCare Sydney, an organisation that provides a wide range of services including employment, education and training services to unemployed people. They were asked to recruit unemployed participants that met the relevant criteria and provide a venue for the meetings. Three Sydney sites that were participating in one of their employment programs were chosen based on their knowledge of their clients and the characteristics of the local area.

There were a number of reasons why the focus groups with unemployed people were relatively easy to recruit. These include:

- Participant availability was generally not an issue for the unemployed, most of whom were available to meet during the day;
- The focus on recruiting participants with school-age children meant that there was no need to arrange for childcare while the discussions took place;
- Potential participants were accessing the employment service regularly (as an eligibility requirement for their receipt of NSA) and were thus easily contactable; and
- Their regular face-to-face contact with staff at the service outlet increased the chance of relationship development and with it their willingness to participate in the focus groups.

It proved to be more of a challenge to find and recruit potential participants for the low-paid focus groups. The original intention was to implement a recruitment strategy based on accessing a database of union members provided by Partner Organisation United Voice (National Office). Unfortunately, however, it transpired that the database that was going to be used to identify and contact potential participants was not suitable for a number of reasons, including that it covered members across NSW while the study focus was limited to Sydney and it was not easy to separate these two groups. This meant that it was difficult to recruit focus groups in specific locations given the variability in where union members lived and worked. In addition, those recruited would thus have had to travel some distance to reach the focus group location and with the added time availability constraints associated with them being in employment (often on a casual and/or irregular basis) this meant that focus group attendance was going to be difficult for most potential participants.

The database was also limited in that it did not contain the demographic details needed to

establish their age and family status (see Table 3.1). These constraints meant that it would be far more time-consuming and expensive to contact potential participants and organise the meetings, and unlike in the case of the unemployed, there was no single location that the workers met regularly that could be used as a possible venue.

In late 2014, United Voice identified a cohort of their members who were identified as low income and living in Sydney who had participated in a previous survey and were thought might be willing to participate in the budget standards focus groups. However, the diversity in their location and employment arrangements was again an issue. Of those in this group who were contacted, only 4 expressed an interest in participating in a focus group meeting and of these, only one turned up on the day. In light of this experience, it was decided to explore other recruitment avenues through which to recruit low-paid workers.

Other organisations including CatholicCare Sydney, The Salvation Army and The Smith Family were approached to assist with recruitment and were keen to assist. A few low-paid workers were recruited, although it was generally found that such people were difficult to find given that many were not accessing services – either because of a lack of need, or (more frequently) because of their irregular employment (i.e. shift and/or casual work). The irregularity and unpredictability of their hours of work was thus again a key reason why many workers could not participate in a focus group meeting.

The first set of focus groups with unemployed participants took place between March 2014 and May 2014, while the small number of focus groups with low-paid workers was completed by June 2015. Also in June 2015, the participants in the first set of unemployed focus groups were followed up in order to gauge their willingness to participate in the second round of meetings. However, it proved very difficult to make further contact with most participants – partly because of the length of time (more than 12 months) that had elapsed since the original meetings were conducted and partly because the contact details provided were often no longer applicable, with many phone numbers either disconnected or subject to caller restrictions. Other factors that prevented further participation included various health issues that had arisen over the period, changes in the location of the household, or changes in availability due to the gaining of employment. Given this, it was decided that the second round of focus group meetings with the unemployed would not go ahead and given the small numbers in the low-paid focus groups, it was also decided that there would be no further attempts to arrange meetings with them either.

Those participants who did agree to participate were approached using an arm's length strategy that did not involve members of the research team. This involved asking staff at each of the organisations that supported the recruitment process to provide potential participants with information about the project and answer any initial questions that they might have or (where appropriate) refer them on to the research team. Those contacted were invited to approach service staff if they were interested in participating and given details about the proposed timing, date and location of the focus group meetings.

Although the difficulties encountered in trying to arrange the focus groups were disappointing from a research perspective, it is not difficult to understand the underlying problems that gave rise to them. But while the outcomes achieved fell short of initial expectations, the information provided by those who were able to participate in the focus group discussions proved to be extremely useful in guiding the research team to areas

where they needed to refine the original budgets so that they were better attuned to the realities of life for low-income Australians. In fact, the existence and nature of the recruitment difficulties themselves provides an illuminating insight into the often chaotic and generally unstructured lives led by many low-income Australians.

Focus group conduct

At the beginning of each focus group, participants completed a short anonymous questionnaire that asked for some basic demographic information about their circumstances and provided them with a summary budget that covered weekly spending in each of the 8 broad budget areas identified earlier. Because development of the updated budgets had not been completed as originally envisaged by the time the focus groups took place, these summary budgets were based on the CPI-updating of the earlier SPRC budgets. Their role was to prompt the discussion by providing weekly figures that participants could readily relate to their own experience, but also to ensure that the full range of items in the budget was covered.

The discussion began by seeking responses to the budgets – in total and in each of the main budget areas. The role of the facilitators was to keep the discussion focused on the issues at hand although this often involved giving participants considerable time to explain their circumstances and how this affected their views on the budgets. It was made clear that the primary goal was to identify areas where the budgets were out of line with the experience of participants and, where this occurred, to examine in more detail the reasons behind this divergence. This also took many of the discussions into the details of specific strategies employed by the participants to manage on their limited income and those discussions helped the researchers to identify areas where the budgets needed to be modified.

Appendix A provides more information about the material provided to the focus groups.

Participant characteristics

In total, 46 people across 7 Sydney sites participated in 7 focus groups. Of these, 32 individuals (69.9 per cent) participated in the unemployed focus groups. Overall, the proportion of male participants (65.2 per cent) was higher than female participants (34.8 per cent), with the proportion of males in the unemployed groups being even higher (78.1 per cent) – a reflection of the gender bias that exists among single NSA recipients.

The initial target age range for the recruitment of participants was between 30 and 40 years of age. However, the services used to recruit participants experienced difficulty in recruiting people within this age range, so the target was widened to include all age groups. In the end, the youngest participant among those recruited was aged 20 years and the oldest was 61 years of age. The mean age was 42 years.

More than three-quarters of the participants from the unemployed focus groups (84.4 per cent) were unemployed or currently seeking employment, a further 9.4 per cent were in part-time employment, one person was involved in home or family duties and another person was participating in 'other activities' which included casual work. Over one-quarter (28.6 per cent) of the (small number of) participants in the low-paid focus groups were working part-time, and even though the intention was that these focus groups would only contain low-paid

people working full-time, several of the participants were actually unemployed or looking for work (14.3 per cent) or involved in home or family duties (14.3 per cent). Thus, even within the low-paid sample there were a significant number of people who identified as not being in employment. This links back to the recruitment issues surrounding finding people in low-paid employment.

Most participants (71.7 per cent) reported a weekly income in the range $201 - $599 and many reported that they were receiving NSA and were unemployed. A small percentage (19.6 per cent) reported having an income of less than $200 per week and an even smaller number (8.7 per cent) had weekly income above $600. This higher-income group is largely explained by the small number of participants that were currently employed. Similar percentages of participants reported their current standard of living as being 'fairly low' (34.8 per cent) or 'medium' (32.6 per cent), while five participants (10.9 per cent) reported their standard of living as 'very low' and four participants (8.7 per cent) reported their standard of living as 'fairly high'. The remaining participants (13.1 per cent) either did not respond or did not know.

The living arrangements of participants varied. Overall, most were either living in group households (28.3 per cent) or as a sole parent (23.9 per cent). When broken down by employment status, the unemployed were more likely to be living in a group household, with 40.6 per cent of the unemployed in this situation. This was not unusual given that the sharing of housing arrangements also involves shared housing costs and this was a way to make the low level of NSA stretch further in meeting non-housing needs (see Saunders, Wong and Bradbury, 2016). The low-paid participants were more likely to be sole parents, with this group accounting for 50 per cent of all low-paid participants.

Before presenting and discussing the detailed comments provided by focus group participants, it is of interest to reflect on some of the general issues that emerged from this component of the study. One clear finding was that where the group participants were all of a similar age, the discussions were more informative and the group dynamics more cohesive. In contrast, where the ages of participants varied greatly, the discussions were more disjointed and hence less helpful – at least in relation to identifying common themes. This was particularly apparent when there were participants in both their mid-twenties and mid-forties in the same group. Often their budgets were quite different. For example, those in their mid-twenties often talked about spending on personal care products such as hair products whereas this did not resonate at all with older participants. There were many other examples of such differences that tended to disrupt the general flow of the discussion.

In relation to gender, the gender imbalance in the groups has already been noted and in fact, the three initial unemployed focus groups contained only three females in total. In response to this, an additional focus group was conducted with only unemployed female participants in an attempt to obtain a distinctively female perspective and this produced a more coherent and free-flowing discussion. This suggests that for future focus groups of this kind, males and females should be separated when possible, as the issues they face and perceive are often very different and the male dominated groups tended to overwhelm female participants. One of the focus groups had a significant number of participants that already knew each other and their situations well. This was very helpful for generating discussion, as the participants were open about their situation and willing to discuss each other's budgets in detail.

In two of the larger focus groups there were a couple of participants that did not engage with the discussions at all, and there was quite a lot of over-talking and several smaller discussions broke out amongst participants. Smaller focus group numbers seemed more conducive to generating discussion and enabling everyone to participate.

The focus groups not only enabled the research team to get a better understanding of the budgets, they also served as useful information-sharing sessions for participants. For example, some participants were not aware that they were entitled to a State Government concession card and had been paying full price for public transport. Some shared information about local services that provide assistance or support such as providing free meals or vouchers for food or dental treatment. Others talked about local places where one can get cheap haircuts or DVD hire.

Finally, it seemed that those that had been unemployed for longer periods were more open about their situation, whereas those that had become recently unemployed found talking about their situation quite difficult. For example, one participant who had recently become unemployed (and separated from a partner) and was accessing Centrelink for the first time became visibly upset because this was one of the first times that she had actually spoken about her situation. This is not to say that all of the participants did not find their situation distressing, but it does highlight the role that the passage of time can play in making people more able to reflect on and draw lessons from what has happened to them.

4.3 Focus Group Findings: Economising Strategies

Mention has already been made of the fact that those recruited into the focus groups were all struggling to make ends meet on a low income. Numerous comments made during what were often very emotional sessions brought home the day-to-day struggles that were required to ensure that these very low incomes could be stretched far enough to cover even the most basic needs.

The following quotes illustrate the harsh reality of living below the poverty line in Australia, but also highlight the resilience, resignation (and good humour!) of those forced to endure such difficult conditions:

> *I'm like Bear Grylls… I live on next to nothing.*
>
> *My fridge might be a bit empty but as long as I'm still breathing!*
>
> *Beggars can't be choosers.*
>
> *I'll budget down to the scratch of my last dollar.*
>
> *I'll turn down that week holiday, that two week holiday where I'd have an awesome time just to get $50.*
>
> *If you take $100 it's, like - it wouldn't just screw your budget it would screw your life.*

With this as background, the following discussion examines the more specific issues that emerged from the discussions, with a particularly focus on those who were unemployed, given that they made up the majority of the sample. The account follows the order of the discussions themselves, starting at a general level before considering the implications for the budget standards that were being developed.

All participants employed a number of strategies to try and reduce their weekly budget. These strategies were consistent across the different budgets and included the following.

Shopping Around

The most common strategy for saving money was shopping around to find the best value for money. As one participant indicated:

> *I go from one place to the other, that's about the extent of it.*

This strategy was often guided by the weekly specials advertised by larger stores (for example, Coles, Woolworths, Target and Kmart). Participants spoke about collecting (and seeking out) brochures advertising weekly specials and studying these before entering a shop:

> *Definitely, I look in the brochures first.*

Generally, most items were purchased because they were on sale:

> *So that's how we do it, everything's got to be on sale pretty much.*

Participants identified Aldi as the 'go to' store for the best prices. Some suggested that product quality was also better than in other stores, though most agreed that they shopped there because of its lower prices. However, it was noted that Aldi did not offer the range and choice available at other supermarkets:

> *Aldi is the cheapest one but not special.*

Many participants spoke about shopping at local speciality and second hand stores (for example, Op Shops). Participants stressed the importance of these stores in allowing them to purchase items that they would not otherwise be able to afford if they had to pay full price, particularly for clothing and footwear items. Local speciality stores often had similar or the same brand products as the larger stores but were less expensive. Participants mentioned buying fruit and vegetables, personal care items, cleaning products and day-to-day items such as tea towels at these speciality shops.

Second hand stores or 'Op Shops', such as those operated by The Salvation Army or St Vincent de Paul Society ("Vinnies") were a good source of inexpensive clothing and footwear as well as recreational items such as books, music and DVD's. These stores enabled participants to purchase items that they might not have been able to access if they had to pay full price:

> *Yeah you can find good deals. Second hand shops you can buy them, Vinnie's probably has them…*
>
> *Their books are sometimes, like, $1*

Second hand stores were also places where participants could trade-in things that they no longer needed for something that they did need, either in the form of another item, or for cash:

> *Yeah, really cheap. Like, you can trade DVDs in that you don't want anymore and they can give you some money back.*

Shopping at local speciality and second-hand stores was crucial to the viability of the limited budgets of participants, particularly unemployed people on limited incomes. It should be

noted that this type of shopping is not reflected in the budgets themselves, where nearly all items have been priced from leading retail chain stores and supermarkets. However, as explained in the previous chapter, an allowance has been made for the equivalent of 'shopping around' by including in the budgets a large range of lower-priced 'Home-brand' items. The approach adopted can also be justified on normative grounds, i.e. on the principle that people should be able to afford to purchase items in mainstream stores and not be forced to rely continuously on Op-shops and the like in order to get by.

The internet was another resource used to save money. Items were often seen to be cheaper online and internet shopping for purchasing books was common. Other specials related to participants' choice of particular leisure activities. For example, cinemas offered reduced movie ticket prices on Tuesdays (referred to as 'Cheap Tuesdays'), while many DVD and movie shops also offered reduced hiring rates on certain week nights. Although most participants were aware of these specials, they were only taken up on occasions when there was money available after the essentials were paid for.

Bulk Buying

Bulk buying was not generally used by unemployed households as a strategy for saving money, although it was mentioned by some low-paid households as a potential way of reducing costs:

> *Well, I only get paid monthly from where I work so I just go there and buy, like, a bulk lot.*

In general, the lack of the funds needed to bulk-buy along with limited household storage and/or freezer space were the main barriers to bulk buying.

On occasions, even when it is was not needed, participants would purchase an expensive grocery item if it was on sale. For example,

> *I do, especially with the coffee, because it's so expensive! Yeah, so even if we've got like still half a jar and if one's on a really good special, like I put it in the pantry.*

Generally, our budgets do not make allowance for purchasing goods in bulk. The only items that were priced in bulk were small items such as soap (where the amounts involved are small and minimal storage space was needed).

Brands

It was found that across all budgets, participants would purchase generic (Home-brand) products wherever possible because they were less expensive and helped with balancing the budget. In contrast, brand name products were a definite 'No' for most unemployed households:

> *No. No brands. You can't.*
>
> *Mine don't have a choice - sorry.*

However, it was agreed that the generic products had to be of reasonable quality otherwise money was not saved in the longer-term. For example, one participant spoke about using a poor quality generic washing detergent and noted how it ruined his clothes. He therefore chose to purchase a more expensive brand so that his clothing would last longer. The higher

cost of the brand item was less than the cost of replacing ruined clothing:

> *I can't buy a home brand version because then it defeats the purpose. It's not washing my clothes it's ruining them, you have to buy it…*

Generic food products also had to taste 'good'. For example, there was a couple of food items that participants felt should only be bought as a brand. Thus:

> *I think for things that don't matter so much, like sugar. Sugar is sugar. But for some things I think you better buy like Vegemite or the brand because the other's not as good. So it's a feel your way around it type.*

> *Lots of other things like tomatoes, like, the canned tomatoes or the canned fruits, that's Coles or wherever but – yeah, noodles is on that they just won't eat. I tried plenty of times. Hide them in Maggi cups, hide them in there – but no. No go.*

There was also some discussion in the unemployed focus groups about buying items that 'look like' a brand name item for a much lower and more affordable price:

> *They've got these jackets, brand new, $15 and it's like a tartan-chequered like Burberry's… and it's $15 and it's sort of shiny fabric, but it looks like it's a $100 jacket. So it depends…*

This was important for the image that participants wanted to portray to others. A couple of participants spoke about not wanting to look like they did not have or could not afford certain items that others had. Purchasing brand-name 'look-a-likes' was one way of getting around this problem without blowing their budget.

Interestingly, some female participants talked about buying brand-name make-up items rather than the generic brands. However, they commented that they would not use these products on a daily basis and saved them for special occasions, such as when attending a job interview. One low-paid female said that now that she was employed she was more likely to purchase these types of items as a way of 'spoiling' herself:

> *I'm probably different because I've struggled for so many years … I've just started working full-time and earning a lot more money so I'm probably spoiling myself a little bit too much.*

Family and Social Supports

There were many examples of family and friends providing practical support to participants regardless of their employment status. For example, several spoke about receiving 'hand-me-downs' (i.e. clothing and footwear) from friends and family:

> *I am blessed with beautiful friends who give me things.*

> *At the moment, because I'm not working, friends give me clothes…*

Another example of this type of support was 'clothes-swapping parties' mentioned by a couple of unemployed participants as a strategy used to minimise the costs associated with their clothing and footwear budget. These forms of support help explain why many participants felt that the clothing and footwear budget was adequate.

No explicit allowance has been made in the budgets for obtaining 'hand-me-down' items from family and friends. However, this practice is included indirectly because it can be seen

as a way of extending the lifetime of certain items (e.g. school and other clothing for fast-growing children). If these clothes can be handed on to younger children and replaced by hand-me-downs received from older children, the effect is to increase the life of the item without incurring any direct financial cost (see Chapter 3).

Service Assistance

Participants spoke about frequenting the same health services. As they were 'known' to these health services, exceptions such as bulk-billing were applied if the participant was not able to pay costs. For example, one participant was unable to afford medication and bandages for an infection so these costs were waived. As one male commented:

> *Yeah, I'm lucky, my family doctor – a lot of people he doesn't bulk bill for, but yeah, I was lucky enough for him to.*

Low-paid families were less likely to have access to a healthcare card and in this regard were disadvantaged relative to those who were unemployed.

Food banks were another resource that the unemployed were able to tap into. Local churches ran food banks where people could fill up a bag of food for a set price. Food vouchers from charities were another option used by the unemployed, although the number of vouchers that could be applied for was limited. There was no mention of food banks in the low-paid focus groups conducted. However, given the small sample size of the low-paid this is not to say that others did not use these resources.

Agency support

Unemployed participants received a number of services to support their search for employment and training through their employment agency and also from Centrelink. These included:

- Subsidised training - many participants spoke about accessing a variety of courses through their employment agency. Courses were generally paid for and organised by the agency;
- Free/subsidised clothing - Centrelink provided limited financial support to successful job seekers to cover the costs of work clothing such as high-visibility clothing or work boots;
- Free transportation - employment agencies often covered the costs associated with travelling to and from training as well as attending a job interview. This type of support was not widely publicised and appeared to be only offered to those that approached the agency for assistance; and
- Free access to computers - many participants were allowed to use the employment agency's computers to search and apply for jobs as well as print out information regarding various positions.

Going Without

'Going without' was a common theme across all focus groups as a way of avoiding some costs, particularly among those who were unemployed. Many participants spoke about going without dental treatment and using 'cheaper' remedies to overcome tooth pain

(for example, the use of vinegar and alcohol). While these remedies alleviated pain and discomfort in the short-term, the longer-term consequences were often dire, as the tooth (or teeth) would often fall out. Going without haircuts or getting hair coloured was not uncommon for some women. This did not apply to males, as male haircuts were generally cheaper and they did not see hair colouring as a necessity. Social events such as weddings were often avoided because of the costs associated with travel, and the need to purchase an outfit and a present.

Younger unemployed males, wanting the social interaction with friends, spoke about going out for meals but not eating because they could not afford the cost. Thus:

> *Restaurants I maybe do for a special occasion; if one of my friends has something like a birthday. But a lot of the time I'll go - and it's quite embarrassing I'll just sit and not eat.*

Other Cost Reduction Strategies

The costs of energy and how to save money in this area were widely discussed among the groups. There were two schools of thought in relation to how to save on energy costs. One was to turn all appliances off at the wall when they were not being used. The other was to power appliances to standby because turning them off completely and powering up again uses more power:

> *Well I think there's always sort of two schools of thought there, there are people who turn off every switch every night because that's how they think they're saving, and sometimes it seems for them that they do, they get a cheaper bill. But as I said, I don't think there's any definitive opinion about that. But we all do, I suppose, different things to try to save, particularly on energy.*
>
> *What I do is I now turn off ... everything in the house once everyone's in bed ... or if I'm the only one home ... all the lights are off. I turn all the power points off. I unplug things.*

Although none of the participants were renting appliances, most were aware that this was an option if they could not afford to buy an appliance outright.

4.4 Specific Comments on Main Budget Areas

Food Budget

Participants were in general agreement that $65 a week was close to the average amount that a single person would spend each week on food. Estimated amounts ranged between $65 and $85 per week, depending on family size:

> *Yeah that's about right, but once you do a reasonable shop, like one fortnight because you run out of stuff, and then you're just topping up on the rest, so I think $65/$70ish is about okay.*
>
> *I'm spending about $80 – between $80 to $85 a week, and I'm being very realistic…*

A couple of unemployed participants said that they spent well below $65 per week. One female who had recently become homeless survived on $5 per day for all meals. With

no access to a kitchen and no means to store food, her food purchases were usually for immediate consumption:

> *Yes. I no longer have a place to live, so when I had a place to live I had a kitchen, could buy the food and whenever – now it's just the – you know, I have to buy from shops already made.*

Another example was a couple who allocated $75 a week for their combined food budget, well below the estimated $65 a week for an individual.

Generally, participants living with family members or in shared accommodation were not able to comment on exactly how much they spent on food each week. Most contributed a portion of their Centrelink payment for food and other household bills. For example, one female contributed $200 a week (to her mum) to cover food and other bills. It was up to her mum to decide how this money was spent.

Eating out was seen as a luxury and not something that occurred on a regular basis. For most, if they did eat out it was only for special occasions:

> *[Take away] that's more of a want for me; it's more of a want.*
>
> *Hot chips is a luxury for my kids.*

For those participants that ate out or purchased take away on an irregular basis there was general agreement that the cost was between $10 and $15. Types of meals mentioned included pub meals, KFC, Indian, Asian, pizza and McDonalds. While it is difficult to generalise given the small numbers involved, it did seem that low-paid families were more likely to eat out regularly, sometimes as often as weekly or fortnightly. The types of meals were similar to those mentioned above.

For a particular occasion some said they would try and save some money each week:

> *I just can't afford it. But if I at least have a lot of notice I might save up for it.*

Participants gave a lot of thought to the value of buying take-away and the quality of the food. One younger participant talked about buying from a local Indian takeaway because the meal was cheaper than he could make it for and generally he could save some for a second meal:

> *You can find Indian place here and for $7 you get a curry and rice. You can't make it for that.*

The food at the local Indian take away was also seen as nutritional and filling.

Clothing and Footwear Budget

Participants found it hard to estimate how much they spent on clothing and footwear on a weekly basis because unlike food and personal care, they did not shop for these items regularly. Also, many participants said that spending in this budget area was dependent on how much money was available after the essentials had been paid for - food, rent and unpaid bills. Participants used numerous strategies (see earlier comments on 'shopping around' and 'clothes swapping') for saving on clothing and footwear.

Generally, participants appeared to spend as little as possible on clothing. There was debate amongst some participants about whether it was better to spend more and buy

quality products that would last longer or purchase cheaper varieties that they knew would not last as long. Purchasing cheap footwear was not an option for all, with most seeing value in buying more expensive footwear:

> *I bought some Timberland boat shoes, $200 bucks. Because I bought the copy ones from Pay-Less Shoes for $69 bucks, they fell apart in two weeks. So I buy quality that lasts a long time, and then you might have less items of clothing, but they're good quality ones. I don't like buying cheap rubbish.*

Other participants preferred to purchase inexpensive clothing and footwear recognising that these products would not last as long. This strategy required less money at any point in time but meant buying items more frequently:

> *After three to six months with Pay Less now, they're cheap from China, but you expect that so buy them cheap and three to six months later get another one.*

A mother in one of the low-paid focus groups talked about her family needs changing as her children got older. While in primary school it was easier as her children accepted hand-me-downs and clothes given to them, but as they got older costs increased as they became fussier:

> *It's really hard because, like, for years you'd get hand me downs, you'd get – but [my son] just started high school and the whole attitude changed, where he was given a whole heap of clothes, he won't wear them. So I took him shopping a couple of weeks ago, it cost me $300 for two shirts, two pairs of shorts and a pair of shoes.*

Household Goods and Services Budget

As with the clothing and footwear budget, participants found it difficult to estimate the weekly costs for this budget. Most of the discussion was around the cost of energy, and internet and mobile phone use. Generally, unemployed participants spent between $25 and $50 a month on electricity, although low-paid families estimated spending somewhat higher, closer to $100 a month. Some of these participants also talked about the costs associated with heating.

Some of the participants spoke about getting behind with paying their energy bills. However, they also felt that most companies were supportive by offering extensions on payments. For example, one person successfully requested multiple extensions:

> *Well I just ring them and get an extension and then – I've got about three extensions at the moment, it was $370 my last bill.*

Many participants had payment plans set up whereby a weekly or fortnightly payment was automatically taken out of their bank account and transferred to the energy supply company (as well as by different companies for other bills). This was more manageable for participants because they were able to set aside money rather than finding the whole amount. Any additional money paid into the account was credited to the next bill:

> *I've got plans – payment plans – on all of mine. It's the only way I can manage it, is if they deduct, take out, $55 a week – no, $57 a week they take out for electricity and…*
>
> *So the next winter, it will be a peak area where it might be a little bit more than $60 a fortnight but I've already paid that buffer during summer.*

Similarly, many share households had a 'kitty' where money was put aside on a weekly or fortnightly basis rather than waiting until quarterly accounts arrived and then having to find the larger amount:

> *I put $40 away a fortnight so by the time the bill does come in, at least then I've got some petty cash saved up so it won't hurt as much by the time the bill does come in.*

All participants had a mobile phone and having a phone was seen as particularly essential for those seeking employment. For most, mobile phone spending was around $20 to $30 a month and was generally pre-paid. The amount varied depending on how much money was available in a particular month after the cost of essentials had been paid. A few participants had mobiles with no credit for making calls - this strategy reduced their bills but ensured that they were contactable. This was particularly important for those seeking employment:

> *No, because whoever wants to ring, you've got to ring me because I can't afford to put it on.*

Most participants had access to a computer - either their own personal one or through the employment agency. However, employment agency computers were strictly to be used for searching and applying for jobs. Generally, participants spent quite a lot of their monthly budget on internet costs ($70 to $100 a month). Participants spoke about the need to spend money on the internet to get a good connection. Often a landline was included with the internet.

Transport Budget

Participants generally agreed that around $40 a week was enough to cover transport costs. Travel costs became an issue for many unemployed households when additional travel was required for training or employment. In some instances the employment agency supported additional travel costs. Around half of the participants owned a car. Car use was dependent on whether money was available to purchase petrol and/ or whether it was cheaper to travel by public transport. There were many stories about cars not being used because it was cheaper to use public transport:

> *Yeah, I've left it at home not for any great stretch of period. If it's getting towards the end of the pay cycle, you'd go, well…*

The average petrol cost for participants was between $30 and $50 a week. Most participants did not have comprehensive car insurance due to its cost.

Public transport and walking were the cost common modes of getting around. The majority of unemployed households had a concession card which made using public transport more affordable. Several participants only realised they were entitled to this type of concession after speaking with others in the focus group:

> *I don't have a problem with it unless they're running late or they've been cancelled. But you don't really have an issue with public transport.*

Health Budget

Meeting the costs of health care, especially in regards to dental care, was of concern to most participants. There was a general consensus that participants only attended dental health services when they were desperate. Most participants thought that the $4 a week

estimated for health costs was extremely low and unlikely to meet the costs of doctors' visits, prescriptions and dental services.

One participant summed up the feelings of many:

> *$4 for health, this is a laughing stock.*

There was little discussion about how much should be set aside each week to cover health costs. It was just agreed that the estimated amount was not enough to cover health costs, even for a healthy individual.

Participants were well aware of their health needs and the costs associated with these. They knew the location of all local bulk-billing medical centres and general practitioners:

> *I know every doctor that bulk bills in [my local area]. I know every single location.*

Participants only attended bulk-billing services. If there was not one available in their local area they travelled to other areas. Several participants had GP's that they had been seeing for a long period of time and although they did not generally bulk-bill their patients, they made an exception for them.

Being able to access dental services was very important to participants. Most however, were not able to access these services or were currently on long waiting lists. There were numerous stories about participants not being able to access dental services because of delays and the costs involved in using alternatives to meet their needs. For example, one man talked about two of his teeth cracking painfully and how he decided to pull them out himself because he could not afford the costs and he couldn't wait to reach the top of the public waiting list. Another participant, desperate for pain relief for a broken molar visited his GP because these visits were bulk billed.

Other participants used various non-medical remedies to dull the pain:

> *If you've got a sore toothache, put vinegar and put it up there and it will ease the pain.*

There were many more similar stories and it was clear that this was a serious health issue which was largely neglected due to high costs and lengthy delays for services.

Private health insurance was not an option for most due to its high cost:

> *I can't afford medical - sorry, health insurance.*

A couple of participants had previously had private health insurance coverage but had dropped out when they became unemployed. Employed households were more likely to have private health insurance than their unemployed counterparts. Many of those without private health insurance were families with young children.

Personal Care Budget

There was a general consensus from males and females that $6 a week (average) was not sufficient to purchase basic personal care items, particularly if the cost of haircuts was included. Most thought that $10 to $15 a week (average) was a more realistic estimate of what was required for personal care items:

> *No, is very low if you want to keep haircut [in]*

> *This is not enough money.*

> *$300 a year [$6 per week] doesn't feel like enough for that kind of thing…*

Most males in the groups agreed that haircuts were needed every 6 weeks at a cost of $10 to $15 per haircut.

Unlike males, females in the groups often went without haircuts and/or hair colouring for long periods due to the higher costs incurred at hairdressers. Haircuts were often expensive ($20 to $30 per cut) and costs increased if hair was coloured as well. Female participants spoke about having a cut and colour together and how the costs involved prevented more frequent visits:

> *Yes, and as far as my haircuts, the last time I had my hair cut and things to get grey hair out, that was way back in August and I haven't been able to afford it …*

A couple of participants noted their strategies for reducing the cost of haircuts. For example,

> *My mum cuts my hair and my daughter colours my hair because she's doing – she goes down to the college to learn hairdressing.*

Other strategies used by participants included going without, cutting their own hair and visiting the local TAFE college where trainees cut their hair for minimal cost.

Recreation Budget

Recreational activities that cost money were not a priority for unemployed households and were generally something that they went without. Two quotes summarise what most of participants were feeling:

> *There's no social life.*

> *And entertainment is so low on your list you virtually get to the point where things stack up and entertainment doesn't even register.*

Low-paid households were more likely to be participating in recreational activities, particularly households with children. Adults talked about saving in various areas so that their children could participate in various activities such as football and dancing.

It was agreed that the estimated $20 a week (average) for recreation was a generous amount. Most participants said that they were not spending this much (or even close to it) on recreation activities and were more likely to be participating in free activities such walking and bike riding. The spending that did occur was irregular and dependent on how their budget was looking:

> *Leisure is one of those things where you do what you can do with the money you have left over.*

> *Oh it depends on the situation with bills and gas and electric and so forth.*

A significant number (one-third to one-half) of the participants commented that for them, smoking was a leisure activity. Spending was generally $20 to $30 a week however; there were exceptions with one participant saying that they spent $75 per week:

> *My only leisure now is – I smoke cigarettes.*

Smoking was commonly described as a strategy for decreasing stress levels. That so many participants smoked is a concern given that the focus of the budgets is on healthy living.

Below are some examples of recreational activities that focus group participants mentioned (some more frequently than others):

- Free outdoor activities (such as walking, bike riding and gardening);
- Gym memberships;
- Renting DVDs;
- Going on outings (such as to the movies or local pub);
- Foxtel; and
- Smoking.

Internet and mobile phone use (covered in more detail in the Household Goods and Services budget) were also considered recreational activities by some participants.

Education Budget

The focus of the Education budget is on the costs of children and only applies to families containing children. There was limited discussion around this topic, with much of it focusing on the costs of adult education, particularly among those who were unemployed. This section focuses only on education and employment in unemployed households mainly offered through employment agencies (possibly reflecting how the participants were recruited). Employment agencies often paid and organised training and education as part of brokering people into employment. Examples of courses and training that participants had previously or were currently participating in included: forklift training; warehouse training; first-aid training; childcare training; computer and data base courses; security training; budgeting courses; and community service courses.

Participants reflected on the type of courses and training that they had been involved in and their perceived usefulness for future employment prospects. While it was clear that the majority felt grateful for the opportunity to participate in training (organised and paid for), many felt that some courses were not meeting their needs. This was particularly common for the compulsory courses that all participants had to do regardless of their appropriateness and interest to participants.

For example, in terms of computer courses, some were overwhelmed by the computer skills needed to undertake the course whilst others were not interested in developing these skills for various reasons:

> *You know what annoyed me? We didn't get nothing out of it, total waste of time.*
>
> *We had to do this course, I did it, everyone did it, regardless whether you wanted to or not and regardless – they didn't even ask you, 'Would you like to do office work?' and it was all to do with how to work in a friggin office. I mean I wouldn't work in an office if you paid me, I don't even know how to work a computer. How stupid is that?*

Most participants recognised that training was important in gaining paid work and were keen to actively participate. It was, however, the appropriateness of some courses that caused concern for many participants. Improving job prospects may well require a better focus on the needs and skills of the individual.

4.5 Comments on the Overall Budgets

Many participants felt that the weekly totals were too low for both unemployed and low-paid families. Many thought that even if the amount was increased, luxuries and participation in social activities would still be excluded. Some of their comments included the following:

> *I think around about $250 that will allow me to live comfortably.*
>
> *About $300 a week.*
>
> *It's a laugh.*
>
> *It's low.*
>
> *I would say $300.*
>
> *$300 give or take maybe that's max with $10 difference up or down. But $300, yeah, that's about the limit.*

Healthy Living

Most participants acknowledged that healthy living was important to them and they strived to achieve this for themselves and for their family. Healthy living was seen as not just the outcome of a healthy diet but was also affected by a number of other contributing factors (for example, the level of social participation and exercise). Participants provided many examples of what they did in practice to achieve healthier living, including the following.

Food Budget: Although participants acknowledged that it was preferable (and healthier) to buy fresh meat and produce, this was not always affordable and alternatives were often used (i.e. frozen or tinned varieties). For example, participants could purchase a tinned meat and vegetable soup cheaper than they could make the soup with fresh meat and vegetables. By using cheaper alternatives participants felt that at least they were having some form of meat and vegetables even if it was not the freshest option.

Participants also felt it was healthier to have cheaper cuts of meat than have no meat at all, so sausages, mince and chicken were seen as staples:

> *Chicken is the cheapest one, if you want to survive you have to buy a chicken, if you wanted steak, sorry, forget about it…*

When money was short participants had lots of imaginative ways to create (and bulk up) meals. Staples were often bought in large quantities to bulk up meals and used as substitutes for meat and vegetables. Examples include potatoes, pasta and rice. Whilst not always the healthiest options when eaten in large quantities, they were found to be filling. A couple of participants supplemented their diet by taking vitamin tablets although this was not common due to the cost.

Recreation Budget: Participant's access to leisure activities was limited by their affordability:

> *And entertainment is so low on your list you virtually get to the point where things stack up and entertainment doesn't even register.*

Generally, most participants had low levels of social participation and engagement with others. Due to their substantial cost, there were few examples of people participating in any team sports or sports which would enable them to interact with others and develop social

networks. In terms of entertainment, spending was irregular and was dependent on how much was left in their budget. There were no regular social activities that participants were involved in and they often avoided special occasions such as weddings and birthdays because of the costs involved. As noted earlier, smoking was considered a leisure activity by many as well as a stress reliever.

Health Budget: Participants were not often able to access health services, particularly dental due to affordability. This often led to them taking dental work into their own hands and pulling their teeth out. This is not an example of healthy living.

4.6 Concluding Comments

It is clear from the above discussion that many low-income Australians are forced to make difficult but unavoidable compromises about how to spend their limited incomes in order to meet even their most basic needs. This is particularly the case for those who are unemployed and in receipt of NSA, and confirms that the existing level of that benefit is not adequate to support even a minimal standard of living.

Many of the views expressed have been reflected in the detailed items included in the budgets, but not all of them. No allowance has been made, for example, for smoking or other tobacco products even though a number of participants saw this as a critical element in their 'survival' strategy. While recognising the short-run psychological gains associated with such behaviour for those facing severe financial and other forms of stress, the focus on healthy living simply precludes including smoking as an activity that should be included in the budgets. The normative case against this course of action is simply overwhelming.

A number of the other general findings have also not been reflected in the final budgets, at least not directly. One of these relates to the evidence provided about the swapping of clothes and other items, which is a way of extending item lifetimes, particularly clothing of school-age children who are fast out-growing their (school and general wear) clothes. In general, the budgets do not allow for clothes swapping or for the purchase of second-hand items, in both cases reflecting a normative judgement that people should be able to buy appropriate new items when they are needed. The fact that such practices are widespread among low-income families facing severe financial pressures does not automatically mean that the budget standards should incorporate such behaviour. Indeed, to do so would undermine their role as an independent, evidence-based adequacy benchmark. Against this, it has already been noted that clothing and footwear item lifetimes were varied to allow indirectly for the effects of clothes swapping on effective lifetimes.

Although these decisions impose a gap between how the budgets are constructed and how 'real' people behave, it highlights the role that expert normative judgments play in developing a budget standard and illustrates the nature of those judgements in this specific instance. Having said this, considerable attention has been placed on reviewing the lifetimes imposed on items in the original study and on revising these whenever it was felt that this was justified.

Another area where change might be made in the light of the focus group feedback is in relation to the numerous comments received about 'shopping around' to find the lowest prices and, more generally, avoiding the stores that have been used to price the budgets because they were regarded as too expensive. Participants confirmed that they bought

Home-brand generic items whenever possible as a way of stretching their budgets further and many such items have been included in the new budgets.

However, in relation to the shops used to price the budgets, it is important to price the budgets at stores that are located throughout the country because this allows others to validate or replicate the construction process, and also gives a national relevance to the estimates. It is simply not possible to price the budgets at the cheapest available stores because this would involve using multiple stores (depending on their availability in specific locations) and would add greatly to the complexity (and cost) of the whole exercise, while undermining its more general relevance.

At a more practical level, the budgets were already close to completion using similar stores to last time before the focus group feedback on 'shopping around' had been received. By then it was too late to go back and start the entire pricing process again. The judgement of the research team is that the very extensive reliance on Home-brand items ensures that the food budgets are at an absolute minimum, a view that is reinforced by the decision to allow for no food wastage among the unemployed families.

The general point that emerges from this summary (and much of the preceding) discussion is that extreme care should be taken when deciding how to respond to focus group comments of the kind reported in this chapter. While there is no disputing the fact that the practices described are real, they are largely an inevitable response to the very low incomes being received by most of the participants. People have to get by on what they have in the short-term, but this does not mean that the consequences of them doing so should be reflected in measures that are developed to assess the adequacy of their incomes.

If this path is followed, the adequacy measures will simply mirror the existing incomes and replicate existing (income-constrained) behaviour rather than providing the basis for improved behaviour (driven by more adequate incomes). Budget standards must incorporate the existing realities where possible without compromising the normative judgements that are needed if the budgets are to be used as income adequacy benchmarks. How well this has been achieved is the subject of the next chapter.

5 The New Estimates: Presentation and Analysis

5.1 Introduction

This chapter presents and analyses the new budget standards for low-paid and unemployed families derived using the methods described in previous chapters. After presenting the estimates in Section 5.2, Section 5.3 compares three alternative ways in which the budgets can be expanded to include housing costs – an important and large component of most family budgets. The preferred method is then used to 'gross-up' the non-housing budgets in order to illustrate the impact of housing costs and to facilitate comparisons of the budgets with other income adequacy benchmarks. Section 5.4 uses the grossed-up (including housing costs) budgets to derive estimates of the costs of children and the degree of economies of scale, while Section 5.5 compares the grossed-up budgets with existing Australian poverty lines. This is followed in Section 5.6 by comparisons between the new budget estimates and the 'social safety net' incomes that different families would receive under existing income support provisions, focusing on the role and adequacy of the minimum wage and NSA.

There are also two important Appendices to this chapter. **Appendix B** compares the new estimates with the previous MBA and LC standards, updated in line with movements in the CPI, while **Appendix C** compares the new budget standards with actual expenditure levels and patterns, based on data from the latest (2009-10) *Household Expenditure Survey* conducted by the ABS (see ABS, 2011b). The information contained in these two Appendices form part of the evidence base against which the overall relevance, usefulness and implications of the new budget standards can be assessed. The data they contain informed the process of review, modification and refinement that followed the production of the initial set of budget standard estimates.

5.2 The New Budget Standards Estimates

As noted in Chapter 3, the new budgets were priced in the second half of 2013 but have been updated to the June Quarter of 2016 in order to maintain their relevance (and allow comparisons with prevailing safety net provisions). This updating (undertaken in line with movements in the CPI at the main budget area level) is unlikely to introduce any major distortions and has the advantage that the estimates and comparisons are more relevant to current circumstances and policy settings.

As the budgets came together, the research team met regularly to review the estimates and compare them across family types and labour force states (low-paid and unemployed). The role of these discussions was to consider whether alternative assumptions and/or approaches to such issues as setting the lifetimes of durable items and varying lifetimes according to family characteristics were needed to improve the estimates. Members of

the Project Reference Group (PRG) also commented on the provisional estimates and made a number of valuable suggestions for improvement. The final estimates reflect these comments as well as what we were told by focus group participants, what we learnt from the expenditure comparisons and from the collective experience and considered judgements of research team members.

This process of assessment, review, modification and refinement took a considerable amount of time and this explains the gap between when the budgets were first priced (in the latter half of 2013) and when they were eventually finalised (in early 2017). This final stage took so long because of the nature and complexity of the task. It was only possible to begin to review the budgets once every element in them had been identified and priced and this took well over a year after pricing had commenced. Once assembled, the initial budgets were then subject to a series of consistency checks that involved comparing the low-paid and unemployed budgets for each family type and comparing how the budgets varied across family types at each standard. These comparisons were informed by existing research on relative needs, information about the living standards of the two groups of families and by the information provided by the focus groups.

Where there was a specific budget that seemed anomalous, it had to be disaggregated into its main budget areas to identify the general source and then disaggregated again within that area to identify which specific items were driving the results. Once the source had been identified, a decision then had to be made about whether to change the item(s) and if so, how or to introduce new items or assumptions and this process often involved an extensive search for more data on which to base any revisions and then on having to re-price (and deflate) modified items or identify and price any new items. This process had to be undertaken each time an anomaly was identified and there were many instances where this was necessary – often in order to simply check the impact of applying a different approach. As the number of revision iterations increased, the degree of confidence in the estimates grew and it was at this stage that the comparisons presented later in this chapter (with poverty lines and safety net incomes) were produced, leading to a further round of revisions as new potential problems emerged. The whole process of identifying the source of the 'problem' and deciding how to address it then had to be undertaken once again.

Although the delay caused by this process has been a source of frustration for the research team, the process described above has without doubt added to the value of the new estimates by ensuring that they have been comprehensively reviewed for their consistency with available information and research on family budgets, living standards inequalities and what is known about existing inadequacies. The detailed scrutiny associated with this process has been long and at times difficult, but the resulting delay is unavoidable if the estimates are to be subjected to the appropriate level of review, sensitivity analysis and refinement. The time and effort put into this part of the process has been more than compensated for by the improvements in the resulting budget standards that are now described.

The low-paid and unemployed budget standard estimates that emerged from this process of review and refinement are presented in Tables 5.1 to 5.6 for the different family types. Each table shows, for completeness, the final budgets that were actually priced in the latter half of 2013 and the updated estimates for the June Quarter 2016. The monetary values of these budgets are illustrated in Figures 5.1 and 5.2, which have been drawn to the same

vertical scale to make it easier to see how the budgets compare across family types and as between low-paid and unemployed families. The same information is presented as budget shares for each of the main budget areas in Figures 5.3 and 5.4. Note that although a case can be made for rounding the estimates to the nearest 10 cents to reflect the uncertainties involved in the methods and assumptions used to derive them, all estimates are shown to the nearest cent. This approach allows others to update and/or modify the estimates for specific uses from an exact base.

Table 5.1 Budget Standard for a Single Female Aged 35 ($/week)

Budget Category	Low-Paid			Unemployed		
	Latter half of 2013	June 2016		Latter half of 2013	June 2016	
	($)	($)	(%)	($)	($)	(%)
Food	55.39	56.87	20.26	52.62	54.03	25.99
Clothing and Footwear	11.07	10.83	3.86	5.09	4.98	2.39
Household Goods and Services	77.11	79.23	28.22	66.54	68.37	32.89
Transport	82.21	78.30	27.90	47.12	44.88	21.59
Health	7.46	8.55	3.05	5.59	6.41	3.08
Personal Care	17.19	17.88	6.37	13.68	14.23	6.85
Recreation	28.49	29.04	10.34	14.72	15.00	7.22
Education	0.00	0.00	0.00	0.00	0.00	0.00
Total	**278.91**	**280.69**	**100.00**	**205.36**	**207.89**	**100.00**

Table 5.2 Budget Standard for a Single Male Aged 40 ($/week)

Budget Category	Low-Paid			Unemployed		
	Latter half of 2013	June 2016		Latter half of 2013	June 2016	
	($)	($)	(%)	($)	($)	(%)
Food	64.99	66.73	23.64	61.74	63.39	29.78
Clothing and Footwear	11.04	10.80	3.82	5.40	5.28	2.48
Household Goods and Services	77.11	79.23	28.06	66.54	68.37	32.12
Transport	80.97	77.12	27.32	45.77	43.60	20.48
Health	5.33	6.11	2.16	5.01	5.75	2.70
Personal Care	12.79	13.30	4.71	11.04	11.48	5.40
Recreation	28.49	29.04	10.28	14.72	15.00	7.05
Education	0.00	0.00	0.00	0.00	0.00	0.00
Total	**280.72**	**282.33**	**100.00**	**210.22**	**212.86**	**100.00**

Table 5.3 Budget Standard for a Couple with No Children ($/week)

Budget Category	Low-Paid			Unemployed		
	Latter half of 2013	June 2016		Latter half of 2013	June 2016	
	($)	($)	(%)	($)	($)	(%)
Food	120.39	123.60	28.04	114.37	117.42	32.30
Clothing and Footwear	16.13	15.77	3.58	10.48	10.25	2.82
Household Goods and Services	96.92	99.59	22.60	85.92	88.28	24.28
Transport	126.78	120.75	27.40	89.18	84.94	23.36
Health	12.61	14.45	3.28	10.42	11.94	3.29
Personal Care	25.99	27.04	6.13	24.24	25.22	6.94
Recreation	38.79	39.54	8.97	25.02	25.50	7.01
Education	0.00	0.00	0.00	0.00	0.00	0.00
Total	**437.60**	**440.74**	**100.00**	**359.63**	**363.55**	**100.00**

Table 5.4 Budget Standard for a Couple with a 6 Year-Old Girl ($/week)

Budget Category	Low-Paid			Unemployed		
	Latter half of 2013	June 2016		Latter half of 2013	June 2016	
	($)	($)	(%)	($)	($)	(%)
Food	152.16	156.22	27.06	144.55	148.41	31.57
Clothing and Footwear	24.25	23.72	4.11	15.87	15.52	3.30
Household Goods and Services	109.70	112.72	19.52	97.90	100.59	21.40
Transport	151.94	144.72	25.06	96.09	91.52	19.47
Health	17.02	19.51	3.38	14.83	17.00	3.62
Personal Care	29.83	31.03	5.37	28.72	29.87	6.36
Recreation	60.88	62.06	10.75	42.50	43.32	9.22
Education	23.96	27.43	4.75	20.78	23.79	5.06
Total	**569.74**	**577.40**	**100.00**	**461.24**	**470.04**	**100.00**

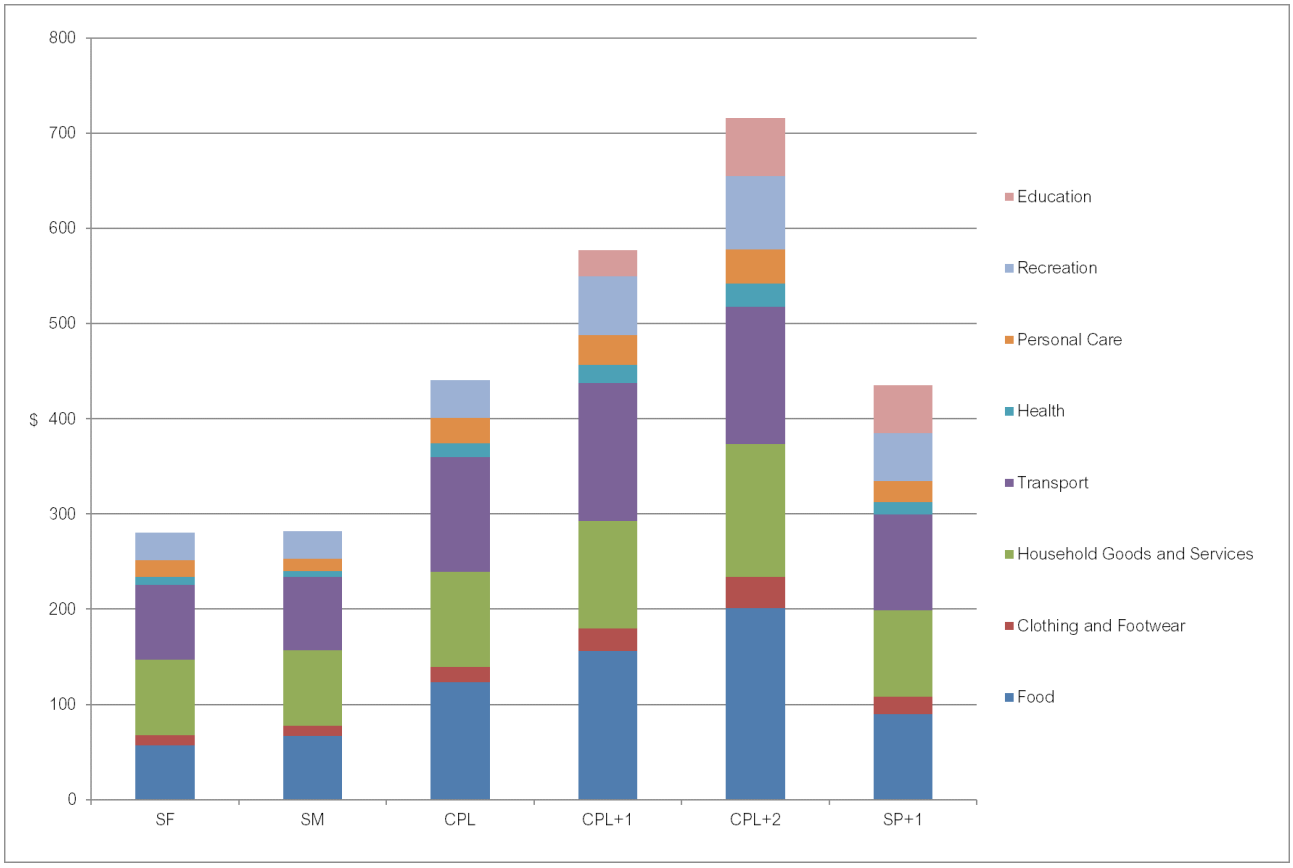
Table 5.5 Budget Standard for a Couple with a 6 Year-Old Girl and a 10 Year-Old Boy ($/week)

Budget Category	Low-Paid			Unemployed		
	Latter half of 2013	June 2016		Latter half of 2013	June 2016	
	($)	($)	(%)	($)	($)	(%)
Food	195.69	200.91	28.06	185.90	190.87	31.79
Clothing and Footwear	33.95	33.20	4.64	22.16	21.67	3.61
Household Goods and Services	135.38	139.10	19.43	121.01	124.33	20.71
Transport	151.94	144.72	20.22	102.78	97.89	16.31
Health	21.26	24.36	3.40	19.07	21.86	3.64
Personal Care	33.97	35.34	4.94	32.86	34.18	5.69
Recreation	75.53	76.99	10.75	55.57	56.64	9.43
Education	53.50	61.26	8.56	46.22	52.93	8.82
Total	**701.21**	**715.88**	**100.00**	**585.56**	**600.37**	**100.00**

Table 5.6 Budget Standard for a Sole Parent with a 6 Year-Old Girl ($/week)

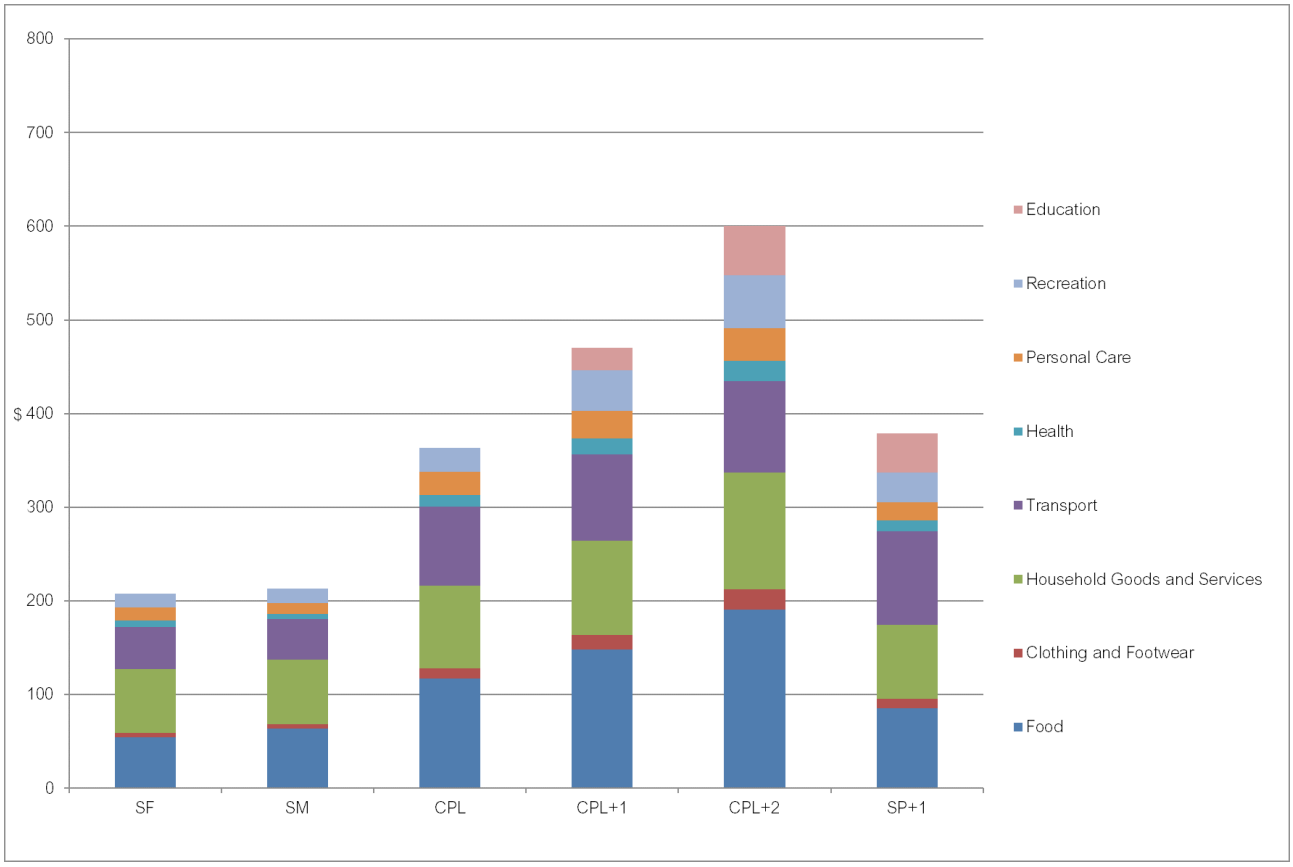
Budget Category	Low-Paid			Unemployed		
	Latter half of 2013	June 2016		Latter half of 2013	June 2016	
	($)	($)	(%)	($)	($)	(%)
Food	87.17	89.49	20.56	82.81	85.02	22.46
Clothing and Footwear	19.20	18.78	4.31	10.47	10.24	2.71
Household Goods and Services	88.04	90.46	20.79	76.90	79.01	20.88
Transport	105.40	100.39	23.07	105.40	100.39	26.53
Health	11.87	13.61	3.13	10.00	11.47	3.03
Personal Care	20.69	21.52	4.94	18.16	18.89	4.99
Recreation	49.69	50.64	11.64	31.31	31.91	8.43
Education	43.93	50.31	11.56	36.27	41.54	10.98
Total	**425.98**	**435.20**	**100.00**	**371.33**	**378.48**	**100.00**

Figure 5.1 Budget Standards for Low-Paid Families ($/week, June Quarter 2016)



Note: SF= single female; SM = single male; CPL = couple; CPL+1 = couple plus 6 year old girl; CPL+2 = couple plus 6 year old girl and 10 year old boy; SP+1 = sole parent plus 6 year old girl

Figure 5.2 Budget Standards for Unemployed Families ($/week, June Quarter 2016)



Note: SF= single female; SM = single male; CPL = couple; CPL+1 = couple plus 6 year old girl; CPL+2 = couple plus 6 year old girl and 10 year old boy; SP+1 = sole parent plus 6 year old girl.

Figure 5.3 Budget Standard Shares for Low-Paid Families

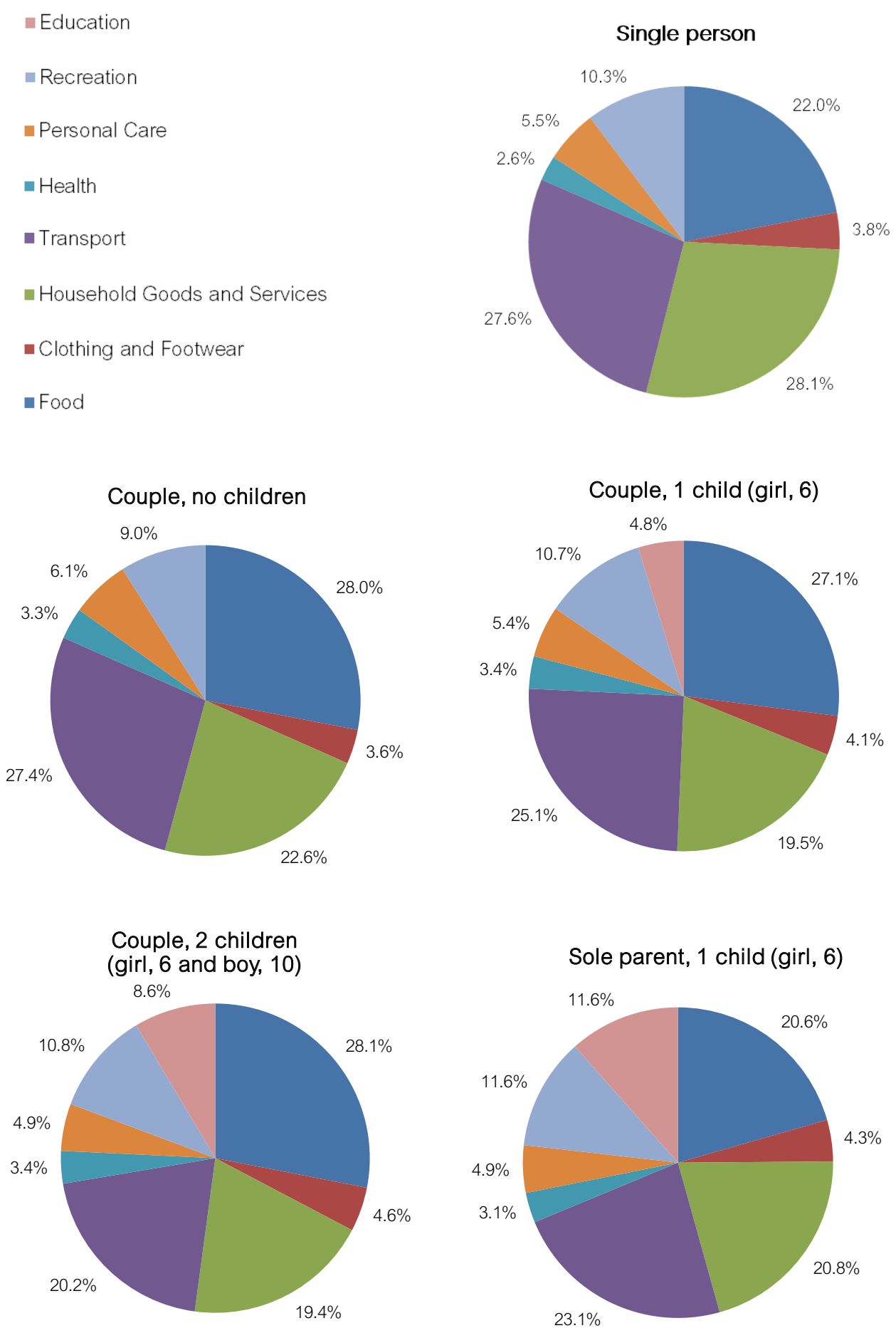
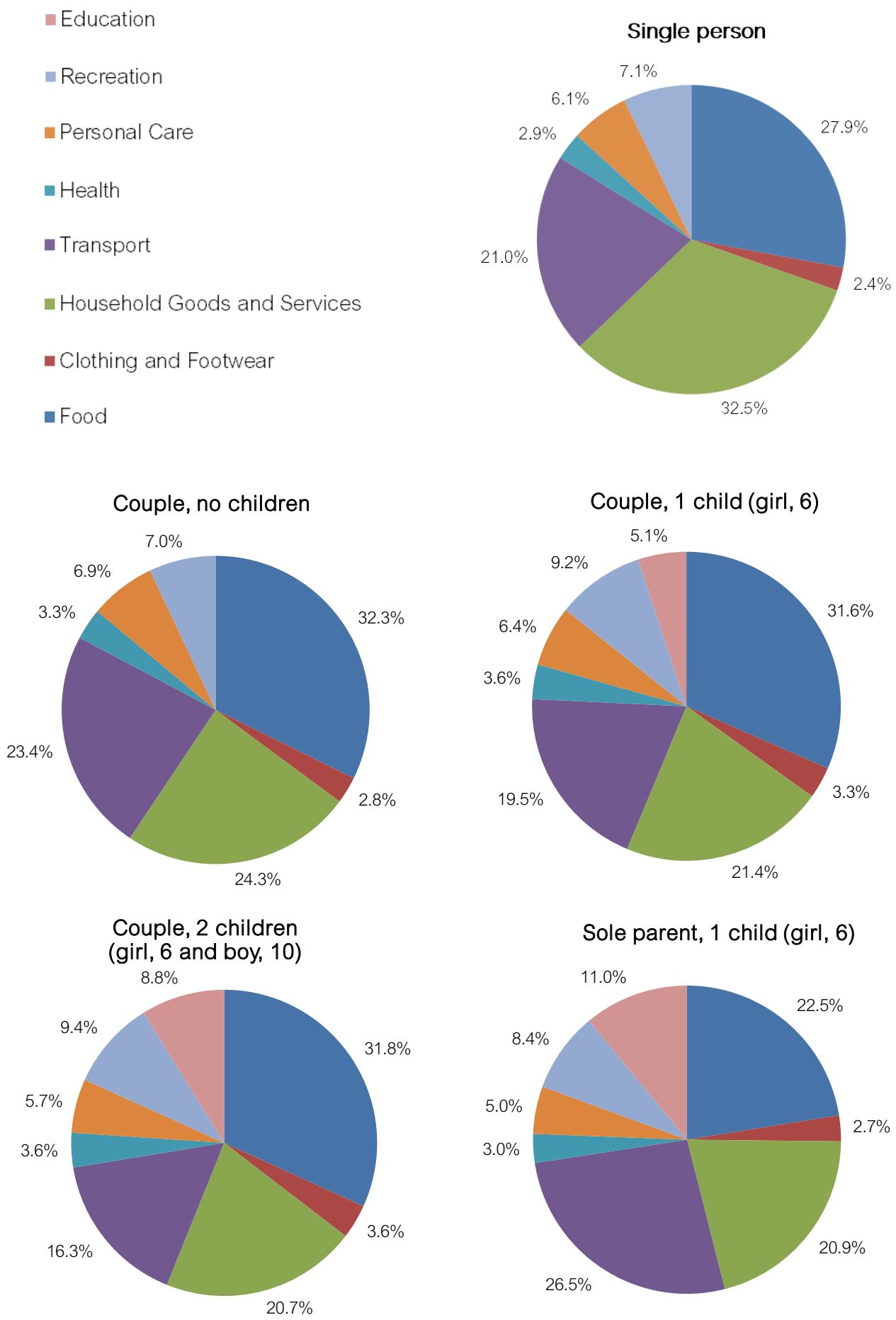


Figure 5.4 Budget Standard Shares for Unemployed Families



The June 2016 weekly low-paid budgets vary between $280.69 for the single female and $715.88 for the couple with two children, an overall ratio of 2.55 to one. The budgets for the unemployed families vary between $207.89 for the single female and $600.37 for the couple with two children, implying a ratio of 2.89 to one. The first point to note is thus that the weekly budgets vary more across the different family types than across the two labour force states. The unemployed budgets represent the following proportions of the corresponding low-paid budgets for each family type: single female, 74.1 per cent; single male, 75.4 per cent, couple without children, 82.5 per cent; couple with 1 child, 81.4 per cent; couple with 2 children, 83.9 per cent; and sole parent with one child, 87.0 per cent.

The relativity is higher for families with children because there is less room to reduce the child budgets without compromising the requirement that the needs of children are met at the healthy living standard. The higher relativity for the sole parent with one child reflects the impact of several key factors, including child care usage and costs for those in and out of work and the car cost component of the transport budget. Aside from these differences, the budget relativity across the two levels varies in a relatively small band between 74 and 84 per cent, indicating (as intended) that the budgets for unemployed families represent living standards that are consistently below those for low-paid families.

Turning from the overall levels of the budgets to their composition in terms of budget shares (see Figures 5.3 and 5.4), the first point to note is that for both the low-paid and unemployed families, the three areas that account for the largest shares of the budgets in all cases are food, household goods and services and transport. Together, these three areas account for between 64 per cent and 79 percent of the total budgets of low-paid families, and between 69 per cent and 82 percent of the total budgets of unemployed families. In both cases, the percentages are slightly lower for families with children at a given standard and uniformly higher for unemployed families than for low-paid families of the same type. The proportion of the budget spent on food is greater (by between 3 and 6 percentage points) for the unemployed families than for the corresponding low-paid families and this is consistent with Engel's Law, which states that the proportion of the budget spent on food declines as the standard of living increases.

The main reason why transport costs are lower for the unemployed families (aside from the sole parent) is because they do not own a car and thus do not have to pay the considerable cost involved with its purchase (even when averaged over the ownership lifetime), operation and maintenance, (including motor vehicle registration and insurance and petrol). These costs do not feature in the budgets for unemployed families because they have not been assigned a car (aside from the sole parent) but this is offset to some extent by the increased travel on public transport and higher fare costs – even when the number and length of journeys travelled are kept to a minimum as explained in Chapter 3. It should be noted that no allowance has been made for the public transport concessions that exist in NSW because these are not available in many other States and Territories and (as our focus group participants revealed) are often not accessed by those who are eligible even in NSW. If included, these concessions would result in somewhat lower transport budgets, although the difference would be State-specific.

The smallest areas of spending in all cases are clothing and footwear, health and personal care. Together, these three areas account for between 11 per cent and 13 per cent of the budgets of both the low-paid families and the unemployed families, with the combined share

very similar at the two levels for families of a given type. This comparison does not include spending on education which is by definition zero for those families without children but it is of interest to note that this area still accounts for a relatively small portion (between 5 per cent and 12 per cent) of the budgets of those families that do have children. This reflects the fact that a large proportion of costs of schooling (and health care) are borne by the government and do not involve any out-of-pocket costs.

It is also worth observing at this stage that child care spending is also relatively low for all family types with children because the second adult in couple families (the female) is assumed to be either unemployed or not in the labour force and hence is able to provide the majority of child care. This effect is reinforced by the fact that the ages of the children (6 and 10 years) is such that both can be cared for in a school setting for much of the time without the need for formal child care. Even in the case of the low-paid sole parent, it is assumed that she is able to arrange her working hours to minimise spending on before- and after-school care and is also able to arrange her holidays to similarly reduce her spending on long-day vacation care (as explained in Chapter 3).

One issue worth highlighting is the differences in the budgets that have been produced for single females and single males. These differences are not large in financial terms, but could be seen as being of greater social significance. The differences in the budgets of women and men reflect differences in the underlying biological and behavioural patterns that in turn reflect deeply entrenched but widely accepted differences in the social roles and expectations of men and women. There is no suggestion that these differences should affect the levels of the minimum wage or NSA that apply to men and women. In both cases, there is a compelling case on gender equity grounds for equal treatment that over-rides any differences in the derived budgets.

The rationale for deriving separate budgets for women and men was to allow greater flexibility in how the budgets can be manipulated to derive estimates of the costs of individual family members (see below), not to use these differences to justify the unequal treatment of men and women in the wage and income support systems. In light of this, Table 5.7 presents a gender-neutral single person budget, derived as the average of the male and female budgets shown earlier. The gender neutral budget is used in the comparisons presented and analysed later in this chapter.

Table 5.7 Gender-Neutral Budget Standard for a Single Person ($/week)

Budget Category	Low-Paid			Unemployed		
	Latter half of 2013	June 2016		Latter half of 2013	June 2016	
	($)	($)	(%)	($)	($)	(%)
Food	60.19	61.80	21.95	57.18	58.71	27.91
Clothing and Footwear	11.05	10.81	3.84	5.24	5.13	2.44
Household Goods and Services	77.11	79.23	28.14	66.54	68.37	32.50
Transport	81.59	77.71	27.61	46.45	44.24	21.03
Health	6.40	7.33	2.60	5.30	6.08	2.89
Personal Care	14.99	15.59	5.54	12.36	12.86	6.11
Recreation	28.49	29.04	10.31	14.72	15.00	7.13
Education	0.00	0.00	0.00	0.00	0.00	0.00
Total	**279.82**	**281.51**	**100.00**	**207.79**	**210.38**	**100.00**

Source: Tables 5.1 and 5.2; see text.

5.3 Incorporating Housing Costs: Alternative Approaches

The fact that the new budget standards estimates presented above exclude housing costs makes them difficult to comprehend and interpret because people are used to thinking in terms of total incomes and total budgets, inclusive of all costs – housing as well as non-housing. Housing costs thus need to be included and this can be done using a variety of approaches.

There is a tradition in the housing literature to adopt a 'residual approach' when examining whether or not housing costs are excessive (or affordable) by comparing income available after deducting housing costs with an estimate of the costs associated with meeting non-housing needs (see Stone, 2006; Henman and Jones, 2012). Similarly, much of the Australian (and international) poverty literature follows the precedent established in the 1960s (Henderson, Harcourt and Harper, 1970) and adopted by the Poverty Commission in the 1970s (Commission of Inquiry into Poverty, 1975) to estimate poverty on both a before housing costs (BHC) and after housing costs (AHC) basis (see Saunders, Wong and Bradbury, 2012; 2014; 2016, for recent applications of this approach). The BHC approach involves comparing total disposable income with a poverty line that covers all needs, whereas the AHC approach compares income after deducting actual housing costs with a poverty line that excludes the housing needs component.

The following discussion considers three alternative approaches to the treatment of housing costs:

1. A *spending replication approach* that estimates what families like those represented here actually pay for their housing using (inflated) data from the latest (2009-10) *Household Expenditure Survey* (HES);
2. A *rental threshold approach* that identifies the levels of rent charged on selected dwellings that meet the accommodation needs of each family in specific locations; and

3. A *housing affordability approach* that identifies the maximum amount that each family could pay in housing costs and avoid being in housing stress (or not be identified as facing a housing affordability problem).

In order to make the first two approaches operational, a number of assumptions have to be made in order to make use of the available data, while the third method is dependent on the validity of the precise method used to identify housing affordability. These specific assumptions and measures can be challenged and alternatives proposed, but the aim here is not to produce definitive estimates, but to illustrate how the three methods can be applied in practice in order to provide a basis for further work.

All three approaches are applied to families who are renting privately and paying market rents and housing costs are thus equated with weekly rent payments in the analysis that follows. (The latest HES data covers the financial year 2009-10 and although a more recent survey was conducted in 2015-16 the data from that survey were not available in time for inclusion here). The 2009-10 HES data indicates that for private renters as a whole, the average weekly amount spent on rent accounts for 97.6 per cent of total current housing costs so that any excluded items account for a very small proportion of total spending on housing costs. The housing costs include no allowance for local rates, dwelling insurance or repairs and maintenance expenditures (all of which are assumed to be paid by landlords), although spending on home contents insurance is included in the Household Goods and Services budget.

The three approaches differ in the extent to which they reflect the behavioural and normative elements described and discussed in Chapter 2. When applying the spending replication approach, a judgement has to be made about which point in the (very wide) distribution of observed (behavioural) rents should be selected as relevant to each family type. The rental threshold approach requires a judgement to be made about the type and location of the dwellings assigned to each family type at each standard, even though the rents themselves are observed market rents and are thus behavioural. In contrast, the housing affordability approach is entirely normative, since it involves specifying the level of housing (or rental) costs that is consistent with a widely endorsed expert judgement about housing affordability and the avoidance of housing stress.

One limitation of the spending replication approach is that it is based on estimated housing costs derived from very small sub-samples of the HES data (see **Appendix C**), and is thus likely to be subject to large sampling error – at times so large as to make the estimates totally unreliable. These problems are less of an issue with the rental threshold approach, which is based on a larger sample (of rental agreements) and importantly, is available far more frequently than the HES data - on a quarterly basis as compared with every five years. This is a major advantage if the budget standards are to be regularly updated to maintain their relevance. Another attraction is that the market rent data is available for different locations, making it possible to choose the location that best suits specific applications.

However, the data used in the rental threshold approach only covers a limited range of dwelling types, refers only to dwellings that are rented through real estate agents and relates only to the rents on newly-rented properties in each quarter, not to the existing rents paid on all rental properties (as is the case with the HES data). In a period of rising rents, it is likely that the level of rents on newly-rented properties in any quarter will exceed those paid on

all rental properties existing in that quarter. In addition, rents on those properties that are not rented through an agent will not include any agents' fees but will include properties that have been under contract for longer periods and thus involve lower rents. Against this, the coverage of the HES data is nationwide and so too are the rents recorded, whereas the rent data used in the rental threshold approach are averages for capital cities and other major urban areas. These factors explain the differences between the (updated) HES rent data and the current rent data used in the rental threshold approach.

Illustrative Results: The Spending Replication Approach

In order to apply the spending replication approach, it is necessary to select sub-samples of families in the full HES dataset that have characteristics that match those of the families for which budget a standard has been derived. However, there are very few families in the HES sample that exactly match the characteristics of the families shown in Table 3.1, as the following example illustrates: the 2009-10 HES sample contains only 107 households where the household reference person (HRP) is aged between 25 and 44 and was unemployed at the time they were surveyed. Of these, only 4 were couple-only households, 3 were couples with one child, 5 were couples with 2 children and 17 were sole parents with one child. The standard errors on estimates derived from such small samples would be so large as to make the estimates of no use for current purposes.

If attention is restricted to those households where the HRP is aged between 25 and 44, and who were private renters, the total available sample is reduced from 9,774 households (the full HES sample in 2009-10) to 1,132 households. Of these, only 704 are one-family households with the relevant characteristics and 428 are in the 'other' (mainly multi-family households) category and are thus not relevant to this analysis. As Table 5.8 indicates, restricting the one-family sample to only those households living in a capital city results in a further reduction to 504 households. Table 5.8 provides further details of the relevant HES sub-samples, disaggregated by family type, showing in each case the mean and median levels of rent expenditure for the lowest three quintiles of each sample. (It should be noted that although the sample sizes shown in Table 5.8 are unweighted, the housing expenditures have been weighted using the household weights).

A decision now has to be made about which points in the distribution of rents should be chosen to illustrate the housing/rental costs incurred by each type of family. In order to maximise the consistency with the other two approaches (see below), rents for low-paid families were set at the median of the third quintile of all families, while rents for unemployed families were set at the median of the second quintile. In both cases the sample is further restricted (for consistency with the other approaches and with how the budget standards were derived) to those living in a capital city only. These estimates are shown in bold in Table 5.8. Note that the selection for unemployed families is close to the overall 30th percentile, while that for low-paid families is close to the overall median (although in neither case is this exact because the rankings within each overall quintile are differentiated by family type).

Finally, an allowance has to be made for changes in rent levels between 2009-10 when the HES was conducted and the June Quarter of 2016 by inflating the HES data in line with movements in the weighted average of 8 capital cities rent component of the CPI. The inflation factor is equal to 1.205 and the inflated estimates are shown in the rows below the original estimates in Table 5.8. Note that the uprating factor used to produce the inflated

HES-based estimates does not differentiate by dwelling size (and hence by family type), although this is unlikely to be a major source of error.

Table 5.8 Weekly Expenditure on Rent and Sample Sizes of Working-Age (25-44), Private Renter Households, 2009-10

	Household type						
	All households in sample	Single person	Couples only	Couples, 1 child	Couples, 2 children	Sole parents, 1 child	Other (mixed) households
All Households:							
Sample size (unweighted)	1,132	226	186	97	112	83	428
Weekly Rent Payments ($ per week):							
All households in sample							
Mean	308.0	260.1	338.6	329.6	321.8	236.2	319.1
Median	295.0	250.0	336.0	320.0	300.1	239.4	292.5
Quintile 1							
Mean	151.9	138.1	152.3	146.3	171.6	153.8	165.1
Median	160.0	150.0	170.0	150.0	180.0	160.0	180.0
Quintile 2							
Mean	244.0	242.8	243.3	245.4	244.7	241.2	245.2
Median	250.0	250.0	240.0	250.0	250.0	240.0	250.0
Quintile 3							
Mean	296.9	296.4	299.8	301.5	299.7	294.0	293.8
Median	299.2	295.0	300.0	300.0	300.0	295.0	292.5
Households Living in a Capital City Only:							
Sample size (unweighted)	828	166	135	70	71	62	324
All households in sample							
Mean	334.0	349.5	367.1	350.7	333.3	251.9	285.1
Median	320.0	325.0	350.0	344.1	320.0	270.0	279.2
Quintile 1							
Mean	175.2	162.4	207.0	185.0	185.2	163.8	182.5
Median	195.0	174.7	210.0	225.0	200.0	175.0	200.0
Quintile 2							
Mean	267.7	269.4	267.8	268.9	272.4	273.7	264.1
Median	**270.0**	**265.0**	**270.0**	**269.3**	**272.3**	**270.0**	**262.4**
Median updated to June Quarter 2016	**325.4**	**319.3**	**325.4**	**324.5**	**328.1**	**325.4**	**316.2**
Quintile 3							
Mean	318.9	320.5	320.8	325.0	317.0	314.1	316.3
Median	**320.0**	**325.0**	**320.0**	**330.0**	**320.0**	**310.0**	**310.0**
Median updated to June Quarter 2016	**385.6**	**391.6**	**385.6**	**397.7**	**385.6**	**373.6**	**373.6**

Note: Estimates in the shaded cells are based on samples of less than 20 cases and are subject to large sampling error.
Source: Household Expenditure Survey, 2009-10; CURF. Uprating is conducted to reflect movements in the rent component of the CPI for all 8 capital cities between 2009-10 and the June Quarter 2016.

Illustrative Results: The Rental Threshold Approach

The rental threshold approach uses information on weekly rents charged on different kinds of properties in different locations published by the Real Estate Institute of Australia (REIA) (see REIA, 2016). The authors acknowledge the assistance provided by the REIA in making the *Real Estate Market Facts* (REMF) data freely available on a one-off basis to support this research, but emphasise that they are solely responsible for how the data have been used and interpreted.

Each quarterly issue of the REMF contains information on the rents charged on properties rented during that quarter for houses and other dwellings, differentiated by the number of bedrooms and the location (in broad categories) across major metropolitan centres within each State and Territory. The information used here covers the March Quarter 2016 and includes the median rent in each category and the lower (25th percentile) and upper (75th percentile) rents in each category. (The REMF data for the June Quarter 2016 were not available when the work on this section of the report was being conducted, but the rent component of the CPI increased by only 0.18 per cent between the March and June Quarters of 2016, so this will have little impact on the results).

For illustrative purposes, the relevant information for New South Wales and Victoria in the March Quarter 2016 is presented in Table 5.9. These data reveal that dwelling rents vary considerably by both location and dwelling size, but also indicate how rents for a *specific* dwelling type in a *given* location vary (by comparing the median and lower quartile rents). For example, the median rent for a two-bedroom unit is $660 a week in inner Sydney, but less than half of that, at $315 a week in outer Melbourne. The weekly rents on one-bedroom unit in these two locations are $520 and $240 respectively, leading to a similar relativity between them. In order to use these estimates to gross-up the budget standards, it is necessary to decide on a location (which city or cities and the type of suburb), assign a dwelling type to each family type in the chosen location, and decide where the rent paid should fall in the overall distribution of rents paid for that type of dwelling.

Table 5.9 House and Other Dwelling (Unit) Rents in NSW and Victoria in the March Quarter 2016 ($ per week)

City/Zone	2 Bedroom House		3 Bedroom House		1 Bedroom Unit		2 Bedroom Unit	
	Median	Lower Quartile	Median	Lower Quartile	Median	Lower Quartile	Median	Lower Quartile
Sydney Inner	690	610	875	790	520	450	660	560
Sydney Middle	480	420	570	495	460	380	490	415
Sydney Outer	375	340	450	400	350	280	420	350
Wollongong	380	340	450	400	260	220	350	310
Newcastle	370	340	410	375	280	240	360	320
Melbourne Inner	550	480	710	610	350	300	500	430
Melbourne Middle	420	370	480	400	275	240	385	345
Melbourne Outer	310	290	350	320	240	210	315	280
Geelong	290	250	330	295	210	190	280	260
Bendigo	250	233	290	265	180	165	240	210

Note: Other dwellings includes all single, self-contained places of residence other than houses
Source: Real Estate Institute of Australia, Real Estate Market Facts, March Quarter 2016, Tables 13, 14, 33 & 34.

The choice of city is clearly critical as it is apparent from Table 5.9 this has a large impact on the level and distribution of rents paid for a given dwelling type. Rather than selecting a specific city, it was decided to take the average rent levels existing for each dwelling type in a small range of capital cities for which the relevant data are available. The cities chosen are Sydney, Melbourne and Brisbane – in part because this is where the majority of the population live and work and because restricting the analysis to these three cities avoids giving an inappropriately high weighting to the low rents paid in cities like Hobart and Adelaide. (Note that these three cities do not have the three highest rent levels according to the REIA data, as rents in Canberra are above those in both Brisbane and Melbourne).

Assumptions still have to be made about the types of dwellings rented by the different family types, where those dwellings are located within each city and where the rents paid fall in the overall distribution of rents. These assumptions are set out in Table 5.10. For low-paid families, the rent has been set mid-way between the median and first quintile rents for that property type and location, while for unemployed families rent has been set equal to the relevant first quintile. Low-paid families are assumed to be living in a 'middle' suburb (as defined by the REIA) in each city, while the unemployed families are assumed to be living in an 'outer' suburb. The assumptions made about dwelling type ensure that each family is renting a property that provides a separate bedroom for each child and includes a spare bedroom for the couple family without children.

Table 5.10 Assigning Dwellings and Locations to Family Types

Family type	Low-paid working families	Unemployed families
Single person	1BRU, (LQ+M)/2, AMCC	1BRU, LQ, AOCC
Couple, no children	2BRU, (LQ+M)/2, AMCC	2BRU, LQ, AOCC
Couple, 1 child (girl, 6)	2BRU, (LQ+M)/2, AMCC	2BRU, LQ, AOCC
Couple, 2 children (girl, 6 and boy, 10)	3BRH, (LQ+M)/2, AMCC	3BRH, LQ, AOCC
Sole parent, 1 child (girl, 6)	2BRU, (LQ+M)/2, AMCC	2BRU, LQ, AOCC

Notes: 1/2/3BRU = 1/2/3-bedroom unit; 3 BRH = 3 bedroom house; LQ = lower quartile rent; M = median rent; AMCC= Average for middle suburbs in Sydney, Brisbane and Melbourne; AOCC = Average for outer suburbs in Sydney, Brisbane and Melbourne.

Table 5.11 shows the rent levels for each of the selected dwelling types in each city and, in the last two columns, the average rents for each property type in Sydney, Brisbane and Melbourne and (for completeness) the corresponding rents averaged across all 6 capital cities). It should be noted that the REMF data are not available in the required form for Perth or Darwin. As the final column indicates, the city averages are well below (by between 20 per cent and 56 per cent) the rents prevailing in Sydney and are, in fact close to those that exist in Melbourne for each dwelling type (see also Table 5.9).

Table 5.11 Weekly Rents for Selected Dwelling Types, March Quarter 2016 ($ per week)

Standard/ Dwelling Type	Sydney	Canberra	Brisbane	Adelaide	Hobart	Melbourne	Average rents in: Sydney, Brisbane & Melbourne	All 6 capitals
Low-paid families:								
1BRU,(LQ+M)/2, Middle	420	275	270	200	175	257.5	315.8	266.3
2BRU, (LQ+M)/2,Middle	452.5	351.8	360	265	231.5	365	392.5	337.6
3BRH, (LQ+M)/2, Middle	532.5	442.5	400	355	312.5	440	457.5	413.8
Unemployed families:								
1BRU, LQ, Outer	280	250	180	141	135	210	223.3	199.3
2BRU, LQ, Outer	350	350	260	230	276	280	296.7	291
3BRH, LQ, Outer	400	390	300	270	284	320	340	327.3

Source: Real Estate Market Facts, March Quarter 2016, Tables 9, 10, 13, 14, 21, 22, 25, 26, 29, 30, 33 & 34.

Having determined the dwelling sizes and rents applicable to each family type at each standard (low-paid or unemployed), the next step involves comparing the resulting rental threshold approach estimates with those produced by the spending replication approach. This is done in Table 5.12.

Table 5.12 Comparing the Housing Cost (Rent) Estimates Produced by the Spending Replication and Rental Threshold Approaches ($ per week)

Family Type	Spending Replication Approach		Rental Threshold Approach	
	Low-paid	Unemployed	Low-paid	Unemployed
Singe person	391	319	315.8	223.3
Couple, no children	385	325	392.5	296.7
Couple, 1 child (girl, 6)	397	324	392.5	296.7
Couple, 2 children (girl, 6 and boy, 10)	385	328	457.5	340
Sole parent, 1 child (girl, 6)	373	325	392.5	296.7

Notes: See main text for data sources and methods.

As can be seen, the two methods produce broadly similar results – particularly for families with children - although those produced by the rental threshold approach are lower than those produced by the spending replication approach. This difference will reflect a number of factors that relate to differences in the coverage and weighting of the HES and REIA data and it is not possible to identify specific causes. What it does indicate is that the rental threshold approach (identified below as the preferred approach) produces consistently lower estimates of housing rents than would be the case if the HES approach was used.

Whatever the merits of the two approaches examined so far, the key point to emphasise is that the above analysis demonstrates that it is possible to use available data to gross-up the budget standards to include an estimate of housing costs and that either the HES or the

REMF data can be used for this purpose. Although there are grounds for using the HES data given the greater authority and acceptability attached to data produced by the ABS, the greater frequency and more detailed nature of the REMF data make it better suited for the purpose, and this approach is applied later to gross-up the budgets.

Illustrative Results: The Housing Affordability Approach

The housing affordability approach is based on the idea, used commonly in the Australian housing literature, of identifying households facing housing stress (or a housing affordability problem) using what is called the '30/40 rule' (see Rowley and Ong, 2012). The 30/40 rule defines facing a housing affordability problem or facing housing stress as a situation where:

> '… households in the lowest two quintiles (40 per cent) of the equivalent disposable income distribution spending at least 30 per cent of their gross income in meeting their housing costs' (Yates, 2007: 1)

In practical terms, it is straightforward to use the 30/40 rule to set a limit on how high housing costs can be relative to other (non-housing) costs in order for the rule to be satisfied.

However, application of the rule in the current context requires a number of assumptions to be made. First, it has to be assumed that all of the families being examined satisfy the '40' component of the rule (i.e. fall into the lowest two quintiles of the income distribution). This assumption seems reasonable given the characteristics (specifically the incomes) of the families being examined. It also needs to be assumed that gross income and disposable income are equal, which implies that no income tax is paid. This is true for unemployed families as defined here, but is less likely to be true for low-paid families most of whom will pay some positive tax (as is demonstrated later). However, the amounts involved are generally small and so the rule can be applied to the estimated budgets without creating major errors and this approach has the advantage that this keeps the analysis manageable.

The housing cost affordability rule can be used to calculate what the maximum level of housing costs can be, relative to non-housing costs, in order for the rule to be satisfied. To see this, let HC = housing costs, NHC = non-housing costs and GY = gross income (equal by assumption to disposable income, DY). Because in a budget standards framework all income is assumed to be spent, it follows that:

$$HC + NHC = DY = GY \qquad (1)$$

The affordability rule itself implies that:

$$HC < 0.3 \,.\, GY \qquad (2)$$

Or, at the limit where the rule applies exactly, that:

$$HC = 0.3 \,.\, GY \qquad (3)$$

Equation (3) indicates the maximum amount that can be spent on housing by a family with gross income equal to Y in order to satisfy the housing affordability rule. It follows from combining equations (1) and (3) that:

$$HC = 0.3 \,.\, GY = 0.3\,(HC + NHC) \text{ so that: } 0.7.HC = 0.3.NHC \qquad (4)$$

Equation (4) then implies that:

$$HC = (0.3/0.7).\, NHC = 0.4286.NHC \qquad (5)$$

Equation (5) indicates that when housing costs are equal to just over two-fifths of (0.4286 times) all other (i.e. non-housing) costs, the housing affordability rule will be satisfied exactly. If housing costs exceed this threshold, the affordability rule will be broken and the family will be considered to be facing a housing affordability problem or in housing stress. It follows that the monetary value of the non-housing budgets presented earlier can be grossed-up by the factor 1.4286 to derive a grossed-up budget that includes both non-housing and housing costs while ensuring that the family is (just) avoiding housing stress.

The normative approach has generally not been applied in other budget standards studies, which have tended to use a variant of either the spending replication or rental threshold approaches (most often the latter) to derive an estimate of housing costs (see Mudd, 1998; Henman, 2007; Henman and Jones, 2012; Waite and Henman, 2006). However, it is clear from the above discussion that the affordability approach is simpler than the other approaches and has a basis in normative needs that aligns better with the budget standards approach.

Against this, since the non-housing budgets are all grossed-up by the same factor, the relativities between them (and hence the equivalence scale derived from the – see below) are unchanged. This seems somewhat implausible as housing is the one area where the potential to benefit from economies of scale is likely to be greatest: thus, for example, a family of four does not need to spend four times as much on their housing as a single person in order to achieve the same quality and standard of housing. The approach also implies that estimates of the additional costs of extra family members (e.g. children) are also all increased by the same grossing-up factor, which again does not seem plausible. These considerations suggest that the housing affordability approach will cause the grossed-up budgets of smaller families to be under-estimated relative to those of larger families, and this feature works against applying the housing affordability approach in a budget standards context despite its simplicity.

In order to illustrate these arguments, Table 5.13 shows, for both the low-paid and unemployed families, the grossed-up budgets that have been derived by applying the housing affordability rule shown in equation (5) to the non-housing budgets presented earlier (including in both cases the gender-neutral single person budget shown in Table 5.7). The second and fourth columns of Table 5.13 show the implied weekly amounts that should be spent on rent by low-paid and unemployed families in order for the housing stress threshold to be met.

Table 5.13 Grossed-up Budget Standards Including Housing Costs based on the Housing Affordability Approach for Low-Paid and Unemployed Families, June Quarter 2016 ($ per week)

Family Type	Low-Paid Budgets			Unemployed Budgets		
	Excluding Housing Costs	Estimated Housing Costs	Grossed-up Total Budgets	Excluding Housing Costs	Estimated Housing Costs	Grossed-up Total Budgets
Single person	281.51	120.66	402.17	210.38	90.17	300.55
Couple, no children	440.74	188.90	629.64	363.55	155.82	519.37
Couple, 1 child (G,6)	577.40	247.47	824.87	470.04	201.46	671.50
Couple, 2 children (G,6 & B,10)	715.88	306.83	1,022.71	600.37	257.32	857.69
Sole parent, 1 child (G,6)	435.20	186.53	621.73	378.48	162.22	540.70

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

The implied housing budgets/costs shown in Table 5.13 are very low, varying between $121 and $307 a week for low-paid families, and between $90 and $257 for unemployed families. These amounts are well below the actual rents paid by the corresponding families on new properties rented in the March Quarter of 2016 according to the REMF estimates shown in Tables 5.11 and 5.12, and they are surely too low to secure decent housing for all but a few in Australia's major cities. In all cases, the estimates are all well below those shown in Table 5.12 which present the housing budget estimates produced by the spending replication and rental threshold approaches. This suggests that the housing affordability approach is ill-suited as a way of 'grossing-up' the non-housing budgets to include an estimate of what families are actually spending on rent. This is because the amounts that most low-income families are spending on rental housing exceed what they should spend in order to satisfy the affordability rule and avoid housing stress - often by a considerable margin.

Of the three approaches considered, the rental threshold approach is best suited to the purpose at hand because of its flexibility, wide coverage and regular availability. The spending replication approach is limited because of the irregular nature of the ABS data on which it relies, while the housing affordability approach depends on the parameters of the '30/40 rule' and does not actually require the information generated by the non-housing budgets. Both of the rejected approaches have their value in providing a check on the rental threshold approach and the housing affordability approach in particular serves as a check on how well the grossed-up budgets allow families to avoid housing stress.

The original and grossed-up budgets derived by applying the preferred, rental threshold approach are presented in Table 5.14 and (again using the same vertical scale to make the comparisons clearer) are illustrated in Figures 5.5 and 5.6, with the corresponding budget shares shown in Figures 5.7 and 5.8. To emphasise a point made above, these grossed-up budgets do not satisfy the 30/40 rule because the housing costs component are greater – far greater – than the amounts required to satisfy the affordability rule (which are shown in Table 5.13). The implication is that families with the grossed-up budgets shown in Table 5.14 must either allocate less of their budget on housing (and will thus be below the implied housing quality standard) or would be defined as facing housing stress or a housing affordability problem.

Table 5.14 Grossed-up Budgets Including Housing Costs based on the Rental Threshold Approach for Low-paid and Unemployed Families, June Quarter 2016 ($ per week)

Family Type	Low-Paid			Unemployed		
	Excluding Housing Costs	Weekly Rental Costs	Grossed-up Budget	Excluding Housing Costs	Weekly Rental Costs	Grossed-up Budget
Single person	281.51	315.8	597.31	210.38	223.3	433.68
Couple, no children	440.74	392.5	833.24	363.55	296.7	660.25
Couple, 1 child (G,6)	577.40	392.5	969.90	470.04	296.7	766.74
Couple, 2 children (G,6 & B,10)	715.88	457.5	1,173.38	600.37	340	940.37
Sole parent, 1 child (G,6)	435.20	392.5	827.70	378.48	296.7	675.18

Notes: See text. G,6 = girl aged 6 and B,10 = boy aged 10
Sources: Tables 5.3-5.7 & 5.12.

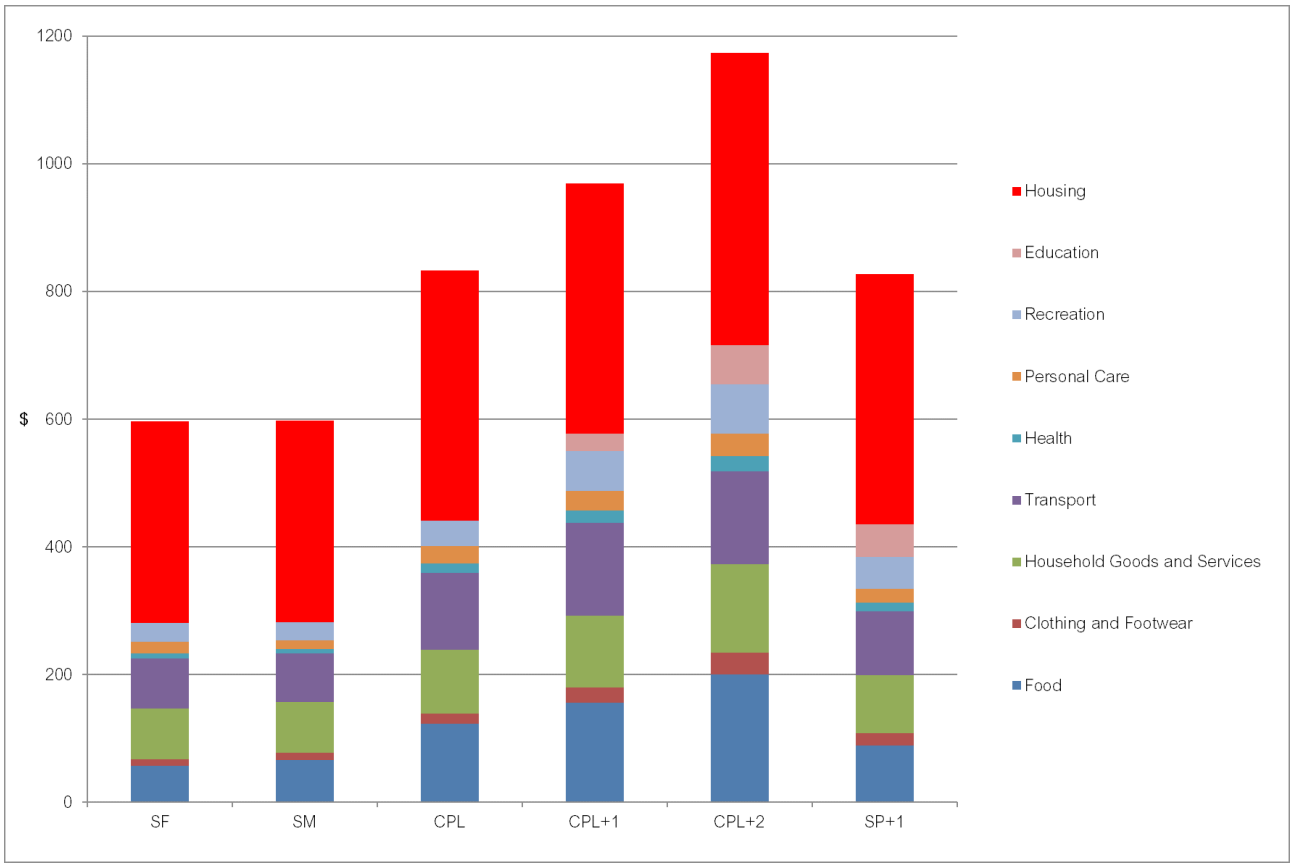
5.4 Estimates of Individual Costs and Economies of Scale

One important use of a budget standard is to estimate the costs of additional family members, specifically children. These estimates have a valuable role to play in better understanding what the family budgets are spent on, as well as helping governments to set the levels of payments that assist families to meet the needs associated with bringing up children. It is also of interest to examine the extent to which the budgets vary with the size and composition of the family, since this information can also guide decisions about the structure of social benefits, including the payments made to single and couple recipients.

The extent of variation of the budgets across different family types provides an estimate of the cost of meeting the needs of different family members at a given standard of living (in this case, the low-paid and unemployed MIHL standards). These estimates can be converted to relative needs by expressing them relative to the needs of a single person and in this form they represent an equivalence scale that shows how relative needs vary with family size and composition at a given standard of living (see Whiteford, 1985).

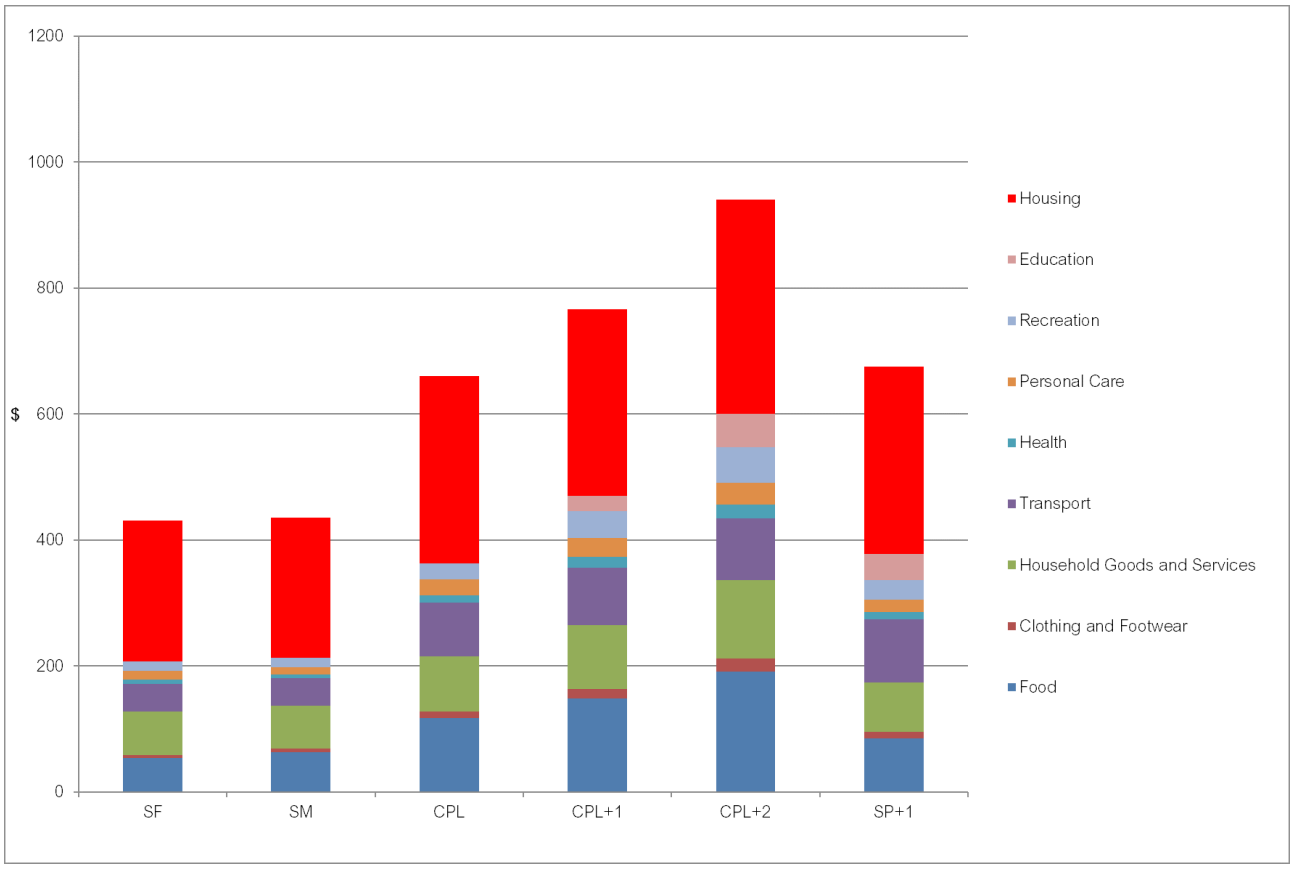
An example is the OECD equivalence scale that is widely used in poverty studies to adjust family incomes for differences in the needs of the family. This scale is based on the values 1.0, 0.5, 0.3 and indicates that the needs of the second adult are half (0.5) those of the needs of the first adult, while children's needs are equivalent to 0.3 of the needs of the first adult (or one-fifth of the combined needs of the adult couple). The OECD scale thus implies that the total needs of a couple with 2 children are equal to 1.0 + 0.5 + 0.3 + 0.3 = 2.1 or just over twice the needs of a single adult. The fact that needs rise less than proportionately with family size indicates that there are economies of scale in family size, which is a reflection of two factors: larger families have more children and the costs of children are lower than the costs of adults; and because not all items have to be duplicated when family size increases (so that the larger family still only needs one house, one refrigerator and one dining table, and although each item will be larger, size and cost do not increase proportionately).

Figure 5.5 Grossed-up Budget Standards Including Housing Costs for Low-paid Families, June Quarter 2016 ($ per week)



Note: SF= single female; SM = single male; CPL = couple; CPL+1 = couple plus 6 year old girl; CPL+2 = couple plus 6 year old girl and 10 year old boy; SP+1 = sole parent plus 6 year old girl.

Figure 5.6 Grossed-up Budget Standards Including Housing Costs for Unemployed Families, June Quarter 2016 ($ per week)



Note: SF= single female; SM = single male; CPL = couple; CPL+1 = couple plus 6 year old girl; CPL+2 = couple plus 6 year old girl and 10 year old boy; SP+1 = sole parent plus 6 year old girl.

Figure 5.7 Grossed-up Budget Shares for Low-Paid Families

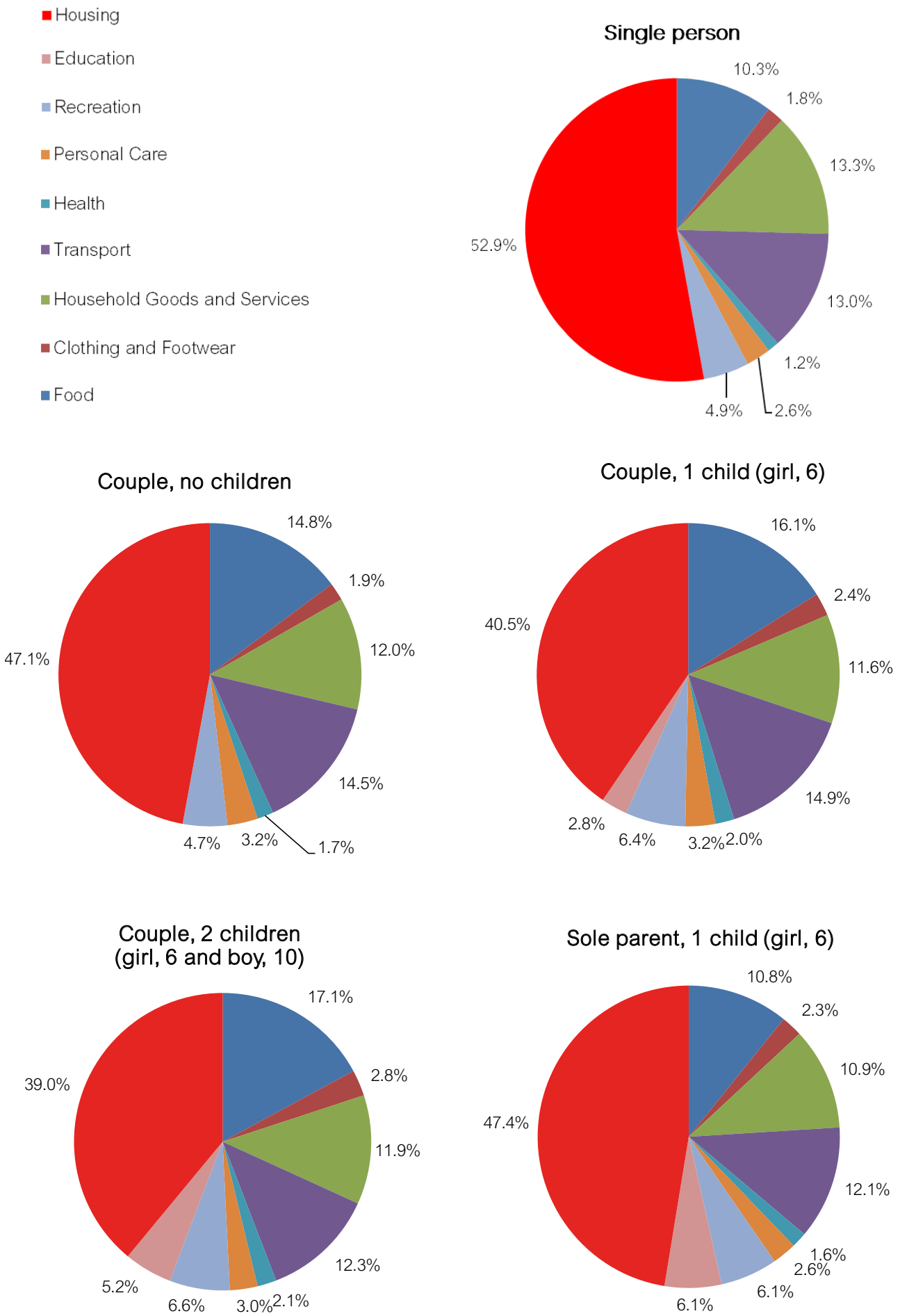
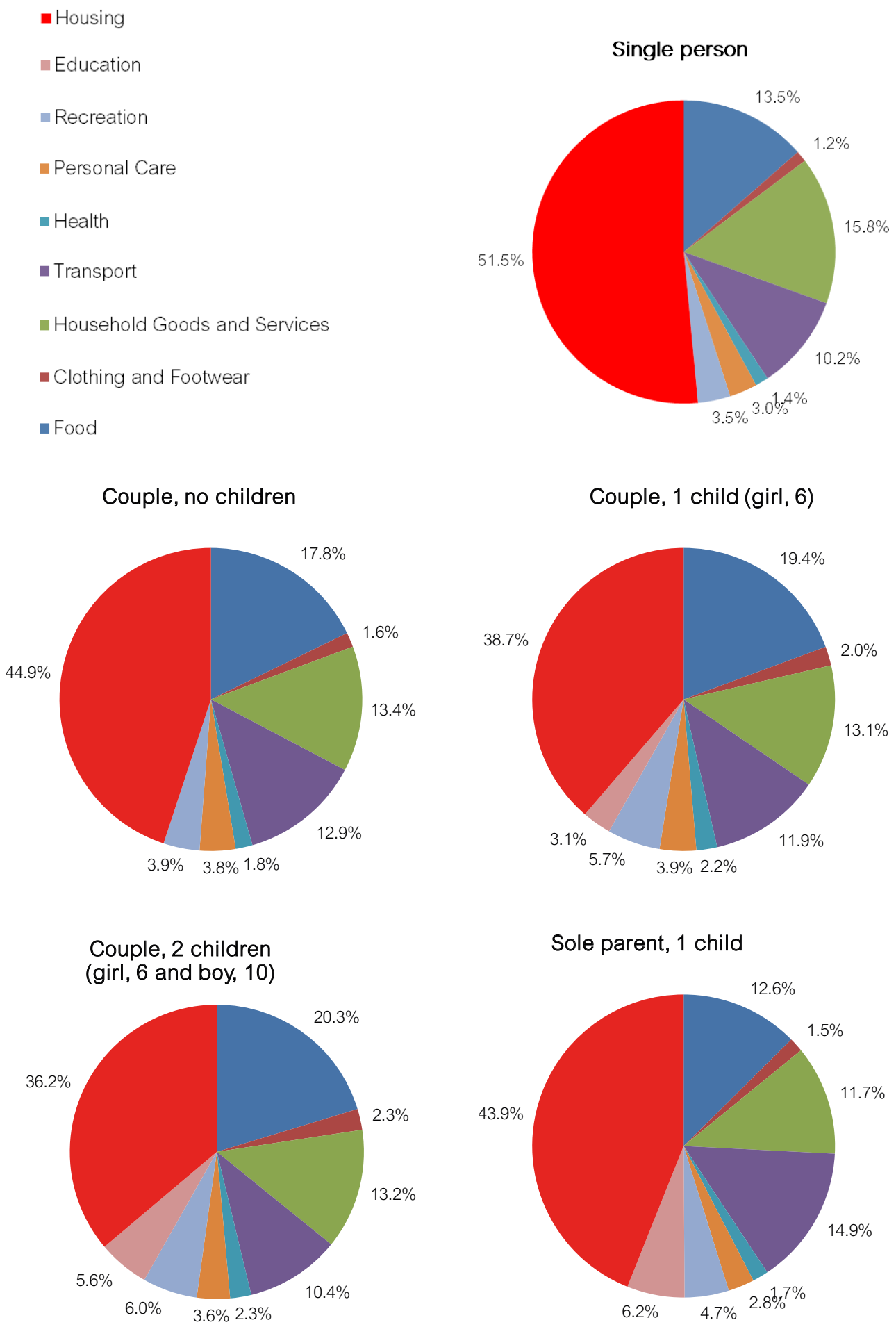


Figure 5.8 Grossed-up Budget Shares for Unemployed Families



When estimating individual costs or the degree of economies of scale, it is important that the budgets include the costs of all of the items that have to be purchased to meet the needs of its members. This requires the use of the grossed-up budgets that include an estimate of housing costs shown in Table 5.14, since without this adjustment, the estimates would have little relevance to the actual circumstances facing real families. The inclusion or exclusion of housing costs makes a big difference not only because this is such a large budget item (as Table 5.13 indicates) but also because it is the main area where it is possible to benefit from economies of scale (since many parts of the house are common areas that simultaneously meet the needs of all family members).

Cost of the Second Adult

How much extra does it cost to partner with another adult and share your living costs with them? This can affect people's partnering and living arrangement decisions (although it is acknowledged that other factors are also important!). It can also influence the single person to couple payment relativity that is built into the income support system – a factor highlighted by the work of the Pension Review (Harmer, 2009) which argued that the prevailing single rate of pension was too low relative to the married rate and used this to justify recommending a substantial increase in the single rate.

The couple/single person relativities implied by the grossed-up budgets shown in Table 5.14 are equal to 1.39 (low-paid) and 1.52 (unemployed). Both are well below the single/couple pension relativity of around 1.70 favoured by the Pension Review – although the budgets derived here apply to working-age families not to those above pension age. In both cases, the relativity is lower after housing costs are included in the grossed-up budgets than when it is based on the original (excluding housing costs) budgets: if the original estimates are used, the couple to single person relativity rises to 1.56 for low-paid families and to 1.73 for unemployed families. These differences reflect the assumptions made about the sizes of the dwellings assigned to single people and childless couples (see Table 5.10) and how rent levels vary with the assumed locations of low-paid and unemployed families (Table 5.11) although it is difficult to determine which factor plays the larger role.

Cost of Children

In absolute (monetary) terms, it is possible to use the budget standards to estimate the costs of children using what is called the *difference method* (Oldfield and Yu, 1993; Oldfield and Bradshaw, 2011) which sets the cost of children equal to the difference between the budgets for families with differing numbers of children. Thus for example, the estimated cost of the first child (a 6 year-old girl) is estimated as the difference between the budget for the couple with one child and a couple with no children, while the cost of the second child is derived as the difference between the budgets for couple families with two children and one child, and so on. The results of these calculations will obviously vary with the standard of living to which the budgets apply since this determines how much additional spending is required to meet the costs of additional children at that standard.

It is also important to reiterate the point made earlier, that the cost estimates are specific to the circumstances of the children themselves. In the present case, for example, the estimates of the additional cost of the first child relate <u>only</u> to a 6 year-old girl (and others similar to this), while the estimates of the additional cost of the second child relate <u>only</u> to

a 10 year-old boy (or similar). The order in which the costs are calculated also matters. Estimates of the costs of the 6 year-old girl only apply when she is the first child in the family, while the cost estimates for the 10 year-old boy only when he is the second child in the family. The estimates thus cannot be interpreted as applying to the additional costs associated with all girls and boys of the given ages, nor to the first and second children in all families.

The assignment of dwelling types to each family also affects the estimates of the cost of children. For example, the dwelling assignments shown in Table 5.10 imply that a couple without children have a spare room and therefore do not need to move into a larger unit if they only have one child, but would have to if they have two children. (In practice, of course, many couples may plan to have two or more children and thus seek to acquire a larger dwelling in anticipation of this before they have their first child – but the budget standards are not designed to take account of these forward-looking decisions). This assumed pattern of dwelling sizes means that the cost of the first child is kept low while that of the second child is higher because dwelling size increases and so does the family budget. If instead, it is assumed (using the forward-looking perspective described above) that the childless couple decided to manage without a spare room to save on housing costs, but then moved to a 2-bedroom unit when they had their first child and to a 3-bedroom unit when they had their second, this would raise the estimated cost of the first child relative to that of the second child.

With these important caveats in mind, the (grossed-up, inclusive of housing) estimates of the costs of children are shown in Table 5.15. For families at the low-paid standard, the costs of the first and second children are around $137 and $203 a week, respectively. At the unemployed standard, the corresponding costs are $106 and $174 a week, respectively – in both cases about 20 per cent lower. The estimated higher cost of the second child reflects the assumptions made about dwelling sizes as noted earlier, although it also reflects the different needs of the two children.

Table 5.15 Budget Standards Estimates of the Cost of Children in Couple Families ($ per week)

Family Type	Low-Paid	Unemployed
Couple, no children	833.24	660.25
Couple, 1 child (girl, 6)	969.90	766.74
Difference	***136.66***	***106.49***
Couple, 1 child (girl, 6)	969.90	766.74
Couple, 2 children (girl, 6 and boy, 10)	1173.38	940.37
Difference	***203.48***	***173.63***
Couple, no children	833.24	660.25
Couple, 2 children (girl, 6 and boy, 10)	1173.38	940.37
Difference	***340.14***	***280.12***
Difference per child	***170.07***	***140.06***

Source: Table 5.14

In order to minimise the distortions caused by the choice of dwelling sizes for different sized families, Table 5.15 also shows the estimated average cost of both children by comparing the

budgets of the couple with two children and the couple with no children. These combined costs are around $340 a week (or $170 per child) for low-paid families and $280 a week (or $140 per child) for unemployed families. Again, the cost estimate is around 20 per cent lower in the latter case.

The difference method is often used in budget standards studies to estimate the costs of other components of the family budget, including the costs of children in sole parent families and the cost of sole parenthood itself. For example, in order to estimate the costs of a child in the sole parent family the difference method involves taking the difference between the budgets of the sole parent family with one child and the single female. However, this difference captures both the cost of the additional person in the family (the 6 year-old girl) and the cost of sole parenthood and would not be comparable with the estimates for couple families shown in Table 5.15. At the low-paid standard there is the added complication that the assumed hours of work of the single female and the female sole parent are not the same, while for the unemployed sole parent the results are sensitive to the assumptions made about child care costs. For these reasons, the budgets have not been used to estimate the costs of sole parenthood or of the girl in the sole parent family.

Economies of scale

The extent of economies of scale and the implied equivalence scale can be derived by calculating in stages the relative budgets (standardised against those for the gender-neutral single person, which is set equal to one) of families containing 2 adults (the couple), 2 adults and one child and 2 adults and 2 children. When this is done, the implied scales at the two standards are as follows: low-paid standard: 1.00; 1.39; 1.62; 1.96 and unemployed: 1.00; 1.52; 1.78; 2.17. The latter scale rises more steeply as family size increases, particularly for the second adult. If this difference is avoided by using the couple as the base, the two scales produce similar relativities for children – 1.16 and 1.41 (for one and two children at the low-paid standard) and 1.17 and 1.43 for one and two children at the unemployed standard.

It is also of interest to note that the scale value for the couple family with 2 children at both standards (1.96 for the low-paid and 2.17 for the unemployed) is close to the corresponding cost relativity implied by the OECD scale (2.10). Interestingly, the low-paid scale implied by the budget standards estimates is very close to the other equivalence scale most commonly used in international studies of poverty and inequality (including by the OECD itself! – see OECD, 2008, 2011), the square root of family/household size scale, which produces values of 1.00, 1.41, 1.73 and 2.00.

5.5 Comparisons with Existing Poverty Lines

Poverty research has an important role to play in understanding the social consequences of economic and other developments, designing policy interventions and assessing the adequacy of the social safety net provisions on which those living in poverty depend. The relief of poverty was central to the development of the welfare state and remains an important objective against which to judge the success of social policy. Most poverty research adopts an income approach in which the poverty status of a family is identified by comparing their income with a poverty line (Saunders, 2005). Poverty line studies (like budget standards studies) are important because of the critical role that income plays in

helping people to meet their needs and in determining their overall economic and social status.

The main focus of those who set poverty lines is on measuring the extent of poverty and understanding its causes and consequences. Their role in assessing the adequacy of social benefit payments is secondary. Poverty lines that are set as a percentage of median income, for example, have proved popular and enduring because they can be easily explained and rationalised as a measurement tool. However, these arguments carry less force when it comes to assessing the adequacy of social payments, where it is important to establish whether or not a given level of income can support an acceptable adequate standard of living. This is precisely what a budget standard is designed to do and this explains the growing popularity of the budget standards approach.

It is important to recognise however, that the budget standards approach has generally not been used – in Australia or in other OECD countries - to set a poverty line. The most notable exception is in the United States, where the official (government-sanctioned) poverty line is based on the cost of a basket of food needed to meet the nutritional requirements of a family of four.

The two main poverty lines that have featured in virtually all studies of Australian poverty are both variants of the relative approach. The first grew out of the work of researchers at the Melbourne Institute in the 1960s and after that by the Commission of Inquiry into Poverty in the 1970s and is widely referred to as the Henderson Poverty Line (HPL) (Saunders, 2005). The second approach sets the poverty line at a percentage of median community income. It emerged in Australia in response to concerns raised about the on-going relevance of the HPL and is now widely used in poverty studies conducted by individual researchers (e.g. Wilkins, 2008; Saunders and Hill, 2008; Rodgers, Siminski and Bishop, 2009; Cassells, Dockery and Duncan; 2014; Jenkins, 2016), by major international research collaborations like the Luxembourg Income Study (LIS) – see Atkinson (2004); Gornick and Jäntti (2013) - and by international agencies like the OECD (e.g. 2008; 2012).

Although the HPL is now rarely used to measure poverty, it is regularly updated and published by the Melbourne Institute (see, for example, Melbourne Institute, 2016) and this allows the updated HPL to be compared with the new budget standards estimates. This can be done on both a before housing costs (BHC) basis and an after housing costs (AHC) basis because one advantage of the HPL is that it includes a separate housing costs component. It is also possible to make an allowance for housing costs using the median income approach by tying the poverty line to the median value of income after deducting housing costs and comparing people's income after deducting their housing costs with that line (as is done in the studies just cited). However, while this approach takes account of how much people actually spend on housing costs, it does not establish whether or not after housing costs incomes are adequate.

Table 5.16 compares the June Quarter 2016 levels of the HPL and (estimated) median income-based poverty lines with the grossed-up budget standards. (The 'head in the workforce' HPL is used to estimate poverty for those in the workforce, either employed or unemployed). Because the median income poverty line is now the most widely used in Australian poverty research, comparisons between the poverty line and the budget standards estimates focus on this measure.

Table 5.16 Comparing the Grossed-up Budget Standards with Existing Poverty Lines, June Quarter 2016 ($/week)

Family type	Henderson poverty line (head in the workforce)	Poverty line set at 50% of median income (1)	Low-paid grossed-up budget standard (2)	Ratio: (2)/(1)	Unemployed grossed-up budget standard (3)	Ratio: (3)/(1)
Single person	530.13	441.18	597.31	1.354	433.68	0.983
Couple, no children	709.17	661.78	833.24	1.259	660.25	0.998
Couple, 1 child (G,6)	852.46	794.12	969.90	1.221	766.74	0.965
Couple, 2 children (G,6 & B,10)	995.75	926.48	1,173.38	1.266	940.37	1.015
Sole parent, 1 child (G,6)	680.59	563.43	827.70	1.469	675.18	1.198

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

The new budget standard estimates for low-paid couple families are between 22 per cent and 47 per cent above the median income poverty line, with the gap largest for single adults (35.4 per cent), and the sole parent with one child (46.9 per cent). These disparities between the new budget standards and the poverty line for those in low-paid work are not surprising, since the primary goal of Australia's wage-setting system since its inception has been to protect workers against poverty and this involves setting a minimum wage that is above the poverty line.

The fact that the new budget standards are well above a poverty line set at 50 per cent of median income could be used to justify an increase in the poverty line itself (although the earlier cautions against using a budget standard for this purpose should be borne in mind here). Setting the poverty line at 60 per cent of the median rather than 50 per cent would close the gaps shown in Table 5.16 for all families except the sole parent, where it would remain at around $151 a week. Many countries, particularly those in Europe, currently set their poverty lines at 60 per cent of the median and this benchmark has also been adopted by the European Commission in the targets set as part of the EU social agenda. Australia is at least as well-off economically as many of these countries – better-off than most – and a case can be made on these grounds for setting the bar higher when assessing our poverty alleviation performance. The Poverty Reports produced by ACOSS present results using both the 50 per cent and 60 per cent lines (ACOSS, 2016) and the evidence in Table 5.16 suggests that this issue is worthy of on-going monitoring and further discussion.

In contrast with the budgets for low-paid workers, the grossed-up budgets for unemployed couple families are very close to the corresponding median income poverty lines. This finding confirms that the standard implicit in the new budgets is one associated with the absolute minimum levels of living associated with poverty. The main difference relates to the sole parent family, where the new budget standard is close to 20 per cent above the median income poverty line, i.e. at a level equal to 60 per cent of median income rather than 50 per cent.

Overall, the comparisons in Table 5.16 thus indicate that if a poverty line is used as the

benchmark, the incomes implied by the new budget standards would be more than adequate to support a poverty line standard of living if the family has at least one member in low-paid employment (even if only on a part-time basis, as is the case of the sole parent), but this is not the case for most unemployed families, where the level of NSA does not provide effective protection against poverty.

5.6 Comparisons with Existing Social Safety Net Provisions

This section compares the budget standards with the entitlements that families would receive under existing provisions in relation to the levels of (and eligibility for) social security payments and the minimum wage. For each of the family types specified earlier, the existing rules and eligibility criteria have been applied to calculate what level of income would be received as cash in hand (or disposable income) if the family (male) head is either working full-time and receiving the minimum wage, or is unemployed and looking for work.

The 'safety net' calculations are based on the minimum wage levels and social security payment rates and conditions that exist in April 2016 and assume that each family receives every entitlement for which it is eligible. This means, for example, that they do not include the increase in the minimum wage (of 2.4 per cent) announced on 31 May 2016 and paid from 1 July 2016. Nor do they include the automatic indexation of social security payment rates that took effect at the beginning of July 2016, only those that came into effect on 1 March 2016. Note that the timing difference between April 2016 to which the safety net incomes apply and the June Quarter 2016 to which the budget standards apply will not impact on the comparisons presented below because the safety net (and taxation) provisions that existed in April remained in force throughout the June Quarter.

The safety net incomes shown in Table 5.17 reflect the incomes received by low-paid workers under the April 2016 minimum wage award (an hourly rate of $17.29 or $656.9 a week) or (for the unemployed) the prevailing maximum base rate of NSA (equal to $506.85 per fortnight or $253.40 per week) or (for the sole parent) the base rate of Parenting Payment, Single. In all cases, the calculations also assume that the families receive any additional benefits for which they are eligible. These additional benefits include Rent Assistance (since the families are all assumed to be renting) and the Energy Supplement, plus (where relevant) Income Support Bonus, Family Tax Benefits Parts A and B and the associated Supplement and Energy Supplements and (in the case of the sole parent family) Telephone Allowance. Income tests have been applied where this affects the payments made to families in paid work or receiving multiple payments, and all incomes are expressed net of any income tax liabilities, after factoring in where relevant the Low Income Tax Offset and the Senior Australians and Pensioners Tax Offset (for the sole parent family) and the Medicare levy.

Table 5.17 Comparisons of the Grossed-up Budget Standards with Existing Safety Net Incomes ($ per week, June 2016)

Family Type	Low-Paid			Unemployed		
	Grossed-up Budget Standard (1)	Safety Net Income (2)	(2) minus (1)	Grossed-up Budget Standard (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

Notes and Sources: Table 5.14 and see main text. G,6 = girl aged 6 and B,10 = boy aged 10

The safety net income calculations are based on an annual payment period that is defined to contain exactly 52 weeks (or 26 fortnightly payment periods) which differs slightly from the assumption underlying the budgets that there are 52.14 weeks in a year. The difference is very small and will not impact on the comparisons. The safety net calculations have benefited from advice received from staff in the Department of Social Services (DSS) but it is important to emphasise that neither the individuals involved nor DSS as a whole bears any responsibility for any errors in the calculations, for the use to which the estimates have been put or to the interpretation placed on them in the following discussion.

The comparisons in Table 5.17 indicate that the safety net is providing an adequate income floor – just - for low-paid individuals and sole-parents in part-time work but not for couples with and without children, where the shortfalls vary between $9 and $89 a week. Even in those two cases where the gaps are positive, they are not large – not large enough, for example, to cover the higher rents paid by those in Sydney compared with the three-city average rents incorporated into the budget standards (see Table 5.11). In light of the fact that the budget standards are designed to be conservative, the fact that existing provisions only just exceed them suggests that many low-paid workers are only just able to achieve the MIHL standard and are very vulnerable to even the slightest rise in their cost of living.

It is also clear that, as many others have observed, the comparisons in Table 5.17 show clearly that prevailing levels of NSA fall well short of the unemployed budget standards in all cases and are woefully inadequate. In this case, the shortfall varies between $47 for the sole parent with one child and $126 a week for the couple with two children. The $50 a week increase in the single rate of payment that has been advocated by ACOSS and other community groups would only half the $96 a week shortfall for single adults. It follows that it would require substantial increases in existing payment rates to close these adequacy shortfalls, which will continue to grow under existing policies.

These comparisons - and any conclusions derived from them – are, of course, sensitive to the assumptions that have been made to produce them. These include those relating to the cost of housing which, as has been shown earlier, can vary greatly according to the method used to generate them. It is also important to bear in mind that the housing cost (rent)

estimates used to gross-up the budget standards result in all families failing to satisfy the 30/40 rule and thus facing housing stress.

An indication of how much income is needed to avoid this situation can be calculated by applying the 30/40 rule in reverse to the housing cost estimates shown in Table 5.14, as is done in Table 5.18. These income levels are all well above the budget standards but they depend only on the assumed rent levels and on where the housing stress threshold is set and are thus independent of the non-housing costs components of the budget standards. For this reason, there is no suggestion that the income limits shown in Table 5.18 should apply since this would imply the rejection of the budget standards approach. What they do highlight, however, is the critical role that housing costs play in establishing the adequacy of any income level, and the fact even when they are grossed-up, the new budget standards are not high enough for housing stress to be avoided.

Table 5.18 Income Level Limits Required to Satisfy the Housing Affordability Rule Given the Assumed Rent Levels ($/week)

Family Type	Low-Paid			Unemployed		
	Assumed Rent	Income Limit	Grossed-up Budget Standard	Assumed Rent	Income Limit	Grossed-up Budget Standard
Single person	315.8	1,052.6	597.31	223.3	744.3	433.68
Couple, no children	392.5	1,308.3	833.24	296.7	989.0	660.25
Couple, 1 child (G,6)	392.5	1,308.3	969.90	296.7	989.0	766.74
Couple, 2 children (G,6 & B,10)	457.5	1,525.0	1,173.38	340	1,133.3	940.37
Sole parent, 1 child (G,6)	392.5	1,308.3	827.70	296.7	989.0	675.18

Notes: The income limits are derived by applying the 30/40 housing affordability rule to the assumed rents, i.e. by dividing the rents by 0.3.
Sources: Table 5.14 and see text. G,6 = girl aged 6 and B,10 = boy aged 10.

Even without the complications that relate to the treatment of housing costs, Table 5.17 indicates that the existing structure of income support provisions is in need of improvement if its adequacy objectives are to be satisfied. The case for an increase in the base rate of NSA payment has already been made by several commentators and these results provide additional compelling evidence that a substantial increase is urgently needed. The results also suggest that change may be needed in the structure of income support payments, specifically to the relativity between the payment to singles and couples and to the levels of assistance provided to families with children.

There are, of course, many ways in which safety net provisions can be changed to close the gaps shown in Table 5.17. Choosing between the alternatives is an important task but the new budget standards estimates has established that improvement is needed if the social protection system is to do its job of providing adequately for the needs of vulnerable Australians. It is also clear from the differences in the gaps for different family types and between low-paid and unemployed families, that a combination of measures is needed that involves higher base rates of payment and increased add-ons to reflect the presence of partners and children.

5.7 Summary

The results presented in this chapter illustrate the on-going benefits of using a budget standards approach to address important issues of income adequacy. The length of the chapter reflects the time and effort required to produce, review and refine the new budgets, to manipulate them to explore some of their implications, and to examine how they compare with other adequacy indicators and existing social safety net provisions. The discussion has been detailed and comprehensive so that readers are fully informed about how the budgets were constructed and aware of the strengths and limitations of the results presented. The approach provides a basis for the current budget standards to be used to address specific issues with confidence and allows them to be modified to reflect particular applications.

Budget standards research cannot resolve all of the underlying issues surrounding how to judge income adequacy, but it does have a critical role to play in producing the identifying the key issues that must be resolved when judging the adequacy of income support provisions and backing this up with robust, transparent evidence. The evidence and comparisons presented in this chapter illustrate the challenges involved in undertaking this task but also highlight the value of the resulting output. Unlike all other methods, only the budget standards approach addresses the adequacy question head-on and the results produced deserve and should be taken seriously by anyone claiming to be concerned about issues of income adequacy and social protection.

The results show unequivocally that existing social safety net provisions for low-paid and unemployed Australians are not adequate to allow them to achieve a standard of living that is consistent with the MIHL standard. One can quibble with some of the details of the budgets, but not to the extent required to alter this fundamental implication of the new findings.

The Australian social safety net has served the country well for over a century and remains a cornerstone of a social policy framework whose success in achieving a 'Fair Go' for all depends on combining adequate safety net provisions for those in and out of work, with targeted measures designed to protect incentive structures and the financial sustainability of the government's budget. The evidence presented here has highlighted existing shortcomings and identified areas where improvement is needed. These specific weaknesses must be addressed if Australia is to continue to rely on a safety net system that has many broader strengths.

6 Summary and Conclusions

As indicated in Chapter 1, the principal goal of the research reported here was to review, refine and update the budget standards for Australia produced over two decades ago to make them relevant to current circumstances and prices. Although on the face of it this appears to be a relatively straightforward task, it has presented many challenges. Changes in shopping behaviour and in the range and types of goods available have made it impossible in practice to replicate exactly what was done before. This, combined with the experience gained since the previous budgets were developed and the availability of new data, have set new boundaries around what is possible and have thus impacted on what was done.

Despite all of these complications, it has been possible to produce a set of new budget standards by identifying and pricing the items required for low-paid and unemployed families to meet their basic needs at an acceptable but minimum and healthy standard of living – the MIHL standard. This has been done while correcting some of the errors found in the earlier study, clarifying the basis on which key decisions were made and introducing improvements where this was warranted. One important conclusion that emerges from the research is that there is no such thing as 'simply replicating a budget standard' without straying into contested territory because of the many difficult choices that have to be made along the way.

Unlike all other approaches to assessing income adequacy, only budget standards research has the capacity to lay bare the assumptions and judgements that have to be made when undertaking this task so that others can assess their support for them and, where necessary, experiment with alternatives and examine the impact. It is only through such a process of reflection and experimentation that genuine progress will be made in understanding what adequacy means in the Australian context. This is a necessary precursor to moving beyond value-driven entrenched positions to the development of improved understandings of the concept of adequacy and better practical measures for assessing it.

Pulling together all the strands of the research has involved a sustained effort and has at times been a painstaking process of identifying and pricing and then debating the features of the many hundreds of individual items that enter into the final budgets. The results have benefitted from the commitment and professionalism of the research team, the support provided by the three Partner Organisations and from the advice and comments provided by members of the Project Reference Group, all of whom have been supportive companions throughout the long journey to completion.

Although there is more to life than just the consumption of material items, budget standards research has an important role to play in identifying the key choices that underpin consumption decisions and presenting the information in ways that can be used to assess the adequacy of the incomes of existing social safety net provisions and other public policy initiatives. Despite all of the complexities, only the budget standards approach is able to

set these out in a systematic and transparent way that provides a solid evidence base for identifying and discussing the associated issues. Budget standards cannot, in isolation, provide the answers to the key question concerning How Much Is Enough? What they can do, however, is reduce this seemingly intractable question to a series of decisions about what to include in a basic basket of goods that, when constructed item by item and added up, is able to meet minimum needs at an acceptable level.

In conjunction with other evidence, budget standards can thus inform decisions about what must be done to make such a basket of goods and services affordable to all so that no-one is denied the opportunity to reach that acceptable minimum. The key challenge is to ensure that the budgets allow people to achieve a specified living standard that guarantees not only 'merely physical survival' (to quote Rowntree) in today's conditions, but also permits a degree of social participation that is consistent with an inclusive lifestyle, provides people with opportunities for advancement and guarantees them the achievement and maintenance of good health.

This involves drawing on a broad range of evidence about how people organise their budgeting – what they need, where they shop and in some instances, what they do with items once acquired. It also involves assembling that mass of information into a clear and flexible framework that can be adjusted to the needs of different users, interested in different aspects of adequacy. Drawing on existing consumer surveys can assist in this process, although it is important to remember that what people spend is determined by how much they have as well as by what they need. If a budget standard is to serve as an independent benchmark for helping to identify what people need, there is little point in simply replicating what they spend, and thus can afford. It thus becomes necessary to interpret what people do in ways that generate insights into the underlying needs that drive their consumption decisions, not just observe what they spend, how much they have and, if this is limited, how they make ends meet or where they go without.

This is why conducting focus groups with those on a low-income plays such an important role in generating a better understanding of the motivations that underpin spending decisions (including where to shop, as well as on what items are bought or foregone). Ultimately, each one of us has to make ends meet and no-one can live permanently beyond their means. This means that choices (sometimes tough choices) have to be made and it is only through in-depth discussion with those forced by circumstance to make these tough choices that their actions and reasoning must be fully appreciated and understood. The focus group discussions described in Chapter 4 provide a fascinating (though depressing) insight into how those forced to survive on a meagre income manage to survive from one income cycle to the next. These insights not only helped with the design and development of the new budget standards, but also remind us that pockets of extreme hardship still exist amidst the affluence that many Australians have come to expect and take for granted.

The new budgets themselves take on greater meaning and practical relevance when they are used to judge the adequacy of existing social safety net arrangements. This task has been made difficult here by the decision to exclude housing costs from the budgets because of the inherent (and many would argue, intractable) problems associated with specifying how much money is needed each week to acquire a given standard of housing. One is left with two choices: either remove the housing component from the budgets ex ante, or add-in an estimate of housing costs ex post to the non-housing budgets. The latter

approach has been adopted because the budgets then cover all forms of spending, making them more easily understood and compared with other adequacy benchmarks.

The budget standards estimates themselves have been described and analysed in detail in Chapter 5 and there is little point in repeating that discussion. It is however, important to acknowledge several general features of the estimates that users should be aware of:

1. The budgets apply only to families with the specified characteristics. While changing some of these will have little or no impact (varying the ages of the adults by up to 10 years, for example) others will have a more profound effect. An example are the ages of the two children (6 years in the case of the girl and 10 years in the case of the boy) which are such that both are in school and thus can be reasonably assumed to require a minimum amount of child care. If the age of one of them was lowered to 4 years (pre-school age) this would have a major impact on the budgets for those families, particularly for the sole parent family that would then face a substantial increase in child care needs and associated costs. The ages of the children can also affect certain social security entitlements and any changes would thus affect the comparisons between the budget standards and social safety net incomes for these families.
2. A key assumption is that those in work and receiving the minimum wage have job security and are able to work uninterruptedly throughout the year. Evidence provide by the ABS (2016e) indicates that in June 2016, only 8.17 million of the 11.97 million (68.2 per cent) adults aged 15 years and over who were in employment were in full-time employment. Furthermore, close to one million of those in employment at that time wanted to work more hours than they are currently working (ABS, 2016f), which implies that many of those who were working part-time would prefer to work full-time if they could. Added to this under-employment are the many 'discouraged workers' who have withdrawn from the labour force entirely because of the low prospect of finding work. So the assumptions built into the low-paid budgets that at least one family member is employed full-time (or has a reasonable level of part-time employment in the case of the sole parent) remain beyond the grasp of many Australians, who have to make do with less work than they want or need. In relation to the sole parent, the assumptions made about her hours of work have been chosen to maximise her ability to undertake her own child care and keep her need for external (paid-for) child care to a minimum.
3. Location matters! This is most apparent in relation to the housing costs, where the impact on the budget standards has been demonstrated. This analysis is important in its own right, but it also raises a more general question about whether it is meaningful to establish the adequacy of existing income support provisions on a national basis. Because location has a major bearing on the ability of a given level of income to support and sustain a given standard of living, questions arise about whether a nationally standardised system of income support arrangements has the capacity to achieve adequacy for all Australians at the same level. This is an uncomfortable debate but it raise important issues that need to be addressed and budget standards has an important role to play in identifying the factors at play and quantifying their relative importance.

This latter point raises the broader question of the future role of budget standards research and the longer-term implications of this study.

The first point to emphasise here is the urgent need for Australia to maintain its research capacity in this field if the benefits are to be fully realised. The greater the effort that is put into constructing and revising budget standards and the greater the number of bodies willing to get involved in this task, the better the estimates will become and the more they will be able to be used to improve the adequacy of existing provisions. As in all other fields, efforts to improve 'best practice' will only be fruitful if there are multiple practitioners who can debate the merits of alternative approaches and reach a consensus about which is superior. This applies not only to specific assumptions or judgements (e.g. about the lifetimes to be assigned to items and how they should differ across standards and between different family types) but also broader methodological issues about the appropriate balance between normative, behavioural and experiential inputs, and the role of focus groups.

A key finding of the study is that the adequacy of the minimum wage currently exceeds that of NSA. This difference raises an important question about why this has been allowed to happen. One thing that seems clear is that the mechanisms used to set the level of the two variables have differed and this has almost certainly been key factor affecting the observed trends. This in turn raises the question of whether it is time to establish an independent review mechanism for reviewing and setting the level of NSA that is similar to that used by the Minimum Wage Panel to regularly review and assess the adequacy of the minimum wage. Successive governments have side-stepped this issue by relying on the 'automatic' indexation of social security payment levels, but this approach has been used to divert attention away from the inferior indexation arrangements applied to NSA when compared with most other payments. At the very least, the form of indexation itself needs to be reviewed and justified, although this should be accompanied by an independent process that regularly reviews the adequacy of all payments – a process that started with the Pension Review in 2008 and could be extended by expanding its coverage and requiring it to be conducted on a regular basis.

The current system of automatic indexation of social security payment levels by-passes the need to make on-going adequacy assessments, but the cost is that existing weaknesses are reinforced, never reviewed and re-assessed. This point was made in the context of NSA by the Henry Tax Review, which went on to argue that:

> 'Governments should regularly review indexation as community standards are likely to be affected by significant changes in the composition of the workforce and household incomes in coming decades' (Commonwealth of Australia, 2010: 522)

In a similar vein, ACOSS (2012: 9) has argued that social security payments for people of working-age should 'be independently and publicly reviewed' and argued in its latest Budget Submission for the establishment of a Social Security Commission as a statutory authority whose task would be:

> '… to advise the government and parliament on a regular basis on the financial needs of people relying on social security payments, appropriate relativities between them, and the budgetary costs and implications for employment incentives of policy options to improve payment adequacy' (ACOSS, 2017: 49)

In a similar vein, Catholic Social Services, Australia (CSSA) has recently called for the

establishment of an Independent Commission:

> '… to advise Government on the appropriate level of welfare payments to ensure people can have access to basic requirements – food, housing, clothes, health services, live with dignity and take part in the life of the community' (CSSA, 2016: 2)

This growing groundswell of support for some kind of regular review process reflects concern that indexation has effectively removed adequacy off of the radar screens of policy-makers. This situation needs to be reversed and if this were to happen, a regular update of relevant budgets standards like those reported here should form a central component of any such arrangement. By cementing the role of budget standards research in this way, existing research would be further strengthened, the critics would be forced to propose solutions to the 'problems' they identify and together these developments would enhance the quality of the estimates and broaden their acceptability.

This would be one way of guaranteeing a future for budget standards research. The alternative is 'more of the same', arguing over the specifics without ever coming up with solutions that are practical and acceptable to all. The fact is that there is no genuine alternative to the budget standards approach when it comes to assessing income adequacy. Alternative benchmarks (linked to average incomes, past trends or international evidence) are available and should always form part of any overall assessment, but none of them address the adequacy question head-on as the budget standard approach does. The only way to calculate how much a family needs to purchase the items required to attain and sustain a specified standard of living is to go through the painstaking task of identifying and pricing the hundreds of items that have to go into the family's weekly shopping basket.

Seebohm Rowntree and Justice Higgins understood the simple but compelling logic of this approach over a century ago and the fact that budget standards research has experienced a revival in recent years points to the inherent wisdom and enduring nature of their insights. The estimates presented here are designed to inform important current public policy choices, but also to allow others to draw on and extend the results in a variety of contexts where adequacy questions are central. These questions lie at the heart of the broader issue of inequality that is assuming growing importance and attracting increasing attention. It is difficult to see how any level of economic inequality can be regarded as acceptable socially if basic needs are not met for some at an acceptable level. The underlying challenge of judging income adequacy will not go away, nor will the contribution that budget standards research can play in helping to answer it.

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Appendix A: Focus Group Material

Focus Group Documents:

ARC A New Healthy Living Minimum Income Standard for Low-Paid and Unemployed Australians

Focus Groups 2014-15

UNSW THE UNIVERSITY OF NEW SOUTH WALES | Arts and Social Sciences

SPRC Social Policy Research Centre

A New Healthy Living Minimum Income Standard for Low-Paid and Unemployed Australians

Please answer the following background questions to help us with our research:

1. Are you:
   - ❒ Male
   - ❒ Female
2. How old are you? ..... years
3. What is the income (before tax) from all sources, of you or your family?
   - ❒ Less than $200 a week
   - ❒ $201-$599 a week
   - ❒ Over $600 a week
4. Which of the following BEST describes your MAIN activity last week?
   - ❒ Working full-time for pay
   - ❒ Working part-time for pay
   - ❒ Unemployed/ looking for work
   - ❒ Home or family responsibilities
   - ❒ Other
5. The things people buy and do - their housing, furniture, food, cars, recreation and travel - make up their standard of living and determine how well off they are. How would you rate your current standard of living?
   - ❒ Very high
   - ❒ Fairly high
   - ❒ Medium
   - ❒ Fairly low
   - ❒ Very low
6. Which of the following best describes your current living arrangements?
   - ❒ I live by myself
   - ❒ I live with my partner only
   - ❒ I live with my partner and child/ren
   - ❒ I am a sole parent
   - ❒ Other living arrangement

This is the end of the survey. Thank you for your time!

A New Healthy Living Minimum Income Standard for Low-Paid and Unemployed Australians

Thank you very much for agreeing to participate in our new research on household budgets for different Australian families - singles and couples, with and without children, in-work and unemployed.

We are trying to find out how much different families have to spend to buy all the things that they need - food, clothing, transportation, furniture, leisure activities and so on. We are not including housing because these costs vary according to where you live.

We want the budgets to reflect how people actually spend their money. These are our draft figures for single person households. We would like to talk to you about how realistic these figures are.

Budget Area	Low-paid household (average weekly spending)
Food	65
Energy	20
Personal Care	8
Clothing and Footwear	18
Leisure	27
Household Goods and Services	51
Health	6
Transport	72
Education/ Training	10
TOTAL WEEKLY BUDGET (excluding housing)	277

(Note: The low-paid budgets have been CPI updated from the original BSU estimates. The unemployed budgets have been set at 75% of the low-paid budgets except for food (set the same for both budgets) and transportation (set at 50%). These budgets will be handed out as the basis for discussion at the first round of focus groups)

A New Healthy Living Minimum Income Standard for Low-Paid and Unemployed Australians

Thank you very much for agreeing to participate in our new research on household budgets for different Australian families - singles and couples, with and without children, in-work and unemployed.

We are trying to find out how much different families have to spend to buy all the things that they need - food, clothing, transportation, furniture, leisure activities and so on. We are not including housing because these costs vary according to where you live.

We want the budgets to reflect how people actually spend their money. These are our draft figures for single person households. We would like to talk to you about how realistic these figures are.

Budget Area	Unemployed household (average weekly spending)
Food	65
Energy	15
Personal Care	6
Clothing and Footwear	13
Leisure	20
Household Goods and Services	38
Health	4
Transport	36
Education/ Training	7
TOTAL WEEKLY BUDGET (excluding housing)	204

(Note: The low-paid budgets have been CPI updated from the original BSU estimates. The unemployed budgets have been set at 75% of the low-paid budgets except for food (set the same for both budgets) and transportation (set at 50%). These budgets will be handed out as the basis for discussion at the first round of focus groups)

General Discussion

1. How easily do you manage to keep to your weekly budget?
2. Tell me some of the items you and your family would or could go without if your weekly income was reduced permanently, between $50 and $100 a week?

3. What do you think are the differences in living standards between unemployed households and households on low income?
    - PROBE: what kinds of things do you think unemployed households cannot buy or choose to go without?
4. What are the household bills or costs that present the most difficulty for you in paying?
    - PROBE: What are some of the strategies that you use to save on household shopping and bill costs? (i.e. shop around, shop in outlets, buy in bulk, buy discounted items or buy generic brands)
5. What kinds of items are needed to live a healthy life?
    - PROBE: Example of items needed for healthy living that they have had to go without because they cannot afford them.

Food Budget

6. Where do you buy most of your weekly groceries?
7. Do you buy any generic food brands?
8. Is price a barrier to purchasing fresh fruit and vegetables?
9. How often do you eat out as a family?

Personal Care Budget

10. Do you think there are any differences in how often (and how much is spent by) members of households, at different income levels, have their hair cut?
    - PROBE: Are there any age and sex differences?
11. What types of make-up and skin care products do you consider essential? What amounts of money do you spend on these items? Where do you buy these products? (Chemists, supermarkets, department stores?)
    - PROBE: Are there differences in amounts spent by unemployed households and households on low income? How important is the 'brand' when purchasing these items?

Clothing and Footwear Budget

12. Are there any strategies that you use to save on clothing and footwear (i.e. shop around, shop in outlets, buy in bulk, buy discounted items or buy generic brands)?
    - PROBE: Are there certain items which you prefer to be a 'brand' i.e. shoes
13. If you started work next week would your clothing and footwear budget meet your needs? If not, what would you have to buy?

Leisure/Recreation Budget

14. You often hear that some kids miss out on leisure activities and toys (like playing organised sports or having bicycles or skateboards) because of parent's low income. What do you think about this?
    - PROBE – What kinds of leisure activities and toys should kids be able to access?
15. Do you give your child/ren pocket money?
    - PROBE: How much? How often?
16. From time-to-time families and individuals like to go out—for example, to the beach, the movies, theatre, or the zoo? How much money do you allow for these outings? How frequent?

- PROBE: Differences for different economic circumstances. What kinds of outings and how frequently?

17. Do you have a family holiday away each year?
    - PROBE: How long would holidays be? Where would you go and how much would you spend on extras such as food, drink, meals and tours?

Household Goods and Services Budget

Original Questions:

18. Are these items necessary for you?
    - A mobile phone?
    - A computer?
    - Internet?
    - A TV?
    - A washing machine?
    - A refrigerator?
    - A car? PROBE: How old?
    - Contents insurance?
    - Private health insurance?
    - New and not second-hand clothes?
    - What do you think are adequate levels of heating for living areas?

    - PROBE: Many people rent or hire these items—is this an appropriate/acceptable method of acquiring these goods?

Health Budget

19. How often would you visit the GP?
    - PROBE: Would these visits be covered by Medicare? Do you travel for bulk billing? How often would you get prescriptions? What do they cost?
20. What do you think about private health insurance?
    - PROBE: Do you have it? Is it essential?

Transport Budget

21. What forms of transport do you use in the following circumstances:
    - Regular (grocery, fruit and vegetables) shopping
    - Taking kids to and from school
    - Taking kids to and from activities, such as sport, music or craft classes
    - Getting to and from work

Education Budget

22. Any problems in meeting the costs of education?
23. Can you talk about any training you are currently completing? How affordable is this?

Focus Group Close

Appendix B: Comparing the New and Original Budget Standards

This Appendix compares the budgets derived in this study with the updated estimates produced in the original SPRC budget standards study. Drawing comparisons in social research almost always involves making compromises and the exercise conducted here is no exception. One important difference is that the family types specified in the two studies are not the same, making exact comparison impossible. Another difference relates to the treatment of housing (specifically its location and how market rents in that location were identified), which differs in the two studies in ways that will affect the estimated level of housing costs. Perhaps of even greater significance is the change in the standard of living that the budgets are designed to support – away from the Modest But Adequate (MBA) and Low Cost (LC) concepts used in the earlier study to the Minimum Income for Healthy Living (MIHL) concept used in this study.

Despite these differences, it is still useful to update the old standards so that they can provide a basis against which to compare the new estimates – all the more so since it has been noted in the main report that the price updating of the original budgets is still used by many users to apply the budget standards to current circumstances. The previous budget standards report argued (see Saunders et al., 1998; Chapter 15) that updating the estimates in the short-term (periods of up to 5 years) to reflect changes in consumer prices was a cost-effective way of maintaining their relevance and value to users. However, the time that has elapsed since that study was completed now exceeds that period by a considerable margin, so that a degree of caution must be applied when using the updated estimates for purposes other than those discussed below.

The most obvious way to update a budget standard is using the Consumer Price Index (CPI), estimates of which are produced monthly by the ABS (e.g. ABS, 2016a). CPI updating has been used by a number of organisations to update the original budget standard estimates for inclusion in submissions to government or to highlight the need to address inadequacies in the social safety net (e.g. Lawrence, 2015). These applications have generally involved taking the total budget for each family type and uprating it by movements in the aggregate CPI. However, a more accurate updating process involves updating each of the main budget areas by movements in the relevant CPI sub-component – as has been done in this research to update the budgets priced in late-2013 to mid-2016.

Although the two approaches produce very similar *total* budgets, the disaggregated updating method will produce marked differences in the size of each individual budget component area because of differences in the price movements in each of the broad budget areas. Unlike the aggregate approach, the disaggregated approach takes account of changes in relative prices (at least at an aggregate level) and thus allows the composition of the budgets to change to reflect this. In this context, it is significant to note that there have indeed been substantial differences in the price movements across broad budget/consumption areas over the last two decades. For this reason, the analysis that follows is

thus based on updating expenditures in each of the main budget areas by changes in the relevant CPI sub-component.

The other factor to bear in mind when updating estimated budget standards in line with movements in consumer prices is that this method does not allow for changes in the items themselves, or in their quality – both of which are expected to improve as community living standards rise. Updating by the CPI maintains the *real value* of the budget standards (at least approximately) but their *relative value* will decline if real community living standards are rising. This places a limitation on the period over which price uprating can reasonably be applied because beyond that, the assumption that living standards have not changed will become increasingly untenable. Over periods beyond 5-7 years, it is necessary to review the entire budgets (prices *and* quantities) to ensure that they maintain their contemporary relevance – as has been done in this study. Price updating is a 'second best' solution that recognises the time, effort and cost involved in constantly revising the entire budgets.

One practical problem with using the CPI data to update the budget standards is that the CPI series itself is subject to periodic modification and improvement by the ABS. The resulting changes can affect the specification and coverage of the main CPI sub-components, making it difficult to obtain a consistent series over an extended period to use to update the budgets. There is also the problem that some of the CPI sub-component areas do not correspond exactly with the main budget standards categories – which have themselves been changed slightly since the original study was conducted (see Chapter 3). An example of the former difference is hair dressing/haircuts, which is included as part of the Personal Care budget here, but is separated out from other Personal Care items in the ABS classification. An example of the latter is the incorporation of the separate Energy budget into an expanded Household Goods and Services budget.

Table B.1 provides details of the CPI categories and the budget component categories used in the two budget standards studies. The final column indicates which CPI component area has been used to update each of the component budgets that make up the total budget.

Table B.1 Budget Components Used by the ABS and in the SPRC Budget Standards Studies

Original SPRC Budget Standards Study	New SPRC Budget Standards Study	CPI Component Series used for Updating Purposes
Housing	- [(a)]	Not applicable
Energy	- [(b)]	Not applicable
Food	Food	Food and Non-Alcoholic Beverages
Personal Care	Personal Care	All Groups CPI
Clothing and Footwear	Clothing and Footwear	Clothing and Footwear
Leisure	Leisure	Recreation and Culture
Household Goods and Services	Household Goods and Services	Furnishings, Household Equipment and Services
Health	Health	Health
Transport	Transport	Transport
-	Education	Education
Total Budget	**Total Budget**	**All Groups CPI**

Notes: (a) Housing costs are not included in the new budget standards study; (b) Energy costs have been incorporated into Household Goods and Services.
Source: ABS Consumer Price Index, Australia (Catalogue No. 6401.0); various issues and main text.

Having decided on the updating method, the other key decision that has to be made concerns the period to which the updated estimates should apply. As explained earlier, the basic pricing window used to price the new budgets covers the second half of 2013 (i.e. the period from 1 July 2013 to 31 December 2013), which has been assumed for practical purposes to equate to the average of the September and December Quarters of 2013. Those items that were priced outside of this pricing window (of which there are very few) have had their prices deflated back to that window using the relevant CPI series (at the budget component level) to bring them into line with all other items. Once this adjustment has been made, it is possible to project the budgets forward by inflating the aligned 2013 estimates in line with movements in the relevant CPI components between the base pricing window period and the updating period – identified here as the June Quarter 2016.

Table B.2 Updating of the New Budgets to the June Quarter 2016

CPI component group	Corresponding budget standards category	CPI component price index value in March Quarter 1997	Average value of the CPI component in the September and December Quarters 2013 (1)	CPI component price index value in June Quarter 2016 (2)	Inflation factor = (2)/(1)
Food and non-alcoholic beverages	Food	60.7	101.1	103.8	1.0267
Clothing and footwear	Clothing and footwear	97.9	100.2	98.0	0.9780
Furnishings, household equipment and services	Household goods and services	88.5	101.9	104.7	1.0275
Transport	Transport	58.0	103.1	98.2	0.9525
Health	Health	72.0	109.5	125.5	1.1461
Recreation and culture	Recreation	85.5	101.1	103.1	1.0198
Education	Education	na	108.8	124.6	1.1452
All groups CPI	Personal care and All	67.1	104.4	108.6	1.0402

Notes: The CPI reference period for each index is 2011-12 = 100.0. na = not available
Source: ABS, Consumer Price Index, June Quarter 2016, ABS Catalogue No. 6401.0 and associated historical series.

The inflation factors implied by this methodology are presented in Table B.2. There are some relatively large differences in the budget component area relative price movements, even over this short period, with prices declining in some areas (e.g. Clothing and Footwear and Transport) and others increasing by almost 15 per cent in others (e.g. Health and Education). Over the longer period since the original budgets were produced, the updating extends from the March Quarter (February) 1997 when the original budgets were priced to the June Quarter 2016. Again, updating has been in line with movements in the closest CPI component group. Movements in the price indices in the different CPI budget areas over the longer period between the March Quarter 1997 and the June Quarter 2016 are also shown in Table B.2.

The updated MBA and LC budgets are set out in Tables B.3 to B.7 and compared in each case with the new MIHL low-paid and unemployed budgets for each family type. (There is no updated budget for the single male because this budget was not estimated in the earlier study). The two sets of budgets exclude the housing component because the methods used to derive housing costs in the two studies were very different and the results are not comparable.

Table B.3 Original Modest But Adequate and Low Cost Budget Standards Updated to June Quarter 2016 and New Healthy Living Budgets: Single Female ($/week)

	New Low-paid MIHL Standard	Updated MBA Standard	New Unemployed MIHL Standard	Updated LC Standard
Food	56.87	86.72	54.03	66.76
Clothing and Footwear	10.83	23.99	4.98	18.10
Household Goods and Services	79.23	44.72	68.37	37.77
Transport	78.30	103.34	44.88	68.63
Health	8.55	9.43	6.41	6.75
Personal Care	17.88	36.33	14.23	11.18
Recreation	29.04	33.94	15.00	25.20
Education	0.00	0.00	0.00	0.00
Total	**280.69**	**338.49**	**207.89**	**234.41**

Table B.4 Original Modest But Adequate and Low Cost Budget Standards Updated to June Quarter 2016 and New Healthy Living Budgets: Couple with No Children ($/week)

	New Low-paid MIHL Standard	Updated MBA Standard	New Unemployed MIHL Standard	Updated LC Standard
Food	123.60	190.96	117.42	146.71
Clothing and Footwear	15.77	42.24	10.25	31.83
Household Goods and Services	99.59	56.51	88.28	47.71
Transport	120.75	116.48	84.94	72.33
Health	14.45	23.30	11.94	15.73
Personal Care	27.04	51.86	25.22	19.71
Recreation	39.54	52.72	25.50	33.22
Education	0.00	0.00	0.00	0.00
Total	**440.74**	**534.07**	**363.55**	**367.24**

Table B.5 Original Modest But Adequate and Low Cost Budget Standards Updated to June Quarter 2016 and New Healthy Living Budgets: Couple with One Child ($/week)

	New Low-paid MIHL Standard	Updated MBA Standard	New Unemployed MIHL Standard	Updated LC Standard
Food	156.22	241.60	148.41	189.18
Clothing and Footwear	23.72	49.97	15.52	44.55
Household Goods and Services	112.72	74.05	100.59	59.47
Transport	144.72	120.57	91.52	83.88
Health	19.51	20.38	17.00	20.38
Personal Care	31.03	48.91	29.87	21.49
Recreation	62.06	67.65	43.32	44.92
Education	27.43	-	23.79	-
Total	**577.40**	**623.12**	**470.04**	**463.87**

Table B.6 Original Modest But Adequate and Low Cost Budget Standards Updated to June Quarter 2016 and New Healthy Living Budgets: Couple with Two Children ($/week)

	New Low-paid MIHL Standard	Updated MBA Standard	New Unemployed MIHL Standard	Updated LC Standard
Food	200.91	334.49	190.87	261.02
Clothing and Footwear	33.20	71.06	21.67	54.78
Household Goods and Services	139.10	148.13	124.33	85.58
Transport	144.72	125.16	97.89	83.61
Health	24.36	35.12	21.86	24.45
Personal Care	35.34	62.73	34.18	25.41
Recreation	76.99	79.49	56.64	45.95
Education	61.26	-	52.93	-
Total	**715.88**	**856.18**	**600.37**	**580.80**

Table B.7 Original Modest But Adequate and Low Cost Budget Standards Updated to June Quarter 2016 and New Healthy Living Budgets: Sole Parent with One Child ($/week)

	New Low-paid MIHL Standard	Updated MBA Standard	New Unemployed MIHL Standard	Updated LC Standard
Food	89.49	138.53	85.02	109.22
Clothing and Footwear	18.78	37.79	10.24	26.73
Household Goods and Services	90.46	101.53	79.01	46.98
Transport	100.39	106.15	100.39	66.95
Health	13.61	15.69	11.47	11.23
Personal Care	21.52	39.43	18.89	12.38
Recreation	50.64	43.51	31.91	28.63
Education	50.31	-	41.54	-
Total	**435.20**	**482.62**	**378.48**	**302.12**

These comparisons are not ideal because they embody the changes implemented to derive the new MIHL estimates that have been described in detail in Chapters 3 and 5 of the main report, but also because of changes in the budget categories themselves. Most significant of these is the separate Education budget introduced in this study and the combining of the previous Energy budget into the new Household Goods and Services budget. These changes mean that specific items have been reallocated to new budgets and this will affect the price index used to update the price of these items as well as the comparisons between the new and updated budgets.

Despite these unavoidable limitations, the comparisons reveal that in all cases, the new MIHL standard for low-paid worker families lies well above the updated LC standard but some way below the updated MBA standard. This broad pattern is as expected given the change in the conceptualisation of the standards themselves, but also reflects the fact that the budgets represent the absolute minimum required to attain the MIHL standard. The relativity between the MIHL standards for low-paid families and the updated MBA standards is close to 0.83 for both single people and couples without children, but is slightly higher at between 0.84 and 0.91 for the three families with children. In contrast, while the new MIHL standard for the unemployed single female is around 11 per cent below the updated LC standard (a relativity of 0.89) the new MIHL standards are very similar to the updated LC standards for all couple family types.

The absolute size (dollar value) of the differences between the new low-paid MIHL and the updated MBA standards, and between the new unemployed MIHL standard and the updated LC standards are largest in the three areas that account for the largest proportions of the total budgets: food; household goods and services; and transport. Of these, differences in the amounts spent on food and household goods and services explain most of the observed overall differences in the majority of cases.

Appendix C: Comparing the New Budget Standards Estimates with ABS Expenditure Data

As indicated in the main report, it is useful to compare the budgets with expenditure data for actual Australian households. The aim of such comparison is not to use the observed differences to vary the budget standards, since they are intended to serve as a normative benchmark against which to assess the adequacy of the actual expenditures and hence of the incomes that support them. The budget standards can only fulfil these functions if they remain genuinely independent of actual spending patterns – hence the distinction between a *budget standard* and an *actual household budget*.

Rather, the aim is to highlight areas where the budget standards differ markedly from the actual expenditure patterns so that the researchers can confirm that the estimates are correct (perhaps because they embody specific assumptions that reflect the feedback provided by the focus group participants, for example, or to correct any existing anomaly) and in order to alert users to where the differences are, and to motivate further reflection on the reasons for such differences.

In order to undertake these comparisons, it is necessary to restrict the ABS sample to only those households that have similar characteristics to those that have been specified for the families to which the budget standards apply. As far as practically possible, it is important to compare like with like. This, however, presents a major challenge because the circumstances of the family must be specified in greater detail before an appropriate budget standard can be derived, but such degree of detail can rarely be replicated in the HES sample (for example, in relation to the precise age of family members) and when it can, the numbers involved are so small as to make the statistics produced effectively meaningless.

The only way to address these challenges is through compromise. Essentially, this involves specifying the family characteristics rather broadly as a way of expanding the sample size by enough to generate meaningful estimates without going so far as to make them so far removed from the circumstances that the budget standards are intended to represent that the comparisons become misleading and unhelpful. Getting the balance right requires judgment although it is possible to experiment with a number of alternative specifications in order to get a sense of how far the comparability requirements can be stretched without undermining the validity of the whole exercise.

Validation has been examined here using data from the 2009-10 *Household Expenditure Survey* (HES) conducted by the Australian Bureau of Statistics (ABS). The 2009-10 HES sampled 9,774 households and collected detailed information about reported expenditures over the 12-month period to June 2010 (ABS, 2011). The following analysis uses expenditure estimates that have been derived from the public-release confidentialised unit record file (CURF) based on the survey. The HES data have been disaggregated so that the households covered are similar in size and structure to those for whom the new budget standards estimates apply.

As noted in Chapter 5 when using the HES to derive estimates of housing costs for renter families, it is not possible to produce exact comparisons of the budget standards with the actual expenditures of identical families because the numbers in the HES sample with the same characteristics as those to which the budget standard apply are very small – too small to produce reliable estimates. For example, the 2009-10 HES contains only 107 households where the household reference person (HRP) is aged between 25 and 44 and was unemployed at the time they were surveyed. Of these, only 4 were couple-only households, 3 were couples with one child, 5 were couples with 2 children and 17 were sole parents with one child. The standard errors on estimates based on such small samples would be so large as to make the estimates of no use for comparative purposes.

For this reason, as before, the definitions used to identify the sub-sample of HES respondents whose data can be used for comparison purposes have had to be broadened. Initially, attention was focused only on those households where the HRP was aged between 25 and 44, which restricted the total sample from 9,774 to 2,916 households. Secondly, within this group, after experimenting with several alternatives, the following sub-groups were identified as providing the most useful comparisons:

- *Low-paid households were identified as those households with at least one adult employed (full-time or part-time) with earnings of less than $37,140 per annum or $712 a week* – the national minimum wage approved in June 2010 and introduced in July 2010 was $569.90 a week or $29,715 per annum and this was increased by 25 per cent (and rounded) to $37,140 to allow for a broader definition of low-paid. On this definition, the HES sub-sample includes 756 low-paid households where the HRP was aged 25-44 years.
- For unemployed households, the smaller numbers prevented the application of a similar approach. In this case, therefore, attention was focused on those *households with HRP aged 25-44 who also fell in the lowest quintile (one-fifth) of households with the lowest total equivalised goods and services expenditure (EGSE)* using the modified OECD equivalence scale described in Chapter 5. On this definition, the HES sub-sample includes 584 'unemployed' households.

Table C.1 provides information on sizes of the total and disaggregated HES samples and the sub-samples that result from the above definitions. Note that the households have been identified so that each contains only one family (i.e. multiple-family households are not included in the comparisons), which means that the terms 'household' and 'family' can be used interchangeably. Those actually selected for comparison are shown in bold. It is clear that even after applying the expanded definitions described above, the sample sizes are very small in several instances and the limitations this implies need to be borne in mind when reviewing the comparisons that follow.

Table C.1 Sample Size by Household Characteristics, 2009-10

Sample specification	Full sample	Household type				
		Single person	Couples only	Couples, 1 child	Couples, 2 children	Sole parents, 1 child
All households	9,773	2,984	2,926	526	768	288
Households with HRP aged 25-44	2,916	491	472	291	548	157
HRP aged 25-44 and low-paid	**756**	**46**	**115**	**90**	**184**	**45**
HRP aged 25-44 and unemployed	107	33	4	3	5	17
HRP aged 25-44 and lowest quintile of EGSE	**584**	**119**	**18**	**34**	**65**	**67**

Notes: HRP = household reference person; EGSE = equivalised goods and services expenditure. The numbers of other (mixed) households are not included.
Source: Household Expenditure Survey, 2009-10; CURF

The comparison results are presented below for each household type, differentiating within each according to labour force status: low-paid and in-work, or unemployed and out of work. Housing costs have again been excluded because of the different treatments in the two data sources. Each table provides for each of the two labour force status variables, the total budget (in dollars per week) and its breakdown into expenditures in each of the main budget standards areas. The estimates have been derived by applying the relevant CPI sub-component movements between the December Quarter 2009 (the mid-point of the HES period) and the June Quarter 2016 and then aggregating the sub-components to obtain the updated 'Total' figure shown in the final row of each table, from which the budget shares have been calculated.

Table C.2 Updated HES Expenditures, Single Female and Sole Parent with One Child

Budget Category	Single female				Sole parent with one child			
	Low-paid (n= 46)		Unemployed (n=119)		Low-paid (n=45)		Unemployed (n=67)	
	$	%	$	%	$	%	$	%
Food	81.32	29.7	65.20	44.4	116.63	32.2	83.88	37.5
Clothing and Footwear	9.88	3.6	3.03	2.1	16.92	4.7	12.52	5.6
Household Goods and Services (includes Energy)	72.75	26.6	38.32	26.1	89.08	24.6	60.62	27.1
Transport	60.67	22.1	20.57	14.0	53.91	14.9	24.29	10.9
Health	8.14	3.0	5.96	4.1	19.83	5.5	12.03	5.4
Personal Care	9.99	3.6	4.16	2.8	10.82	3.0	6.35	2.8
Recreation	30.34	11.1	7.48	5.1	37.30	10.3	19.06	8.5
Education	0.92	0.3	1.95	1.3	17.29	4.8	5.04	2.3
Total	**274.01**	**100.0**	**146.67**	**100.0**	**361.78**	**100.0**	**223.79**	**100.0**

Source: See text for derivation of updated expenditure estimates.

Table C.3 Updated HES Expenditures, Couples with 0, 1 and 2 Children

Budget Category	Couple with no children				Couple with 1 child				Couple with 2 children			
	Low-paid (n = 115)		Unemployed (n = 18)		Low-paid (n=90)		Unemployed (n=34)		Low-paid (n=184)		Unemployed (n=65)	
	$	%	$	%	$	%	$	%	$	%	$	%
Food	196.72	32.6	88.81	39.8	223.3	31.9	127.00	41.8	260.78	33.7	165.30	43.3
Clothing and Footwear	35.80	5.9	8.61	3.9	36.4	5.2	3.91	1.3	49.88	6.5	11.15	2.9
Household Goods and Services (includes Energy)	138.09	22.9	41.61	18.6	160.0	22.8	64.63	21.3	165.63	21.4	72.85	19.1
Transport	93.72	15.5	42.48	19.0	112.0	16.0	54.20	17.8	105.25	13.6	51.72	13.5
Health	28.08	4.7	14.44	6.5	29.2	4.2	17.19	5.7	28.08	3.6	16.50	4.3
Personal Care	21.74	3.6	9.36	4.2	22.6	3.2	8.74	2.9	28.50	3.7	13.84	3.6
Recreation	83.42	13.8	17.63	7.9	52.6	7.5	17.73	5.8	63.95	8.3	28.90	7.6
Education	5.73	0.9	0.46	0.2	64.7	9.2	10.54	3.5	71.12	9.2	21.64	5.7
Total	603.30	100.0	223.40	100.0	700.8	100.0	303.94	100.0	773.19	100.0	381.90	100.0

Beginning with the total (non-housing) budgets, those for the unemployed families are (as is to be expected) all well below those for otherwise similar low-paid families. The lowest average budget ($146.67) is for the single unemployed female, while the highest ($773.19) is for the low-paid couple family with 2 children. The unemployed to low-paid total (non-housing) spending relativity for a given family type varies between 37 per cent for the couple with no children and 62 per cent for the sole parent with one child. The corresponding relativity for the three other family types varies in a narrower range, from between 43 per cent and 54 per cent.

Within the budgets, the three largest items are always food (which absorbs between 30 per cent and 45 per cent of total spending), household goods and services (which accounts for between 19 per cent and 27 per cent of total spending) and transport (which accounts for between 11 per cent and 22 per cent of total spending). Together, these three items account for between 71 per cent (low-paid couple with 2 children) and 85 per cent (unemployed single female) of the total (non-housing) family budget. These high percentages reveal how little scope there is in many instances for families to meet their other needs, with the remaining budget areas accounting collectively for between 15 per cent and 29 per cent of total spending. However, it is important to bear in mind that these figures exclude expenditure on housing, and further that expenditure on durable items is included in the HES only for those households that purchased the relevant item in the survey period (or reported having done so over the recent past).

The updated actual budget shares shown in Tables C.2 and C.3 are broadly similar to the expenditure shares implied in the new budget standards shown in Tables 5.1 to 5.7

in Chapter 5. In both cases, the same three areas (food, household goods and services and transport) account for the largest proportions of the total spending of all family types, accounting for between around 70 per cent and 85 per cent of the total family budget.

Although there are some notable differences in the budget shares of spending in particular areas and by particular families, the general pattern of differences is similar across all of the budget areas and family types. Although it is possible to speculate about the factors that contribute to these differences, this is not advisable because of the many different forces (real and assumed) that can exert an influence on the comparisons. The key point to note is that the budget shares are similar and this provides reassurance that the budget standards are broadly in line with actual spending patterns despite all of the assumptions, judgements and choices that have been made in their development.