

From: [Trevor Clarke](#)
To: [AWR](#)
Subject: Research program - Budget Standards
Date: Friday, 26 July 2019 4:47:02 PM

Good afternoon,

We refer to the above. In its decision this year, the Panel said “we see merit in future research addressing how the budget standards can be appropriately updated to take account of price changes over time to accurately match the various budget standards with the relevant household income.” It said that in “doing so, parties are encouraged to consider methods that can advance this area of research for future Reviews.”^[1]

The above followed an earlier observation of the Panel that “A budget standard estimates how much money a particular family type need to achieve a particular standard of living in a particular place at a particular time. The 2017 Budget Standards Report provides budget estimates for 5 different family types based on the Minimum Income for Healthy Living (MIHL) Standard, which is designed to ensure that each individual is able to achieve levels of consumption (of food, clothing, medications, transportation, personal care, and so on) and participation (in lifestyle, exercise and social activities) that are consistent with healthy living. The new budget standard estimates are, as the authors of the report acknowledge, ‘extremely tight.’”^[2]

The literature in this area highlights how complex an endeavour the construction of a reliable budget standard is. In the ACTU’s view, an update could be advanced by refining the budget standards through taking account of the following:

- The weightings of each category of expenditure as closely as possible according to the data available in the consumption of the types of household of low income in Australia and how to adjust accordingly, based on ABS micro data, CPI, LCI and HILDA data, and any other relevant data source for Australia.
- Distributional data on consumption quantities and prices where possible, in order to discover and adjust the different weights for low income households (e.g. in the bottom two quintiles), for different types of employee households of low income, and for those low income household types which include low wage employees.
- Spending distributions including for out of pocket health and education expenditures for low income employee households with children, and those for households with adults undertaking education. Investigate the effect on household expenditure on health of likely poorer health levels in low income households.
- Fixed or lump sum cost type consumption costs such as energy and other utilities and charges which are disproportionately greater for low income households.
- The economies of scale in rents and mortgage payments which mean that smaller households including single person are disproportionately affected by housing costs.

- The impact of travel distance and expense for work for low wage employees.
- The costs of childcare and income sensitive subsidies for low income employee households and their weighting in the expenditure bundle as a vital element for low income employee and student households.
- The cost of repairs and maintenance which is likely to be higher for second hand and cheap consumer durables including cars.
- The frequency of emergencies and contingencies may be higher for low income, involving more expenditures.
- Make use of any data on the frequency and cost of caring in order to adjust household expenditures for employees and employee households who are also carers of other than children, such as extra transport and food costs.
- A key issue is the different geographical distribution of prices – rural may have less option about shopping around and be trapped with higher prices than urban. Rural transport costs are higher while urban housing costs are higher etc.

The Commission would be aware from our earlier submissions that we have reservations about the methodology adopted to define the MIHL budget standards and the standards themselves. For the avoidance of doubt, we do not regard the standards as equating to any reasonable standard of adequacy in contemporary Australia. We therefore respectfully suggest that the research program shouldn't proceed on the basis that the MIHL budget standards are the default measure but as previously indicated are to be evaluated alongside other approaches to relative living standards and the needs of the low paid.

We respectfully offer that following should also be examined:

- An updated literature search in order to evaluate and compare budget standards alongside other poverty and material deprivation measures
- An updated survey of absolute poverty, material deprivation and MIHL (minimum incomes for healthy living) type methodologies across countries and international agencies in order to elicit the issues in applying the budget standards methodology for Australia
- Measure of value of (healthy) food bundle for low income HHs of different structures in Australia, and also compare with other countries – based on idea that distribution of food prices much narrower compared with other countries where very cheap priced food items available to low income people compared with Australia, where the range of food costs limited
- A series of case studies of household types in which the key income is minimum wage say c14 and also c10 and how those households manage their spending; compare with the average or median and the top of lower deciles or quintiles of income for those household types.

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Regards,

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Please note that I do not work on Tuesdays.

[\[1\]](#) [2019] FWCFB 3500 [464]

[\[2\]](#) [2019] FWCFB 3500 [55]