

## Information note—Budget Standards report

This note provides further information regarding the Budget standards report [\*A New Minimum Income for Healthy Living Budget Standard for Low-Paid and Unemployed Australians\*](#) by Peter Saunders and Megan Bedford in August 2017.

Any interested party is invited to comment on this note during the consultations on 14 and 15 May 2019.

### Table of contents

How the budget standards are calculated.....	2
Limitations of budget standards research .....	4
Updates to movements in alternative income series.....	5

## How the budget standards are calculated

- The budget standards research uses a range of data to provide an estimate of the income required for a specific household, in a given time and place, to achieve a particular standard of living.<sup>1</sup>
- Budget standards are estimated using 3 types of data: normative expert data on what is needed to attain specific standards; behavioural (survey) data on household expenditure; and experiential data (focus group) on how families budget and meet their needs.<sup>2</sup>
- The budgets were priced in the second half of 2013 (1 July to 31 December) and were updated to the June quarter 2016 using the Consumer Price Index (CPI)<sup>3</sup> 'to maintain their relevance'.<sup>4</sup> The updating appears to have been undertaken in line with movements in the CPI at the main budget area level.<sup>5</sup> Table 1 adopts the same approach to adjust the various components in the budget of a low-paid single adult by movements in the corresponding component of the CPI to the most recent period (March quarter 2019). Table B.1 of the report identifies the relevant CPI component.<sup>6</sup>
- Updating the budgets by the CPI maintains the real value of the budget standards. These are shown in the highlighted columns of Table 1.
- The authors suggest that the use of the CPI to adjust the budgets over the short term is 'standard practice in the budget standards literature' and 'will not induce major errors into the estimates'.<sup>7</sup> The short term is a period 'covering up to about 7 years' and, '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'.<sup>8</sup>
- Between the June quarter 2016 and the March quarter 2019, the budget standard for a low-paid single adult increased by \$7.74 (or 2.7 per cent), from \$281.51 to \$289.25.
  - The food category was budgeted at \$60.19 in 2013. This was revised up by 2.7 per cent to June 2016 based on the food component of the CPI. It was then revised up by 5.0 per cent to \$64.90 in March 2019.
- The largest components of the budgets were transport, household goods and services, and food. Between June 2016 and March 2019, the budget for transport experienced the largest increase (\$4.43 per week) followed by food (\$3.10), while the budget for household goods and services experienced the largest decline (-\$1.21 per week).
- The treatment of housing costs raises 'legitimate concerns about the robustness and applicability of the estimates'<sup>9</sup> and were therefore not included in the initial budgets. However

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<sup>1</sup> Saunders P & Bedford M (2017), *New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians*, SPRC Report 11/17, Social Policy Research Centre, UNSW Sydney, p. 1.

<sup>2</sup> Ibid at p. 2.

<sup>3</sup> Ibid at p. 38.

<sup>4</sup> Ibid at p. 2.

<sup>5</sup> Ibid at p. 73.

<sup>6</sup> Ibid at p. 127.

<sup>7</sup> Ibid at pp. 38–39.

<sup>8</sup> Ibid at p. 39.

<sup>9</sup> Ibid at p. 31.

because 'people are used to thinking in terms of total incomes and total budgets, inclusive of all costs – housing as well as non-housing',<sup>10</sup> the report also provided estimates of budget standards inclusive of housing costs, termed 'grossed-up' budget standards.

- Housing costs comprise a major component of budget standards. As such, Table 1 presents an estimate of housing costs to obtain the 'grossed-up' budget standards, as derived from Table 5.14 of the report.
  - Rental data for June 2016 was originally sourced from the Real Estate Institute of Australia for March 2016. Data for March 2019 in Table 1 inflates the March figure based on the 'rents' CPI sub-group.
- In the March quarter 2019, the grossed-up budget standard for a single adult is 2.3 per cent higher than in June 2016 (\$611.07).
  - The equivalised household disposable income for a single adult in September 2018 (the latest period in the Statistical report) is \$646.15.<sup>11</sup>

**Table 1: Updated budget standards estimates, low-paid single person (per week)**

Budget category	Budget priced at latter half of 2013		Budget updated using CPI June 2016			Budget updated using CPI March 2019		
	\$	Index <sup>^</sup>	\$	Index <sup>^</sup>	% change from 2013	\$	Index	% change from 2016
Food	60.19	101.1	61.80	103.8	2.7	64.90	109.0	5.0
Clothing and footwear	11.05	100.2	10.81	98.0	-2.2	10.25	92.9	-5.2
Household goods and services	77.11	101.9	79.23	104.7	2.7	78.02	103.1	-1.5
Transport	81.59	103.1	77.71	98.2	-4.8	82.14	103.8	5.7
Health	6.40	109.5	7.33	125.5	14.6	7.96	136.3	8.6
Personal care	14.99	104.4	15.59	108.6	4.0	16.38	114.1	5.1
Recreation	28.49	101.1	29.04	103.1	2.0	29.60	105.1	1.9
Education	0.00	108.8	0.00	124.6	14.5	0.00	135.9	0.0
<b>Budget standards</b>	<b>279.82</b>	<b>-</b>	<b>281.51</b>	<b>-</b>	<b>0.6</b>	<b>289.25</b>	<b>-</b>	<b>2.7</b>
Weekly rental costs*	nd	-	315.80	110.2	-	321.82	112.3	1.9
<b>Grossed-up budget standards</b>	<b>nd</b>	<b>-</b>	<b>597.31</b>	<b>-</b>	<b>-</b>	<b>611.07</b>	<b>-</b>	<b>2.3</b>

Note: Highlighted columns are updated data to March 2019 based on indexes from June 2016. <sup>^</sup>Based on CPI indexes at Table B.2 of report. \*March quarter 2016 rent figures were used in the report (see page 87); the indexed March 2019 figure reflects this. nd = not derived.

Source: Saunders P & Bedford M (2017), *New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians*, SPRC Report 11/17, Social Policy Research Centre, UNSW Sydney, Table 5.7; ABS, *Consumer Price Index, Australia, Mar 2019*, Catalogue No. 6401.0.

<sup>10</sup> Ibid at p. 83.

<sup>11</sup> Statistical report, Tables 8.4 and 8.6.

## Limitations of budget standards research

- The aim of the budget standards report was to produce budgets that reflect the amount required to satisfy ‘basic’ needs. There was no allowance for modest or occasional ‘luxuries’ and wastage was kept to a minimum.
- ACOSS submitted that the new budget standards are more stringent than the previous ones<sup>12</sup> and that the authors of the budget standards research noted that the new budget standards ‘...are extremely tight and leave no room for even the most modest of special treats.’<sup>13</sup>
- ACOSS outlined that the budget standards research do not account for:
  - savings;
  - one-off costs such as rental bonds; and
  - repairs of household items.
- In addition, the budget standards assume that households:
  - buy generic brands of food and clothing (including a 5% discount for ‘shopping around’ for food purchases);
  - are of good health;
  - have low child care budgets (as a result of the children in hypothetical families being of school age); and
  - have very small recreation budgets (assumes zero tobacco and minimal alcohol).<sup>14</sup>
- ACOSS also submitted that:

‘[T]he new budgets would support only a very frugal living standard, arguably below that which the NMW should support, and significantly below that of the previous ‘Modest but Adequate’ budget standard. For example, many households with preschool age-children or family members in poor health would not be able to live within these budgets.’<sup>15</sup>

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<sup>12</sup> ACOSS submission, 15 March 2019 at p. 23.

<sup>13</sup> Saunders & Bedford at p. 41.

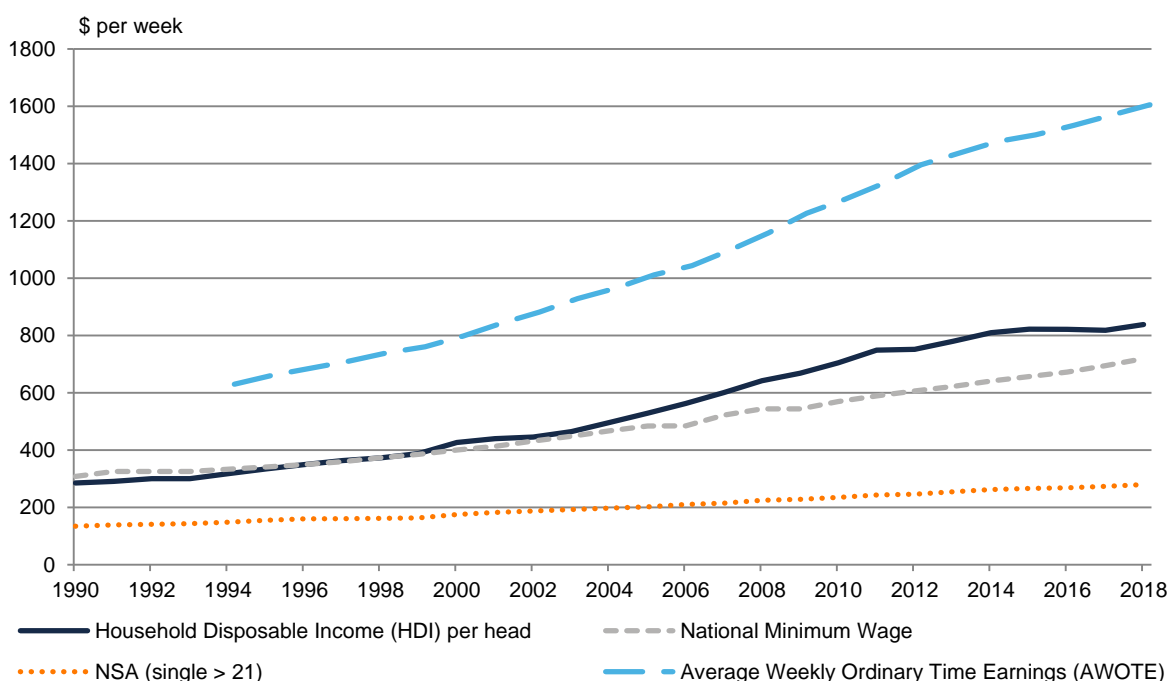
<sup>14</sup> ACOSS submission, 15 March 2019 at pp. 23–24.

<sup>15</sup> Ibid at p. 24

## Updates to movements in alternative income series

- Chart 1 below presents Figure 1.1 in the budget standards report updated to 2018.
- The budget standards report states that the difference between NSA and the minimum wage has increased from just under \$200 in 1990 to just over \$400 in 2016. In addition, that a gap has opened up between the incomes received by average Australians and those at the bottom.<sup>16</sup>
- The chart also shows that household disposable income per head increased more strongly than the minimum wage from around 2004, although the minimum wage has increased by more since 2015.
- Although the budget standards report states that the chart presents Average Weekly Earnings (AWE), the data actually refer to Average weekly ordinary time earnings (AWOTE). These data are presented in Chart 1.

**Chart 1: Movements in Alternative Income Series, per week (current prices)**



Note: Both NSA and the national minimum wage are measured at September in each year. AWOTE refers to November in each year (and only available after 1994) and is in trend terms, 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.

Source: Budget Standards report (Figure 1.1); Melbourne Institute of Applied Economic and Social Research (2018), *Poverty Lines: Australia*, September quarter 2018; *Manufacturing and Associated Industries and Occupations Award 2010*; ABS, *Average Weekly Earnings, Australia, Nov 2018*, Catalogue No. 6302.0; Australian Government Social Security Guide, [5.2.1.20 Single Unemployment & Sickness Benefit - November 1984 to Present Date](#), viewed 6 May 2019.

<sup>16</sup> Saunders & Bedford at p. 8.