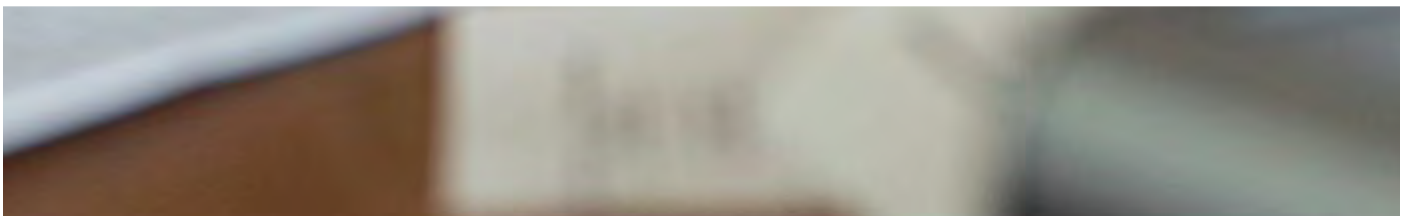


LIVING COSTS INDEX

Minimum Wage Households



LIVING COSTS INDEX

Minimum Wage Households

JUNE 2023



Anglicare Australia is a network of independent local, state, national and international organisations that are linked to the Anglican Church and are joined by values of service, innovation, leadership and the Christian faith that every individual has intrinsic value. Our services are delivered in partnership with people, the communities in which they live, and other like-minded organisations in those areas.

The lead author of this report is Maiy Azize. This and previous reports are available on the Anglicare Australia website: www.anglicare.asn.au

Copyright 2023 Anglicare Australia. Preferred citation:

Azize, M. (2023) Living Costs Index: Minimum Wage Households. Anglicare Australia: Canberra.

Anglicare Australia Ltd

1st Floor

11 Edgar St

Ainslie ACT 2602

PO Box 4093

Ainslie ACT 2602

Tel 02 6230 1775

Email anglicare@anglicare.asn.au

Web www.anglicare.asn.au

ABN 95 834 198 262

ACN 656 248 743

Contents

Introduction	6
---------------------	---

Living Costs Index	7
---------------------------	---

Methodology	7
-------------	---

Findings	8
----------	---

Survey findings	10
------------------------	----

Growing demand for support	10
----------------------------	----

Rising energy costs	11
---------------------	----

Rental stress at record highs	12
-------------------------------	----

Tax cuts will not benefit low-income earners	15
--	----

Conclusion	17
-------------------	----

References	18
------------	----

Introduction

Australia is in the midst of one of the toughest cost-of-living crises in memory. As an organisation that works with Australians in need of help, our member agencies see the impacts of this crisis on a daily basis. From soaring energy bills to skyrocketing rents, more and more Australians are struggling with rising costs.

These cost increases have followed a difficult and tumultuous few years. Many were hoping the economic pain of the pandemic to fade as the economy recovered. Instead, it has worsened for many Australian households.

Inflation, extreme weather events that have affected food supply and distribution, the destabilisation of the world energy market, and the COVID-19 pandemic have all impacted the availability and cost of basic goods. The price of fresh food items has increased dramatically in the last year, and the cost of petrol reached record highs last year. To make matters worse, the rental market has never been less affordable as Australians spend more and more of their incomes on housing.

All of this has meant that a growing number of people, including those working full-time, are struggling to afford essentials such as transport, utilities, and rent. This analysis looks at the impact of these core costs on Australians earning the full-time minimum wage. The picture it paints is bleak, raising questions about how many more increases people can afford to absorb.

Fundamentally, this Index highlights that many people in full-time work are unable to afford basic essentials, in spite of the fact that full-time work has long been touted as the solution to poverty. Anglicare Australia is calling on the Government to take steps to help these Australians weather the current crisis without entrenching greater inequality.

Living Costs Index

The Anglicare Australia Living Costs Index is a new analysis designed to examine how living costs are impacting households on low incomes. This methodology was first used by Anglicare Australia in 2022, and will now be a biannual release from 2023. This analysis focuses on the minimum wage, while the next release will look at income support payments.

Methodology

This analysis was prepared by comparing data on key living costs against average wages for minimum wage workers. The expenses we analyse in this Index – rent, transport, food, childcare and education – are those which working people largely cannot avoid paying on weekly basis. Other costs, such as utilities, telecommunications, insurance, and household goods tend to be covered on a monthly or quarterly basis. In some cases these can be the subject of payment plans or even delayed if needed. However, it is important to note that any income remaining after our analysis would still need to cover these costs along with any emergency expenses.

The Index draws on data from the most recent Australian Bureau of Statistics Household Expenditure Survey,¹ adjusted for inflation. Average weekly rents are sourced from the most recent SQM Research Weekly Rent Report for 12 June 2023.²

Expenses are then compared to income for a person earning the national minimum wage, and who works a full 38-hour week. From 1 July 2023, the national minimum wage will be \$882.80 per week for a 38-hour week, or \$23.23 per hour.³ That drops to \$762 in after tax income to cover expenses. Single parents may also be eligible for Family Tax Benefit⁴ and Commonwealth Rent Assistance,⁵ adding another \$151 to their weekly income. This scenario is also modelled below.

Findings

Based on average earnings and expenses, we found that a minimum wage worker in a single household would have \$57 of income each week after basic living expenses. This has improved from last year's result of \$29, but remains precariously low.

A minimum wage worker in a single-parent household would not be able to cover even basic expenses without working extra hours, working late nights or weekends, and relying on additional government benefits. However, even with Family Tax Benefit and the highest rate of Commonwealth Rent Assistance, these households would still fall behind.

Two minimum wage workers in a two-parent household would just \$73 remaining after expenses. Again, this result is a minor improvement on the 2022 result which showed these households falling behind by \$24 per week.

Breakdowns of weekly living costs are provided at Tables 1, 2 and 3 for each household type. It is important to note that these assumptions only cover basic weekly living costs. Remaining income after expenses would need to cover monthly and quarterly bills such as telecommunications and utilities, as well as incidental household expenses.

Table 1. Living costs, minimum wage worker under 35 in a single household

Expense	Total cost per week
Rent (one-bedroom unit)	\$449
Transport	\$113
Food and drink	\$143
Total	\$705
Income remaining for other expenses	\$57

Table 2. Living costs, minimum wage worker in a single-parent household with one child

Expense	Total cost per week	Total cost per week inc FTB and CRA
Rent (two-bedroom unit)	\$499	\$499
Transport	\$158	\$158
Food and drink	\$235	\$235
Education and childcare	\$50	\$50
Total	\$942	\$942
Income remaining for other expenses	-\$180	-\$29

Table 3. Living costs, two minimum wage workers with two children

Expense	Total cost per week	Individual contribution
Rent (house)	\$610	\$305
Transport	\$337	\$169
Food and drink	\$383	\$192
Education and childcare	\$121	\$61
Total	\$1,451	\$725
Income remaining for other expenses		\$73

Major trends and recommended actions

Growing demand for support

Our findings suggest that minimum wage workers in single households are likely to be in serious financial stress with little or no savings buffer, while those in coupled households are likely to be similarly stressed, or financially dependent on a partner's income.

This increased financial strain on low-income households has flowed through to emergency relief providers, including Anglicare Australia member agencies, who are themselves under strain, unable to provide enough help to enough people. In late 2022, all Anglicare Australia emergency relief providers reported an increase in demand for services, ranging from 10 percent to 50 percent compared to the beginning of the year. Many reported that they were seeing new clients who had never used their service before, and that many of these new clients were from households with paid employment.⁶ As rents continue to rise, more people are seeking emergency relief to pay rent and keep a roof over their heads. Emergency Relief is not designed for large, ongoing costs like rent.

There will always be a need for one-off emergency relief. People experience crises, or are unable to balance their income and outgoings for a variety of reasons. However much of the current need is driven by structural factors, rather than people's own choices or inability to manage their own affairs. In the longer-term, policies that reduce poverty, like increasing income support, will also reduce the need for emergency relief. There is an urgent need to take pressure off people who are in financial crisis, as well as emergency relief providers themselves.

Recommendation

Anglicare Australia recommends:

- » an urgent increase in funding to emergency relief providers to enable to them to meet growing demand for help, especially in the area of rents.

Rising energy costs

From COVID-19 lockdowns which saw consumption increase, to cost of living and the war in Ukraine pushing up global energy prices, 'bill shock' is an increasingly common experience across Australian households. By the end of 2021, nearly a quarter of a million Australian households were experiencing energy debt and the average debt each household was facing was \$1,000.⁷ In 2021-22 customers with an energy debt of upwards of \$2,500 older than 24 months grew by 39 percent.⁸

While retailers are generally required to offer payment plans for those facing hardship, many low-income households struggle to make any significant dent in their debt. The Government could provide support to households with emergency payments of up to \$1,000 to help pay down energy debts.

People living in rental housing face further barriers to tackling energy costs as they are unable to make upgrades necessary to improve the energy efficiency of their homes, while landlords have little incentive to make repairs or improvements. 9.5 million homes were built before energy efficiency standards came into place, and there are no national minimum requirements for energy standards on rental properties.⁹ As a result, renters are more likely to find it more expensive to heat and cool their homes, making energy costs more expensive,

However, paying down current energy debts will do little to prevent households from accruing future debt as pressure on prices continues. Community energy programs that provide advice about energy usage, can assist in negotiating appropriate rates and providing information about hardship measures. By providing funding assistance to these services, the Government can ensure that these services are able provide support to clients when they are finding themselves in financial difficulty.

Recommendations

Anglicare Australia recommends:

- » providing emergency payments of up to \$1,000 for low-income households participating in hardship programs with high energy debts
- » funding community energy programs that support and advice to low-income households on energy and financial hardship.

Rental stress at record highs

Our findings show that rents are severely unaffordable for minimum wage workers, comprising the single biggest living cost for each of the three households we modelled. In considering these results, it is important to remember that rents continue to rise at prodigious rates. Over the past three years typical unit rents across the country have gone from \$372 per week in March 2020, before the onset of the COVID-19 pandemic, to \$496 at the time of the release of this Index, an increase of over 30 percent.¹⁰

For ten years, Anglicare Australia's Rental Affordability Snapshot has shown that renting a home in the private rental market in Australia is completely unaffordable for people on government incomes,¹¹ and that it continues to get worse. The average weekly rent has risen by nearly 20 percent in the past year.¹² The current vacancy rate in the rental market sits under two percent nationally, leaving low-income renters to compete with hundreds of other potential tenants for very few properties.

Based on the internationally accepted benchmark that rent needs to be no more than 30 percent of a household budget to be affordable for people on low incomes, each of the households we modelled is likely to be under stress, most severely in the case of single-parent households. These results reinforce concerns that minimum wage workers are being priced out of housing. Our Rental Affordability Snapshot found

that less than one percent of advertised rentals are affordable for a person on the full-time minimum wage. That is a record-low result, and the first time in the history of the Snapshot that a person on the minimum wage could afford less than one percent of listings.¹³

The Reserve Bank Governor Philip Lowe recently stated that a key factor driving higher rents is the lack of supply.¹⁴ This is a common response to the housing crisis, with supply becoming the most prominent answer to housing affordability. It is the favoured solution of the development industry, property commentators, and drives the logic behind the Federal Government's recently announced National Housing Accord. Yet the reality is that Australia has an oversupply of dwellings compared to its needs and demographics.¹⁵ Between 165,000 and 240,000 new dwellings are already built across the country each year.¹⁶ Increasing supply in the private market has simply failed to make housing more affordable. The undersupply is not in housing, but in social and affordable housing.

Governments have been eroding spending on social housing for decades, assuming that the private rental market would provide enough affordable homes for those who need it. That has been shown to be false. Analysis by the Australian Housing and Urban Research Institute shows that governments' move away from directly supplying housing towards a reliance on 'demand-side assistance,' such as rent assistance, has led to a housing market that has never been less affordable. The shortage of affordable rentals for low-income households grew between 1996 and 2011, contradicting the theory that housing supply in the private market would trickle-down and create lower cost rental accommodation over time.¹⁷

A major effort will be required to change course and end this shortfall. A recent analysis has estimated the additional social and affordable housing required to meet the present need and the projected population growth to 2026. The analysis focused on people who

are waiting for social housing as well as those on low and moderate incomes paying more than 30 percent of their income in rent in the private market. The data shows Australia will need an additional 500,000 social and affordable homes to meet these needs.¹⁸

Building these social and affordable homes costs money. Just to maintain the current share of social housing as a proportion of Australia's housing stock will require construction of 15,000 new social housing properties a year.¹⁹ Our current rate of new social housing construction is about 3,000 dwellings a year.²⁰ Ending this shortfall will be critical to ensuring that renters on the lowest incomes have choices and a safety net. It will also free up rentals at the lower end of the market, and give the Government more leverage to drive affordability.

Finally, more must be done to protect renters at the mercy of the private market. The growing reliance on the private market has not been accompanied with laws that protect renters security or promote affordability. Renters face the risk of eviction, or unaffordable rent increases. There have been significant reforms in Victoria and the ACT, banning no cause evictions, limiting the amount and regularity of rental increases, and requiring rental properties to meet minimum standards. Queensland and NSW are undertaking reviews of their residential tenancy legislation. Nationally consistent protections and uniform tenancy legislation is required now across Australia, to protect the rights of all renters, by ending no cause evictions and restricting unjustified or punitive rent increases.

Recommendations

Anglicare Australia recommends:

- » investing in a long-term program to grow the supply of social and affordable housing by 25,000 dwellings each year
- » working with states and territories to strengthen rental laws and protect people from unfair evictions and rent increases
- » incrementally reducing the capital gains tax discount over the next ten years. This incremental approach would guard against concerns about the impact of the reform on housing markets
- » using negative gearing to target investment in social and affordable housing. The current negative gearing arrangements, which are not delivering, should be phased out for new investors in the private market.

Tax cuts will not benefit low-income earners

As the cost-of-living crisis makes the divide between the richest and poorest Australians even more stark, the Government is persisting with a policy of flattening the rates of tax and giving the highest income earners a tax break. The Stage Three Tax Cuts will create a flat tax rate of 30 cents in the dollar for those earning between \$40,000 and \$200,000. This will erode much of Australia's progressive taxation system. The changes will dramatically flatten the tax scales by abolishing the 37 percent tax rate, creating a single 30 percent tax rate for individuals earning between \$45,001 and \$200,000.²¹

High income earners will be the main winners from these changes, with gains of \$1,125 each year for an individual on \$90,000. This rises to \$9,075 per annum for a person on an income \$200,000 or more. This includes an increase worth \$1,125 per annum for a person on \$90,000, rising to \$3,875 for person on an income of \$200,000 or more.²² An analysis from Anglicare Australia released earlier this year, *A Costly Choice*, shows that the bottom 20 percent of income earners will get no benefit at all. At the same time, there

will be gains of \$1,125 each year for an individual on \$90,000. This rises to \$9,075 per annum for a person on an income \$200,000 or more. This includes an increase worth \$1,125 per annum for a person on \$90,000, rising to \$3,875 for person on an income of \$200,000 or more. The effect of the tax cuts is that the percentage of benefits of these concessions and tax cuts which flow to the top 20 percent rises from 56 percent to 59 percent.²³

The overwhelming share of these benefits will go to Australia's wealthiest metropolitan areas. Anglicare Australia's recent paper *Left Behind*, shows that the parts of the country in need of the most support amidst rising living costs will benefit the least from the tax changes. Tasmania and South Australia will fare the worst, because people living in those states are least likely to earn high incomes. When comparing local regions, we see that those getting no benefit from the changes are more likely to live in poorer rural areas, or disadvantaged periurban areas.²⁴

Allowing these tax cuts to come into force will also bake in a \$254 billion spending vacuum in the budget for at least a decade, as well as making it politically impossible to undo when in force.²⁵ The Government should act urgently to ensure these tax cuts do not come into effect.

Recommendation

Anglicare Australia recommends:

- » that the Government withdraw the Stage 3 tax cuts.

Conclusion

There are many factors that are contributing to rising living costs, and the international picture makes it clear that Australians are not alone in feeling the pain caused by higher prices. The basics of rent, energy and food are costing everyone more. For Australians on lower incomes, with little room for movement in their budget, this can mean financial crisis.

Some of these pressures, such as the cost of food and fuel, are relatively new. Other pressures, such as unaffordable housing, however, are not, but they have been rising quickly and are being compounded by newer cost-of-living pressures.

Even if inflation has peaked, interest rates will be unlikely to fall, leaving mortgage holders feeling the pain of higher rates. Rents have been rising for decades, and will continue to do so until governments take action to build more social and affordable housing, and fix the taxation concessions that encourage speculative investment.

It has become clear over the past year that many Australians are living too precariously to cope with the shocks brought on by rising living costs. It is critical that Governments understand this as the underlying problem and take action to reduce housing costs and tackle rising rates of poverty. It is also critical that Government actions don't worsen the problem by proceeding with inflationary and unfair tax cuts, and that moves to address inflation don't further hurt Australians on the lowest incomes.

Australians on low incomes did not create this crisis. They should not be asked to bear the brunt. Our goal should be to ensure those on the lowest incomes can weather this storm and that the economy that emerges is more fair and more equal, not less.

References

- 1 Australian Bureau of Statistics (2017) Household Expenditure Survey.
- 2 SQM Research (2023) Weekly Rents: National. Week ending 12 June. Note that Weekly rents for a one-bedroom apartment are not published by SQM but are estimated by discounting the two-bedroom rent by 10 percent. This reflects the typical difference between one- and two-bedroom rental prices.
- 3 Fair Work Ombudsman (2023) Minimum Wages: Annual Wage Review 2023.
- 4 Services Australia (2023) [Family Tax Benefit](#).
- 5 Services Australia (2023) [Rent Assistance](#).
- 6 Anglicare Australia (2022) Nothing left to give: Emergency Relief across the Anglicare Australia Network.
- 7 Australian Energy Regulator (2022) Annual Retail Markets Report 2021-22.
- 8 Ibid.
- 9 Climate Council (2022) Climate Policies for a Sensible Government.
- 10 Op cit: SQM Research.
- 11 Anglicare Australia (2022) Homes for all: A Roadmap to Affordable Housing.
- 12 Op cit: SQM Research.
- 13 Anglicare Australia (2022) 2022 Rental Affordability Snapshot.
- 14 Parliament of Australia (2023) Standing Committee on Economics Transcript of Public Hearing 17 February.
- 15 Centre for Social Research and Methods (2017) Regional housing supply and demand in Australia. Australian National University.
- 16 Australian Bureau of Statistics (2022) Building Activity, Australia.
- 17 Australian Housing and Urban Research Institute (2015) Supply shortages and affordability outcomes in the private rental sector: short and longer term trends.
- 18 SGS Economics (2021) Economic Impacts of Social Housing Construction.
- 19 Ibid.
- 20 Ibid.
- 21 ACOSS (2019) The Government's tax cuts: Who gains? What do they cost?
- 22 Ibid.
- 23 Anglicare Australia (2023) A Costly Choice.
- 24 Anglicare Australia (2023) Left Behind.
- 25 Australian Government (2022) [Treasury portfolio, transcript](#).

