

Australian Catholic Council for Employment Relations

Housing-adjusted Henderson Poverty Lines

Brian Lawrence
Chairman, Australian Catholic Council for Employment Relations

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Introduction

The purpose of this paper is to revise the estimates of housing costs which are contained in quarterly updates of the measures of poverty commonly known as the Henderson Poverty Lines, or HPLs, published by the Melbourne Institute of Applied Economic and Social Research (“Melbourne Institute”). It arises out of advocacy by the Australian Catholic Council for Employment Relations (“ACCER”) on behalf of low paid workers and their families.

The revision is made on material contained in the Melbourne Institute’s *Poverty Lines: Australia*, ISSN 1448-0530, June Quarter, 2007 (“*Poverty Lines, June 2007*”), and on data contained in the housing assistance section of *Year Book Australia, 2008* (“*Year Book*”), published by the Australian Bureau of Statistics. The result is more realistic housing costs, based on actual housing costs for low income households. (The data in the *Year Book* is the most recent published data and relates to June 2007, hence the comparison with the material in *Poverty Lines, June 2007*. ACCER has been advised by the Department of Families, Housing, Community Services and Indigenous Affairs that more recent data is not available.)

The poverty lines are based on a benchmark income established by the Commonwealth’s Committee of Inquiry into Poverty (also known as the Henderson Poverty Inquiry) in the early 1970s, updated according to movements in per capita household disposable income.

The committee included an identifiable housing costs component in its poverty lines for various household types. The Melbourne Institute's quarterly reports provide poverty lines for various kinds of households in two forms: with and without housing costs. This means that housing costs can be considered and reviewed in the light of changing circumstances. It is important to note that the quarterly reports do not claim that the estimates of housing costs are realistic.

The actual costs used in this paper are derived from information provided by the recipients of Commonwealth rental assistance. The *Year Book* contains the average rental assistance given to various household types and the average rentals paid by those households. These averages do not represent average rentals across the whole community. They are necessarily low figures and represent *basic* housing costs.

The HPL households and the *Year Book* households do not coincide, but they provide a basis for comparison. The former provides separate housing costs for households containing one, two, three and four children, whereas the *Year Book* has households with children separated into two groups: one or two children and three or four children.

This further material is important in the setting of wages, pensions and allowances because it provides a more realistic assessment of the housing needs of those who rely on safety net wages and/or government payments. Good policies and decisions need to be based on sound research and credible numbers. Erroneous data will lead to bad policies and poor decision-making.

Wage-setting decisions

This paper arises out of submissions made by ACCER to the Australian Fair Pay Commission ("AFPC"). ACCER has been concerned about the AFPC's use of the HPLs in setting safety net wages. There are three major concerns, only the first of which is covered by this paper:

- (a) the housing costs included in the HPLs are manifestly inadequate causing the HPLs to understate basic living costs;
- (b) the absence of child care costs in the HPLs and the consequent failure of the HPLs to measure the poverty line for working single parents; and
- (c) the HPL equivalence scales underestimate the costs of families compared with the costs of single persons and the equivalence scales used by the Organization for Economic Co-operation and Development (and adopted by the Australian Bureau of Statistics) are preferable.

The AFPC is required by section 23 of the *Workplace Relations Act 1996* to have regard to, amongst others “providing a safety net for the low paid”. That necessarily involves an assessment of needs and living costs and the setting of wages in the context of Australian living standards.

Since its first decision in 2006, the AFPC has made decisions and assessed those decisions by reference to the published HPLs. Other than these HPLs, it has had no evidence of the needs of workers and their families in setting safety net wages. The Australian Council of Social Services and ACCER have made several requests for the AFPC to commission further research, but these requests have been to no avail.

In 2006 the AFPC referred to the disposable incomes of various households and their respective HPLs and declared itself satisfied that the Federal Minimum Wage (“FMW”) “allows people with family responsibilities to rely solely on a single wage to support their families”; *Wage-setting Decision and Reasons for Decision – October 2006*, page 96. In 2007 it said that the combination of the FMW and transfers had resulted in families “having disposable incomes well in excess of their relevant HPLs”; *Wage-setting Decision No 3/2007, Reasons for Decision*, page 69.

While ACCER would welcome this kind of outcome, it has argued that the claims made are not justified, partly because of aspects of the AFPC's reliance on the HPLs. There is broad community support for a FMW that "allows people with family responsibilities to rely solely on a single wage to support their families". A requirement for this judgement is credible evidence about living costs.

In its *Economic and Social Indicators – Monitoring Report* published on 24 February 2009, the AFPC wrote:

“Relativities between the disposable incomes of households with a FMW earner and conventional low-income benchmarks can be monitored by comparing the disposable incomes ...[selected households] to the relevant Henderson Poverty Line...While the HPL has never been an official measure of the lowest income necessary for an adequate standard of living, it is commonly used in Australia as an indicator of low income.”
(Page 34)

The importance of the differences between the HPLs and the *Year Book* data is seen in the AFPC's calculations of the living expenses and of the disposable incomes of workers and their families. In each of its decisions it has published a table covering various kinds of households and their respective HPLs and disposable incomes. The disposable incomes comprise wages and government transfers. The AFPC uses the HPL housing costs to measure need and it *assumes* that low income workers receive the maximum rental assistance available under the relevant sliding scale of assistance.

The implications of the AFPC's reliance on the HPLs and its use of the maximum rental assistance can be illustrated by reference to the relevant households. Table 1 compares the housing costs of various household types using the HPL and *Year Book* figures.

Table 1
Housing costs of Poverty Line households
 \$ per week, June 2007

Households	HPL housing	Year Book rental	Difference
Couple	128.56	171.50	42.94
Couple plus 1	140.19	228.50	88.31
Couple plus 2	151.82	228.50	76.68
Couple plus 3	163.44	239.50	76.06
Couple plus 4	176.01	239.50	63.49
Single person	117.01	125.50	8.49
Single parent plus 1	128.63	190.00	61.37
Single parent plus 2	140.20	190.00	49.80
Single parent plus 3	151.82	211.00	59.18
Single parent plus 4	163.45	211.00	47.55

Notes: (a) HPL housing costs are from *Poverty Lines, June 2007*
 (b) Rental figures are from *Year Book, Australia, 2008*.

Table 1 shows a very significant underestimation by the HPLs of the basic living costs for most households. The underestimation is compounded by a comparison between the AFPC's assumed level of rent assistance and the actual level received by the various kinds of working families. This is illustrated by Table 2.

Table 2
Rental Assistance available and paid to Poverty Line households
 \$ per week, June 2007

Households	Maximum Rental Assistance	Average Rental Assistance	Difference
Couple	49.10	41.00	8.10
Couple plus 1	61.11	46.50	14.61
Couple plus 2	61.11	46.50	14.61
Couple plus 3	69.09	54.00	15.09
Couple plus 4	69.09	54.50	15.09
Single person	52.00	40.00	12.00
Single parent plus 1	61.11	48.00	13.11
Single parent plus 2	61.11	48.00	13.11
Single parent plus 3	69.09	56.00	13.09
Single parent plus 4	69.09	56.00	13.09

Notes: (a) Maximum rental assistance rates are in *Poverty Lines, June 2007*.
 (b) Average rental assistance as set out in *Year Book, Australia, 2008*.

We can combine the overestimation of disposable income and the underestimation of housing costs. The significance of the discrepancy can be illustrated by reference to three households with school-aged children. For the family of four where one of the parents is employed on the FMW and the other parent stays at home to care for two school-aged children, the discrepancy is \$91.29 per week (ie \$76.68 plus \$14.61). For the single parent employed on the FMW with one school-aged child, the discrepancy is \$74.48 per week. For the single parent employed on the FMW with two school-aged children, the discrepancy is \$62.91 per week.

In its inaugural decision in 2006 the AFPC accepted that the safety net for the low paid should be fixed by reference to fairness which, it said, embodies the attributes of: “adequacy (ability to enjoy a reasonable or ‘decent’ standard of living); equity (relativity with higher-paid workers); and incentive (gap between in-work and out-of-work disposable income)”; *Wage-setting Decision and Reasons for Decision – October 2006*, pages 95-96. It said, with apparent approval, that there was general agreement in the submissions put to it that “...minimum wages should, in combination with cash transfers, provide an income ‘well above poverty’”, page 96.

In its 2008 decision the AFPC again calculated the disposable income of various households relative to their HPLs, as at December 2007; *Wage-setting Decision and Reasons for Decision, July 2008*, at Table 4.4. The figures for June 2007 referred to above can be used for this later period without overstating the point. The adjusted figure shows that the margin for the family of the FMW worker where the second parent stays home to care for two school-aged children is not 8% above the poverty line as calculated by the AFPC in its 2008 decision, but 5.1% *below* the adjusted HPL. The single parent with one school-aged child is not 40% above the HPL, but 24.5% above the adjusted HPL. The single parent with two children is not 30% above the HPL, but 19.6% above the adjusted HPL. These two single parents would be \$107.96 and \$114.02 above their

respective weekly housing-adjusted HPLs, but, as indicated earlier, the HPLs do not include child care costs.

A safety net wage should, in combination with transfer payments, leave a person well above poverty. As the revised figures demonstrate it cannot be said that any of the three kinds of working families are well above poverty. One is below poverty, the other two will be very close to, or below, poverty when child care costs are taken into account.

The adequacy of pensions

The foregoing issues have relevance to the current debate about the levels of Commonwealth pensions and allowances and their capacity to provide a reasonable standard of living. It is a debate that includes references to the HPLs. The Melbourne Institute's quarterly reports provide a table comparing the income of various households which receive welfare payments and have no other income with their respective HPLs. In the June Quarter 2007 it showed, for example, that a pensioner couple had an estimated income of \$487.60 per week and a poverty line of \$410.97, a margin of 18.6% above the poverty line. It also showed that a single pensioner, who had an estimated income of \$314.55 per week and a poverty line of \$290.13, was 8.4% above poverty.

The estimated housing costs for this pensioner couple were \$128.64 per week. The estimated disposable income included the maximum amount of rental assistance payable to this couple, \$49.10 per week. By comparison, the *Year Book* shows that the average rent paid was \$171.50 per week (see Table 1) and that the average rental assistance was \$41.00 per week (see Table 2). There may be some differences between the various groups of couples who are eligible for rental assistance which may affect the calculation of the average rents paid by pensioner couples and the average rental assistance received by them. (Departmental data may identify any differences within this group.) However, leaving that aside, the figures show that the HPLs underestimate housing costs by \$42.86

per week and overestimate rental assistance by \$8.10 per week. The combined total of \$50.96 per week would reduce the margin over poverty from 18.6% to 5.7%.

The same kind of exercise can be done in respect of single pensioners, about whose living standards there has been widespread concern in recent times. The difference in housing costs is \$8.49 per week (\$125.50, not \$117.01) and the difference in rental assistance is \$12.00 per week (\$40.00, not \$52.00). The underestimation of \$20.49 per week reduces the margin over the poverty line from 8.4% to 1.4%.

Housing-adjusted Henderson Poverty Lines

In conclusion I set out two tables. Table 3 contains housing-adjusted poverty lines which I will call ACCER Housing-adjusted Henderson Poverty Lines. The costs other than housing are taken from *Poverty Lines, June 2007* and the rental paid is from the *Year Book* (see Table 1, above). Table 4 identifies the differences between the ACCER housing-adjusted poverty lines and the Melbourne Institute's poverty lines at June 2007. These tables will be updated as new information about actual rental costs and rental assistance is made available by the Commonwealth.

Table 3

ACCER Housing-adjusted Henderson Poverty Lines \$ per week, June 2007

Households	Costs other than housing	Rental Paid	Total
Couple	350.08	171.50	521.58
Couple plus 1	435.16	228.50	633.56
Couple plus 2	520.24	228.50	748.74
Couple plus 3	605.33	239.50	844.83
Couple plus 4	689.47	239.50	928.97
Single person	240.80	125.50	366.30
Single parent plus 1	330.72	190.00	520.72
Single parent plus 2	415.80	190.00	605.80
Single parent plus 3	500.89	211.00	711.89
Single parent plus 4	585.97	211.00	796.97

Table 4

**Comparison between ACCER Housing-adjusted Henderson Poverty Lines and the
Melbourne Institute's Henderson Poverty Lines**

\$ per week, June 2007

Households	Housing- adjusted Poverty Lines	Melbourne Institute's Poverty Lines	Difference
Couple	521.58	478.64	42.94
Couple plus 1	633.56	577.35	56.21
Couple plus 2	748.74	672.06	76.68
Couple plus 3	844.83	768.77	76.06
Couple plus 4	922.97	865.48	57.49
Single person	366.30	357.81	8.49
Single parent plus 1	520.72	459.35	61.37
Single parent plus 2	606.80	556.00	50.80
Single parent plus 3	711.89	652.71	59.18
Single parent plus 4	796.97	749.42	47.55

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