ACT Council of Social Service Inc

ACT Cost of Living Report

Tracking changes in the cost of living, particularly for low income households in the Australian Capital Territory

June 2017

About ACTCOSS

ACTCOSS acknowledges Canberra has been built on the land of the Ngunnawal people. We pay respects to their Elders and recognise the strength and resilience of Aboriginal and Torres Strait Islander peoples. We celebrate Aboriginal and Torres Strait Islander cultures and ongoing contributions to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) is the peak representative body for not-for-profit community organisations, people living with disadvantage and low-income citizens of the Territory.

ACTCOSS is a member of the nationwide COSS network, made up of each of the state and territory Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS' vision is to live in a fair and equitable community that respects and values diversity, human rights and sustainability and promotes justice, equity, reconciliation and social inclusion.

The membership of the Council includes the majority of community based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS receives funding from the ACT Government.

ACTCOSS advises that this document may be publicly distributed, including by placing a copy on our website.

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ACTCOSS acknowledges the work of SACOSS and NTCOSS whose Cost of Living Reports have informed the development of this ACTCOSS Cost of Living Report.

Table of contents

Introduction 4

Poverty and disadvantage in the ACT: the broader context 5

Cost of Living Changes in the ACT 6

Tracking changes in the price of key goods and services: CPI figures 6

Price movement in goods & services: impact on low income households 6

An examination of the Selected Living Cost Index 9

Income and cost of living changes: a persistent and widening gap 10

Appendix: Explanatory Notes 15

1. Consumer Price Index and Selected Living Cost Indexes 15

2. Limitations of the Selected Living Cost Indexes 16

3. Pension and Newstart (and Family Tax Benefit) Calculations for Figures 3 and 4 17

Introduction

This report tracks changes in the cost of living, particularly for vulnerable and disadvantaged households in the Australian Capital Territory (ACT). It builds on previous ACT Council of Social Service (ACTCOSS) work on costs of living in the ACT, including:

- ACT Cost of Living Report (October 2012)
- ACT Cost of Living Report: Tracking changes in the cost of living, particularly for vulnerable and disadvantaged households in the Australian Capital Territory (April 2015)
- Analysis of Changes in the Cost of Housing in the ACT (April 2015)
- ACT Cost of Living Report: Transport (April 2016).

This report adopts the methodology used by Councils of Social Service in other jurisdictions, which have tracked the costs of living in South Australia and the Northern Territory.

The report draws on figures from the Australian Bureau of Statistics (ABS) Selected Living Cost Indexes (SLCI)[1] and Consumer Price Index (CPI)[2] to show changes in the cost of living in the last quarter, the last 12 months, and over the longer term. CPI figures only relate to capital cities and Australia as a whole, not states or territories. Given that the population of Canberra is essentially the population of the ACT, figures for Canberra are seen to reflect the ACT as a whole.

This report focuses on low income and disadvantaged households in the ACT because these households have the least capacity to cope with rises in the cost of essential goods and services. It focuses primarily on age pensioner households and other government transfer recipient households as these are likely to represent the more disadvantaged households. The report also includes some figures on employee households to serve as a point of comparison.

For the third consecutive year, ACTCOSS cost of living analysis has shown that living costs in the ACT have increased disproportionately for those households that can least afford it – particularly those receiving a government transfer payment such as Newstart or Youth Allowance.

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[1] ABS, *Selected Living Cost Indexes, Australia, Dec 2016*, cat. no. 6467.0, ABS, Canberra, December 2016.

[2] ABS, *Consumer Price Index, Australia, December 2016*, cat. no. 6401.0, ABS, Canberra, 2016, Table 10, CPI: Group, Sub-group and Expenditure Class, Percentage change from corresponding quarter of previous year by Capital City, Data 1- 6 & Table 11, CPI: Group, Sub-group and Expenditure Class, Percentage change from previous quarter by Capital City, ABS, Canberra, Data 4, 5 & 6.

Poverty and disadvantage in the ACT: the broader context

Using the latest ABS Census data, the National Centre for Social and Economic Modelling (NATSEM) found that there were 21,528 people living in poverty in the ACT; 9910 households experiencing housing stress; 14,148 people experiencing financial stress; 1785 experiencing homelessness; and 28,639 disadvantaged people according to the ABS Socio-Economic Index for Individuals (SEIFI).[3] It was expected that there would be considerable overlap between these categories, with many of these people experiencing multiple disadvantage (for example, in poverty and homeless; or in poverty, in financial stress and in housing stress).[4]

While poverty rates in the ACT are lower than the national average, in terms of suburb-level data, there were suburbs that experienced worse poverty, housing stress and financial stress than the Australian average. The suburb with the highest poverty rate in the ACT (25.9 percent) had a rate that was similar to the maximum in other states. This shows that while 'there is a difference in the averages, there is little difference in the extremes'.[5]

The SEIFI is a particularly useful tool with which to examine the situation in the ACT. It is an index calculated by the ABS which is similar to the Socio-Economic Index for Areas (SEIFA). The SEIFI measures disadvantage at the level of the individual and not geographic area, revealing hidden disadvantage masked by SEIFA figures. For example, the SEIFI shows that there are 28,639 ACT residents in the most disadvantaged 20 percent of Australians, which is 12.6 percent of all ACT residents.[6] Many of these people are living in areas that are not disadvantaged according to SEIFA figures. The high average incomes in the ACT effectively conceal individual disadvantage when measured at the area level. This then shows up the problem of 'hidden disadvantage' in the ACT – as 'the most disadvantaged people according to SEIFI don't live in disadvantaged areas, they are in less disadvantaged areas'.[7]

SEIFA measures mask the extent of disadvantage in the ACT because there is economic advantage in the same areas where there is disadvantage. When data is averaged out, it does not reflect the reality for households that are disadvantaged and struggling. Research published by the ACT Government has highlighted that 'the ACT has one of the highest proportions of "diverse" suburbs/collection districts (CDs), where diverse suburbs/CDs have high

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[3] R Tanton, Y Vidyattama, Y & I Mohanty, *Disadvantage in the ACT: report for ACT Anti-Poverty Week*, NATSEM, Canberra, 2013, p.iii.

[4] ibid, p.iii.

[5] ibid, p.3.

[6] ibid, p.iii.

[7] ibid, p.14.

numbers of both the most and the least advantaged individuals living side by side. This is highly unique to the ACT and, as a result, the averaging effects of SEIFA chronically under-reports disadvantage'.[8]

While average income levels are relatively high in the ACT, living costs in the ACT across the board are also high.[9] The purpose of this cost of living report – and those that have preceded it – is to track changes in living costs for those individuals and households on low incomes who are hidden by the ACT area averages.

Cost of Living Changes in the ACT

Tracking changes in the price of key goods and services: CPI figures

Price movement in goods & services: impact on low income households

The generic CPI figure covers a large number of goods and services – 11 major categories, with over 100 individual goods and services making up the CPI basket (see Fig. 1).[10] There can be wide variations in the CPI for specific goods and services, which may impact particular population groups differently. Over the December 2016 quarter, the CPI for Canberra rose 0.6 per cent, marginally above the national rise (0.5%); while over the past year the CPI in Canberra rose 1.8 per cent – which was the equal highest rate of rise in the country, along with Sydney – while the national rise was 1.5 per cent.[11]

The overall CPI figures can be separated into their component parts, allowing us to track changes in the price of key basic goods and services in the ACT and nationally. Figure 1 shows the upward and downward trends across various key areas of expenditure over the past year and the December 2016 quarter, in Canberra and nationally.

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[8] ACT Government, *Detecting disadvantage in the ACT: report on the comparative analysis of the SEIFI and SEIFA Indexes of relative socio-economic disadvantage in the Australian Capital Territory*, Data and Research Unit, Community Services Directorate, Canberra, p.3.

[9] R Tanton, et al., op. cit.

[10] ABS, *Consumer Price Index, Australia, December 2016*, cat. no. 6401.0, ABS, Canberra, 2016, Table 10, CPI: Group, Sub-group and Expenditure Class, Percentage change from corresponding quarter of previous year by Capital City, Data 1- 6.

[11] ABS, *Consumer Price Index, Australia, December 2016*, cat. no. 6401.0, ABS, Canberra, 2016, Table 11, CPI: Group, Sub-group and Expenditure Class, Percentage change from previous quarter by Capital City, ABS, Canberra, Data 5 & 6.

Over the past year electricity costs in Canberra increased by 6.3 per cent, which was slightly above the rise seen across the country (+4.7%).[12] Health costs rose at a similar rate in Canberra (+4.1%) and nationally (+3.7%), with the rise in these costs largely driven by the rise is medical and hospital services.[13] Insurance costs increased by 3.2 per cent in Canberra over the past year, though not nearly as high as the rate of increase at the national level (7.7%).[14] In addition, education costs rose at a similar rate in Canberra (3.5%) and nationally (3.3%), as did housing (2.2% and 1.9%), and food and non-alcoholic beverages (2.3% and 1.8%).[15]

The most marked decrease in the Canberra CPI over the past year was in telecommunications equipment and services, which decreased by 6.2 percent, though at the national level the decrease was even greater (6.4%).[16]

Figure 1 also shows significant changes that occurred over the December 2016 quarter. These include automotive fuel costs in Canberra, which increased by 4.1 per cent, below the national rise of 6.7 percent.[17] Clothing prices increased in Canberra by 3.0 percent, against the national fall of 0.5 percent. Insurance costs rose 1.9 percent in Canberra, close to the 2.0 percent rise nationally. Telecommunications equipment and services and health costs in Canberra both decreased, and both at a greater rate than the national decrease for these two categories.[18]

It is important to note that the ‘CPI All Groups’ is an average figure amongst the 11 major CPI categories. Where price rises occur for essential items of expenditure such as health and insurance these are likely to have a greater impact on low income and disadvantaged households in the ACT, as these items require a greater proportion of weekly income for these households. The ABS Selected Living Cost Index (SLCI) helps us to better understand the changes in cost of living amongst different household types – particularly for low income households.

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[12] ibid.

[13] ibid., Data 5.

[14] ibid., Data 5 & 6.

[15] ibid.

[16] ibid.

[17] ibid.

[18] ibid.

Figure 1: CPI changes for key household expenditure areas – Canberra versus Australia, December 2016 quarter and for the past year

Cost of living area	Canberra CPI Dec. 2016 Qtr. change %	National CPI Dec. 2016 Qtr. change %	Canberra CPI Dec. 2015 – Dec. 2016 change %	National CPI Dec. 2015 – Dec. 2016 change %
Food (& non-alcoholic beverages)	**0.5**	**0.6**	**2.3**	**1.8**
Alcohol and Tobacco	**2.2**	**2.8**	**5.2**	**5.9**
Clothing and footwear	**3.0**	**-0.5**	**-0.3**	**-0.9**
Housing (includes utilities)	**0.3**	**0.3**	**2.2**	**1.9**
• **Rents**	0.2	0.1	0.2	0.6
• **New Dwelling Purchase**	0.4	0.5	2.7	2.0
• **Utilities**	0.0	-0.2	1.3	2.6
○ *Water & sewerage*	0.0	0.0	0.7	-1.8
○ *Electricity*	0.0	0.0	6.3	4.7
○ *Gas & other household fuels*	*0.0*	*-1.3*	*-4.5*	*1.9*
Furnishings, household equipment/services	**0.3**	**-0.8**	**2.5**	**0.6**
Health	**-1.0**	**-0.6**	**4.1**	**3.7**
Transport	**0.2**	**1.7**	**-0.1**	**-0.3**
• Automotive fuel	4.1	6.7	-0.8	-1.1
• Urban transport fares (public transport)	0.0	1.8	1.1	2.3
Communication	**-0.9**	**-0.8**	**-5.7**	**-5.9**
• Telecommunications equipment & services	-1.0	-0.8	-6.2	-6.4
Recreation and Culture	**1.1**	**0.6**	**0.5**	**-0.5**
• Audio, visual and computing equipment, services	-1.3	0.8	-4.9	-5.1
• Audio, visual and computing equipment, services	-2.8	-2.9	-7.9	-9.9
• Audio, visual and computing equipment, media & services	0.0	1.4	-2.1	0.0
Education	**0.0**	**0.0**	**3.5**	**3.3**
Insurance & financial services	**0.5**	**0.6**	**0.8**	**2.7**
• **Insurance**	1.9	2.0	3.2	7.7
CPI All groups	**0.6**	**0.5**	**1.8**	**1.5**

Source: ABS, *Consumer Price Index, Australia, December 2016*, cat. no. 6401.0, ABS, Canberra, 2016.

An examination of the Selected Living Cost Index

An examination of price movement for goods and services purchased by low income households is important for determining how well Australia's income support system is doing in terms of helping people to keep up with rising living costs. The SLCI measures the cost of various baskets of goods which are specific to a number of different household types – including 'age pension' and 'other government transfer recipient' (e.g. Newstart or Youth Allowance recipients), 'employee', and 'self-funded retiree' households. [19]

Our analysis focuses on age pension and other government transfer recipient households, as these are more likely to represent low income and disadvantaged households. Comparisons are also made with expenditure for both employee and self-funded retiree households (see Fig. 2).

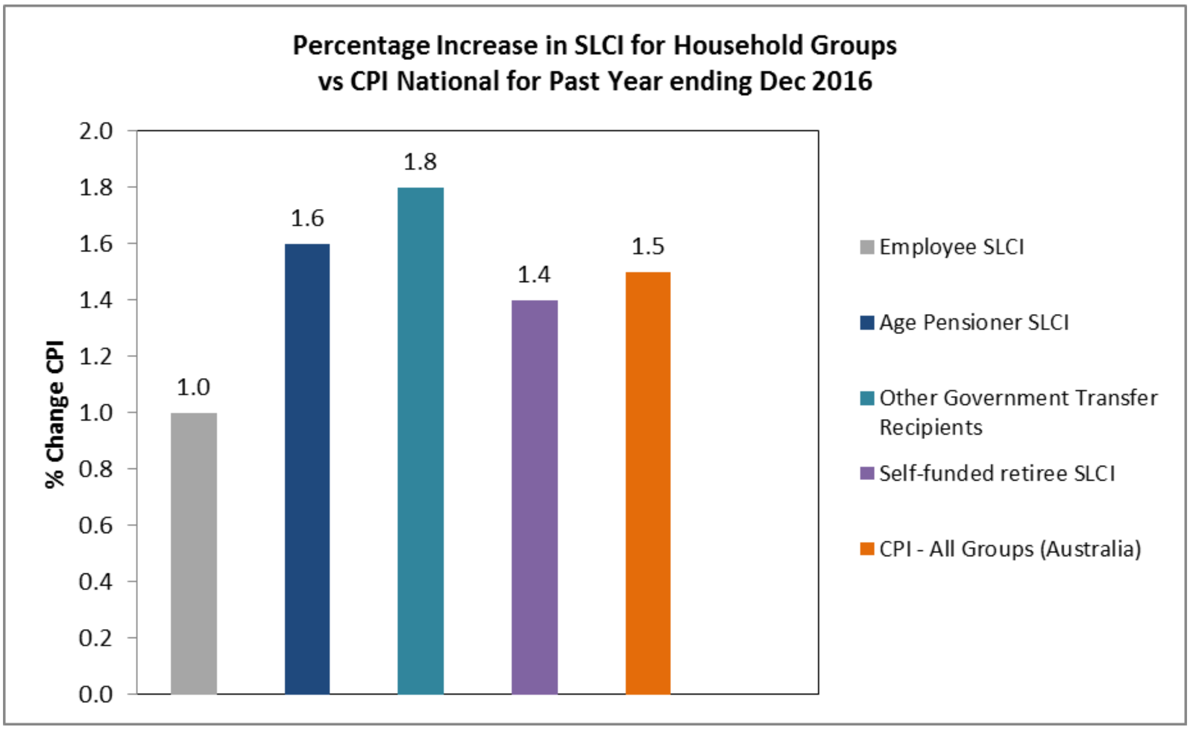
As noted above, over the 12 months to December 2016 the Canberra CPI (1.8%) rose at a higher rate than the national CPI (1.5%). Over the same period, the SLCI for other government transfer recipient (1.8%) and age pensioner (1.6%) households was also above the national CPI (see Fig. 2). The SLCI for both employee (1.0%) and self-funded retiree (1.4%) households was below the national CPI figure. These figures indicate that cost of living pressures for people on low income in the ACT increased significantly over the year. The general cost of living in the ACT increased above the national rate while the cost of living for low income households rose at a higher level than other households. Disproportionate increases in the cost of living for other government transfer recipient households has been observed consistently in ACTCOSS cost of living reports over the past three years.[20]

For three consecutive years – 2015-2017 – ACTCOSS analysis has shown that the cost of living in the ACT has increased disproportionately for those households that can least afford it – particularly those receiving a government transfer payment such as Newstart or Youth Allowance.

[19] ABS, *Selected Living Cost Indexes, Australia, December key figures, December 2016*, ABS, Canberra, 2016; employee households are those where wages and salaries form their main source of income; age pensioner households are those where the age pension or veterans affairs pension forms their main source of Income; other government transfer recipient households are those where a government pension or benefit other than the age pension or veterans affairs pension forms their main source of income; self-funded retiree households .are those where superannuation or property income forms their main source of income. In addition, category requires that the defined reference person is 'retired' , as defined by the Household Expenditure Survey (HES) - i.e. over 55 years old, and not in the labour force).

[20] ACTCOSS, *ACT cost of living report: tracking changes in the cost of living, particularly for vulnerable and disadvantaged households in the Australian Capital Territory*, ACTCOSS, Canberra, April 2015; ACTCOSS, *ACT cost of living report: transport*, ACTCOSS, Canberra, April 2016.

Figure 2: Increases in living costs – national figures for the past year (December 2015–December 2016)

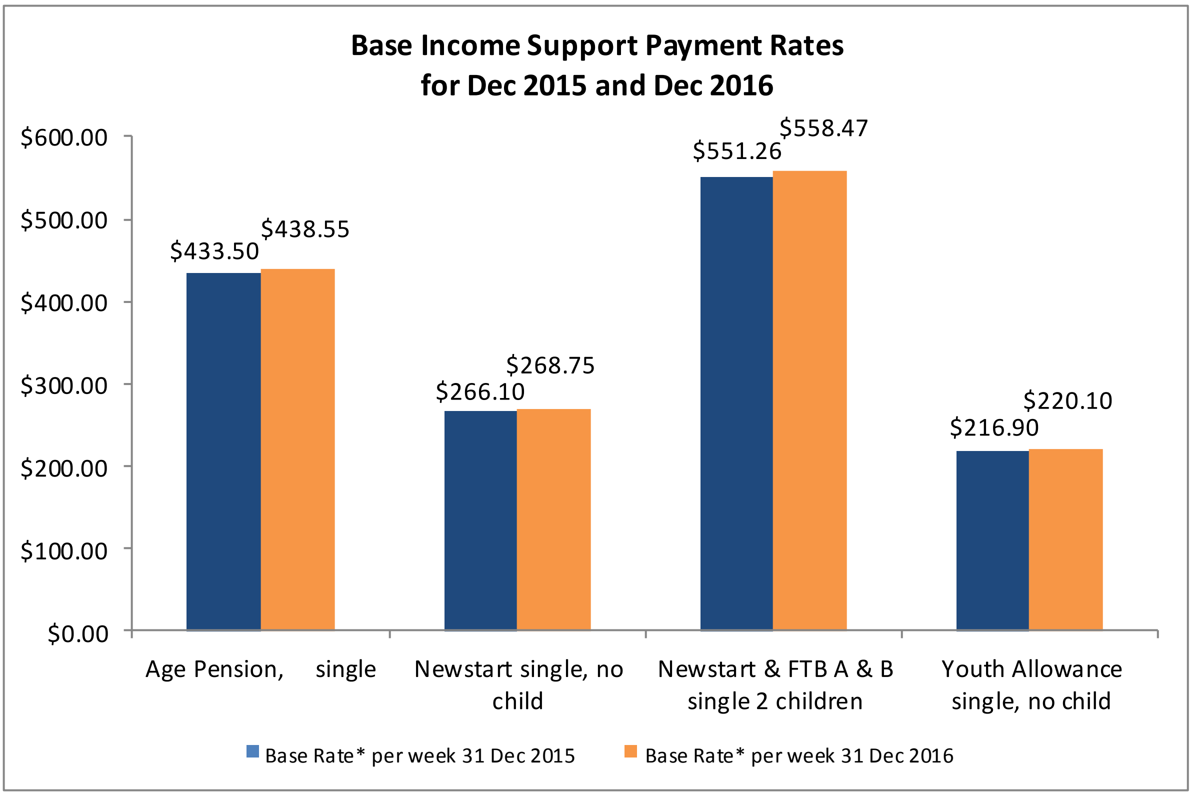


Source: ABS, *Selected Living Cost Indexes, Australia, Dec 2016*, cat. no. 6467.0, December key figures, ABS, Canberra, 2016.

Income and cost of living changes: a persistent and widening gap

Income support recipients have very low incomes making it difficult to save any of their weekly benefit unless a household has additional income to supplement their income support payments. Over the past year there have been small increases in the base rates for key income support payments (see Fig. 3). These small increases have failed to keep up with rising living costs over the same period – with the lag being greatest for Newstart recipients – further entrenching disadvantage (see Fig. 4). For Newstart and Youth Allowance recipients, the lag is of particular concern given the inadequacy of the existing base rate of payment (if it is the sole payment received).

Figure 3: Selected Income Support Payments rates as at Dec 2015 and Dec 2016



Sources: Centrelink, *A Guide to Australian Government Payments*, released quarterly, 20 September – 31 December 2015 and 20 September – 31 December 2016, Centrelink, Canberra 2015 & 2016; Centrelink 2015, p. 2,5,13,23,25,30,35; Centrelink 2016, p.2,5,12,23,26,32,37. See Appendix: Explanatory Note 3 for information on the calculations for each payment type used in Figures 3 and 4. NB: For simplicity, some supplements & Rent Assistance are not included in Figure 3, as they can vary from person to person.

The Australian Council of Social Service (ACOSS) and the national COSS network have raised the issue of the inadequacy of the Newstart and Youth Allowance payments for many years now. The 2016 Poverty in Australia report highlighted the large gap between both the Newstart Allowance and Youth Allowance and the poverty line (of $109.55 or 25.7% and 158.63 or 18.9% respectively).[21] This means that recipients of these payments 'experience high poverty rates and those below the poverty line experience "deep" poverty'.[22] The report found that 55 per cent of people on the Newstart Allowance and 51 per cent of people on Youth Allowance were living in poverty.[23]

In relation to the Newstart Allowance for a couple without children, the rate of payment was $121.14 (or 18.9%) per week below the 50 per cent poverty line. For a couple with 2 children it was $100.26 (or 11.2%) below the poverty line. In comparison, ACOSS found that the pension rate for a couple without children was $16.04 below the 50 per cent poverty line.

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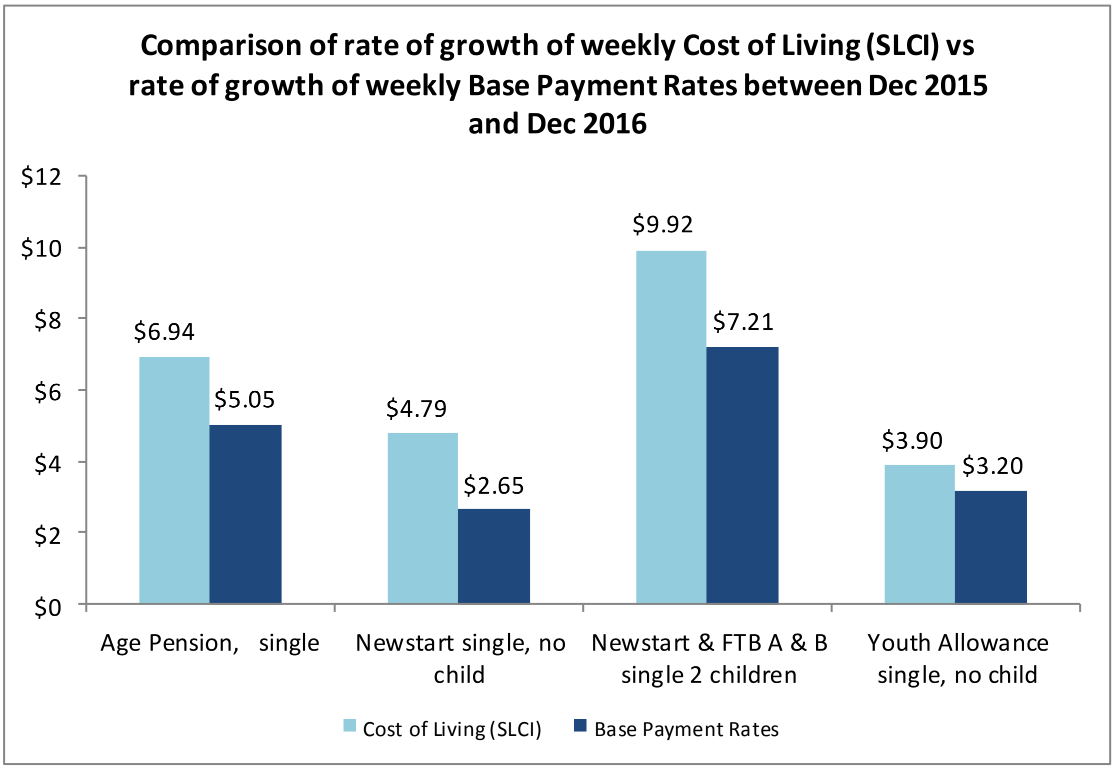
[21] ACOSS, *Poverty in Australia 2016*, ACOSS, Sydney, 2016, p.27.

[22] ibid.

[23] ibid., p.13.

Figure 4: Growth in Selected Income Support Payment rates vs Cost of Living (SLCI) over the past year (to Dec 2016)



Sources: Centrelink, *A Guide to Australian Government Payments*, released quarterly, 20 September – 31 December 2015 and 20 September – 31 December 2016, Centrelink, Canberra 2015 & 2016; Centrelink 2015, p. 2,5,13,23,25,30,35; Centrelink 2016, p.2,5,12,23,26,32,37; ABS, Selected Living Cost Indexes, Australia, Dec 2016, cat. no. 6467.0, ABS, Canberra, 2016. Note: The rate of growth of the SLCI is calculated by multiplying the December 2015 base payment rate by the percentage increase in the SLCI over the past year for the relevant payment type.

ACOSS note that in 2009, the gap between the single pension rate and the 50 per cent poverty line was significantly reduced due to an increase of $32 per week, which was above inflation.[24] Newstart and Youth Allowance recipients, as well as people on Parenting Payment did not receive this increase, meaning that their payment rates remain much further below the poverty line.

It is also significant that Newstart has not increased in real terms (i.e. above the CPI), for over two decades (since 1994). This means that unemployed people have missed out on the improvements in standards of living that the rest of the community has experienced. There have, however, been two exceptions to this, namely ‘the introduction of the (soon to be abolished) Income Support Bonus in 2011 and the Energy Supplement from March 2013’.[25]

The Newstart Allowance is even more inadequate, being nearly $170 per week lower than the age pension. A payment of $38 a day is simply not enough for an individual to live on. ACOSS and other prominent organisations in recent years, including the Business Council of Australia, the Organisation for Economic Co-

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[24] ibid., p.27.

[25] ibid., p.29.

operation and Development, the Australian Council of Trade Unions, and the former Australian Government's Henry Tax Review, have all called on the Australian Government to increase the base rate of the Newstart Allowance and other base level payments by $50 per week, as a matter of urgency. ACTCOSS continues to support this call.

Income support payments have not kept up with the increases in the cost of living for those who receive them. Payment rates continue to fall well below the 50 percent poverty line, with many recipients experiencing deep poverty as a result. It is critical that the Commonwealth Government addresses the significant and longstanding gap between these base payments and the increased cost of living for recipients.

The above figures also reinforce the importance of the current method of indexation for adjusting pension rates every six months. Payment increases are linked to Male Total Average Weekly Earnings (MTAWE) and prices (CPI) to ensure that pensioners do not drop behind society averages. Over the past year the pension still lagged behind the rise in SLCI.[26] Newstart and Youth Allowance and other base-level benefit allowances are indexed to the CPI only. As the figures for the past year show, this does not ensure that increases in allowances will always keep up with the cost of living.

Smith & Hetherington have recently highlighted that 'there is some inadequacy in our public pension settings in Australia today ... the Age Pension in Australia is not adequate to live a life of dignity without considerable sacrifice, especially for renters'.[27] They also point out that the single rate of pension of $437 per week (which includes the pension and energy supplements) was only barely above the poverty line of $422 per week for a single person not in work. More recent figures indicate that this gap has worsened, with the current single pension rate being $438.55 per week (as of December quarter 2016) while the poverty line for a single person not in work is $426.30.[28]

Living on $220.10 per week on Youth Allowance, or $268.75 on Newstart means very few discretionary or luxury expenditure items can be purchased. Housing, food, transport, health and utilities bills all have to be squeezed into a very small payment which is around $400-$450 under the minimum wage of $672.70 per week.[29] Where there are unexpected bills like medical bills or a

[26] The Disability Support Pension rate is exactly the same as the Age Pension rate, but for simplicity reference is only made to the Age Pension throughout this report.

[27] W Smith & D Hetherington, *The Adequacy of the Age Pension in Australia: an assessment of pensioner living standards*, Per Capita Australia Ltd, Sydney & Melbourne, September 2016, p.37.

[28] ACOSS, op. cit.

[29] According to the Fair Work Commission website, accessed 21 November 2016, <http://www.fairwork.gov.au/>, $672.70 (for a 38 hour week (before tax) is the minimum wage for the period 1 July 2016 – 30 June 2017.

larger than expected mobile phone bill, some other essential items might have to be forgone (e.g. paying for car repairs, or spending less money on food) in order to meet urgent payments.

The latest Rental Affordability Snapshot produced by Anglicare Australia in April this year found that out of 1280 private rentals advertised in the ACT and Queanbeyan, none were affordable to a single person living on Newstart or Youth Allowance.[30] According to the latest ABS Housing Occupancy and Costs data, ACT households in the lowest income quintile on average spent 29 per cent of income on housing costs.[31] This indicates that these households would be in or on the verge of housing stress based on the broadly accepted housing stress threshold of 30 per cent of household income.

The current indexing system for Newstart and other base-level benefit allowances means that increases in allowances are not keeping up with costs of living. This indexing system is inadequate and needs to be addressed to ensure recipients are able to not only meet day-to-day costs of living, but to be able to save money to cover any unexpected yet essential expenses.

It is critical that the Commonwealth Parliament addresses the significant and longstanding gap between base payments and the increased cost of living. Action is also needed from the ACT Government. In the 2017-18 ACT Budget consultation process, ACTCOSS called for improvements to the concessions scheme offered by the ACT Government, including concessions for licences and registration for low income households, expanded access according to need, not age or source of income, and better promotion of eligibility. It is critical that the ACT Government takes what action it can to ensure that Canberra is a liveable place for all.

ACTCOSS is calling for improvements to the concessions scheme offered by the ACT Government, including concessions for licences and registration for low income households, expanded access according to need, not age or source of income, and better promotion of eligibility. Further measures are needed to hold back growth of inequality, improve standards of living, reduce costs of living, increase supply of vital community services, and improve amenity for people living on low incomes in the ACT.

[30] Anglicare Australia, *Anglicare Australia Rental Affordability Snapshot*, Anglicare Australia, Canberra, April 2017, p.4.

[31] ABS, *Housing occupancy and costs, 2013-14*, cat. no. 4130.0, State and territory data, 1994-95 to 2013-14, ABS, Canberra, 2015.

Appendix: Explanatory Notes

1. Consumer Price Index and Selected Living Cost Indexes

The ABS Selected Living Cost Indexes (SLCI) uses a different methodology to the CPI in that the CPI is based on acquisition (i.e. the price at the time of acquisition of a product) while the Living Cost Index is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI tracks changes in house prices, while the SLCI traces changes in the amount expended each week on housing (e.g. mortgage repayments). Further information is available in the Explanatory Notes to the Selected Living Cost Indexes.[32]

In that sense, the Selected Living Cost Indexes are not a simple disaggregation of CPI and the two are not strictly comparable. However, both indexes are used to measure changes in the cost of living over time (although that is not what CPI was designed for) and given the general usage of the CPI measure and its powerful political and economic status, it is useful to compare the two and highlight the differences for different household types.

The Living Cost Indexes have been designed to answer the question: ‘By how much would after tax money incomes need to change to allow households to purchase the same quantity of consumer goods and services that they purchased in the base period?’[33]

The SLCI disaggregates expenditure into a number of different household types – for example age pensioners, other government transfer recipients, employees and self-funded retirees, which is different to the methodology used for the CPI.

As a summary measure, the Selected Living Cost Indexes are preferred over the better known Consumer Price Index (CPI) because the CPI is technically not a cost of living measure. The CPI tracks changes in the price of a specific basket of goods, however not all of the goods and services included in the CPI basket are part of the expenditure of all households, and in particular, not part of the expenditure of low income households (e.g. restaurant meals).[34]

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32 ABS, Selected Living Cost Indexes, Australia, Dec 2016, cat. no. 6467.0, Explanatory Notes, ABS, Canberra, 2017, viewed 1 March 2017, < http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6467.0Explanatory%20Notes1Dec%202016?OpenDocument>.

33 ABS, *Selected Living Cost Indexes, Australia, Dec 2016*, cat. no. 6467.0, December key figures, ABS, Canberra, 2016.

34 SACOSS, *Cost of living update*, no. 16, September Quarter, SACOSS, Adelaide, 2013, p.i, 10.

The makeup of the CPI basket is important when considering the cost of living 'because if expenditure on bare essentials makes up the vast bulk (or entirety) of expenditure for low income households, then price increases in those areas are crucial'.[35] Increases in the prices of bare essentials could be hidden in the generic CPI by changes (either up or down) in the prices of other goods and services in the CPI basket, some of which may be discretionary items and as a result would be less pertinent to low income households.

CPI figures only relate to the eight capital cities and for Australia as a whole. All references to CPI throughout the report refer to Canberra, even though the population of Canberra is essentially the population of the ACT.

2. Limitations of the Selected Living Cost Indexes

The Selected Living Cost Indexes are more nuanced than the generic CPI in that they measure changes for different household types, but there are still a number of problems with using those indexes to show cost of living changes faced by the most vulnerable and disadvantaged in the ACT. While it is safe to assume that welfare recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households says nothing about distribution of power, money and expenditure within a household and may therefore hide particular (and often gendered) structures of vulnerability and disadvantage. Further, the Living Cost Indexes are not state-based, so particular ACT trends or circumstances may not show up.

At the more technical level, the Selected Living Cost Indexes are for households whose predominant income is from the described source (e.g. aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the ABS Household Expenditure Survey 2009-10) add up to well over the actual welfare payments available (even including other government payments like Rent Assistance, Utilities Allowance and Family Tax Benefits). Clearly many households in these categories have other sources of income, or more than one welfare recipient in the same household. Like the CPI, the Living Cost Index figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest in those categories.

Another example of this 'averaging problem' is that expenditures on some items, like housing, are too low to reflect the real expenditures and changes for the most vulnerable in the housing market – again, because the worst case scenarios are 'averaged out' by those in the category with other resources. For instance, if one pensioner owned their own home outright they would generally be in a better financial position than a pensioner who has to pay market rents – but if the market rent were $300 per week, the average expenditure on rent

[35] ibid, p.i.

between the two would be $150 per week, much less than what the renting pensioner was actually paying.

The weightings in the Selected Living Cost Indexes are also based on a set point in time (from the ABS Household Expenditure Survey 2009-10) and cannot be changed until the next survey. In the meantime, the price of some necessities may increase rapidly, forcing people to change expenditure patterns to cover the increased cost. Alternatively or additionally, expenditure patterns may change for a variety of other reasons. However, the weighting in the indexes does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle.

Finally, the Selected Living Cost Indexes household income figures are based on households that are the average size for that household type: 1.52 people for aged pensioners and 2.57 for other welfare recipients.[36] This makes comparison with allowances difficult. This report generally focuses on single person households or a single person with two children (to align to the other welfare recipient household average of 2.57 persons). However, this is a proxy rather than statistical correlation.

It is inevitable that any summary measure will have limitations, and as noted in the main text, the Selected Living Cost Indexes provide a robust statistical base, a long time series, and quarterly tracking of changes in the cost of living which is somewhat sensitive to low income earners.[37]

The Selected Living Cost Indexes do have some limitations in terms of tracking cost of living changes for the above groups, however they do provide a 'robust statistical base, a long time series, and quarterly tracking of changes – all of which provide useful data for analysis'.[38] This report also puts a dollar value on the percentage changes in the SLCI figures for the period of the last year.

3. Pension and Newstart (and Family Tax Benefit) Calculations for Figures 3 and 4

These figures reflect payment levels for a single Aged Pensioner; a single Newstart recipient with no children as well as with two children, and a single Youth Allowance recipient. There are clearly going to be variations in payment rates for different recipients, which will be affected by family structure, the number and age of children and receipt of supplements like rent assistance (but for simplicity these are not all factored in here). Payment rates for single people are used – as partner's income for partnered recipients adds further complexity.[39]

[36] ABS, *Selected Living Cost Indexes, Australia, Dec 2016*, cat. no. 6467.0, Explanatory Notes, op. cit.

[37] SACOSS, op. cit., pp.10-11.

[38] ibid, p.i.

[39] SACOSS, *Cost of living update*, no. 17, December Quarter 2013, SACOSS, Adelaide, 2014, p. 10.

Weekly Payment Rates at 31 December 2015

	Base Rate	Pension Supp	Energy Supp*	FTB A Child u13	FTB A Child 13-15	FTB B	Pharmac. Benefit	TOTAL PAYMENT
Aged Pension (single)	$394.20	$32.25	$7.05					$433.50
Newstart (single, no children)	$261.70		$4.40					$266.10
Newstart (single, 2 children)	$283.15		$4.75	$89.88	$116.97	$53.41	$3.10	$551.26
Youth Allowance (single, no children)	$213.40		$3.50					$216.90

Weekly Payment Rates at 31 December 2016

	Base Rate	Pension Supp	Energy Supp*	FTB A Child u13	FTB A Child 13-15	FTB B	Pharmac. Benefit	TOTAL PAYMENT
Aged Pension (single)	$398.95	$32.55	$7.05					$438.55
Newstart (single, no children)	$264.35		$4.40					$268.75
Newstart (single, 2 children)	$285.95		$4.75	$91.42	$118.94	$54.32	$3.10	$558.47
Youth Allowance (single, no children)	$216.60		$3.50					$220.10

Source: Figures derived from Centrelink, *A Guide to Australian Government Payments*, released quarterly, 20 September – 31 December 2015 and 20 September – 31 December 2016. Note: All figures are based on maximum rates of payment where relevant (2 children for Newstart calculation based on 1 child under 13 y.o.; and one child b/w 13-15 y.o.).