

**From:** [Community Affairs, Committee \(SEN\)](#)  
**To:** [Community Affairs, Committee \(SEN\)](#)  
**Cc:**  
**Subject:** RE: Senate Community Affairs committee Centrelink inquiry public hearing Friday 4 October 2019 - Mandurah  
**Date:** Thursday, 10 October 2019 6:08:01 PM

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The other reports that I mentioned were:

- the NZ WEAG report [Welfare Experts Advisory Group] and
- the BCEC / WACOSS cost of living research analysis of financial counselling data.

<http://www.weag.govt.nz/>

<http://www.weag.govt.nz/weag-report/>

(note also the background papers and evidence briefs here)

<https://bcec.edu.au/publications/the-price-is-right/>

<https://wacoss.org.au/wp-content/uploads/2018/12/Cost-of-Living-Report-2018-web.pdf>

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**From:** Chris Twomey  
**Sent:** Thursday, October 10, 2019 2:35 PM  
**To:** 'Community Affairs, Committee (SEN)' <Community.Affairs.Sen@aph.gov.au>  
**Cc:**  
**Subject:** RE: Senate Community Affairs committee Centrelink inquiry public hearing Friday 4 October 2019 - Mandurah

RE: Questions on notice from Mandurah hearing.

Hi Carol

I'm not sure that I was able to note down all the things I was asked for or offered to provide on notice at last week's hearing.

I note I will be away over the next two weeks so may be delayed in responding to requests once the hansard is out.

Attached below are some of the materials I mentioned:

- 100 Families Baseline report
- Food Relief Framework
- Previous relevant WACOSS submissions

Here are relevant links:

<https://100familieswa.org.au/>

[https://100familieswa.org.au/wp-content/uploads/2019/08/Baseline\\_Report\\_Web.pdf](https://100familieswa.org.au/wp-content/uploads/2019/08/Baseline_Report_Web.pdf)

<https://wacoss.org.au/wp-content/uploads/2019/10/Food-Relief-Framework-report.pdf>

<https://wacoss.org.au/wp-content/uploads/2019/10/Food-Relief-Framework-briefing.pdf>  
<https://wacoss.org.au/wp-content/uploads/2019/03/Cashless-Debit-Card-Submission-2019.pdf>  
<https://wacoss.org.au/wp-content/uploads/2019/02/Inquiry-into-ParentsNext.pdf>  
<https://wacoss.org.au/wp-content/uploads/2017/10/WACOSS-Cashless-Debit-Card-Submission-final.pdf>  
<https://wacoss.org.au/wp-content/uploads/2017/07/WACOSS-Robo-debt-Submission.pdf>

Regards

**Chris Twomey**

*Leader, Policy & Research*

Western Australian Council of Social Service (WACOSS) | Level 2, 3 Loftus Street, West Leederville 6007

T: 08 6381 5300 | [name@wacoss.org.au](mailto:name@wacoss.org.au) | [wacoss.org.au](http://wacoss.org.au) | [Facebook](#) | [Twitter](#) | [Sign up to news](#)

*I work at WACOSS every Wednesday to Friday (at BCEC Curtin Mondays and Tuesdays).*



*Ngala kaaditj Noongar Wadjuk moort keyen kaadak nidja boodja – in the spirit of deepening relationship, we acknowledge Wadjuk Noongar people as the original custodians of this land. We acknowledge the Traditional Owners of Country throughout Western Australia and recognise their continuing connection to land, waters and community. We pay our respects to them and their cultures, and to Elders both past and present.*



FEBRUARY 2019



# Whakamana Tāngata

RESTORING DIGNITY TO SOCIAL SECURITY  
IN NEW ZEALAND

Welfare Expert Advisory Group

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*E kore e taea e te whenu kotahi  
ki te raranga i te whāriki  
kia mōhio tātou ki ā tātou.  
Mā te mahi tahi o ngā whenu,  
mā te mahi tahi o ngā kairaranga,  
ka oti tēnei whāriki.  
I te otinga  
me titiro tātou ki ngā mea pai ka puta mai.  
Ā tōna wā,  
me titiro hoki  
ki ngā raranga i makere  
nā te mea, he kōrero anō kei reira.*

*The tapestry of understanding  
cannot be woven by one strand alone.  
Only by the working together of strands  
and the working together of weavers  
will such a tapestry be completed.  
With its completion  
let us look at the good that comes from it  
and, in time  
we should also look  
at those stitches which have been dropped,  
because they also have a message.*

Nā – Kūkupa Tirikatene

1934–2018





### He mihi

E ngā mana puipuiaki, e ngā reo tongarerewa e ikapahi nei,  
tēnā koutou katoa

Tukuna kia rere ngā mihi ki te Atua,  
ko ia te tīmatanga me te whakamutunga o ngā mea katoa

Te hunga kua poto ki te pō, haere koutou

Tātou e mau tonu nei i te hā o te ora,

Tēnā koutou, tēnā koutou, tēnā tātou katoa

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# Foreword from the Chair

The Government convened the Welfare Expert Advisory Group to review the New Zealand welfare system, excluding New Zealand Superannuation, the Veteran's Pension and War Pensions, and the Student Support System. The terms of reference and independence granted to the Welfare Expert Advisory Group have enabled the most wide-ranging review of the system in a generation.

In this report, we consider the interface between welfare and the active labour market and employment, mental health, child wellbeing and child poverty, housing and justice strategies. Our recommendations are reasonable and based on evidence, and they require significant investment if the desired outcomes are to be achieved. We recommend enabling the welfare system to serve its most basic functions and to move beyond being a 'safety net' to enabling 'whakamana tāngata' – restoring dignity to people so they can participate meaningfully with their families and communities.

The essential principles of whakamana tāngata are to provide income support sufficient for an adequate standard of living, to provide employment support to help people find and retain good and appropriate work, and to treat people receiving this support with dignity and respect. In return, people receiving this support are expected to take up the opportunities to participate. We hope that agreement to these principles can be the basis for a lasting parliamentary commitment on social security that will take New Zealand into the future with pride.

This report has been informed by national consultation, commissioned reports, a review of the literature and data relating to welfare use, other reports including previous welfare reviews, and meetings with stakeholders.

We are grateful to all the people who contributed to our report, especially the many people who shared their personal experiences of the welfare system.

**Kia piki ake te mana tangata!**



**Professor Cindy Kiro**  
**Chair**  
Welfare Expert Advisory Group  
February 2019



**Back row (left to right):** Dr Michael Fletcher (special advisor), Phil O'Reilly, Trevor McGlinchey, Charles Waldegrave, Kay Brereton, Professor Innes Asher, Robert Reid

**Front row (left to right):** Professor Tracey McIntosh, Dr Ganesh Nana, Dr Huhana Hickey, Professor Cindy Kiro (Chair), Latayvia Tualasea Tautai

## Acknowledgements

Many people informed and supported the work of the 11 members of the Welfare Expert Advisory Group.

We would like to thank all those people who made the effort to meet with us in person during consultation and hui – we know how difficult this was for many of you, and we are very grateful. We also appreciate the people who completed our survey and made submissions. The contributions were insightful, wide ranging and of significant value to our work.

We are appreciative of the input of the attendees at our roundtable sessions in Wellington and Auckland and are grateful to Judge Andrew Becroft and Professor Jonathan Boston for hosting the Wellington session.

We would like to make a special note of thanks to our two facilitators, Cissy Rock and Tim Howard, who ensured that our consultation sessions were inclusive and engaging.

We thank all those agencies, organisations and individuals who provided us with information, advice or opinions. Special thanks also go to Neavin Broughton, Dr Sacha McMeeking, Associate Professor Damon Salesa, Rachel Noble, Dr Rosemary Marks and Professor Richie Poulton.

Many people helped us engage with local communities during consultation and hui, without whom we could not have reached as many people as we did, and to whom we owe a large debt of gratitude. We thank local iwi, marae, advocacy and community groups, community liaison advisors, regional commissioners, schools, polytechnics, primary health organisations, New Zealand Sign Language interpreters, Naenae Old Boys Cricket Club and the local churches and communities that gave us use of their premises. We also thank Wellington City Mission, Kapiti Youth Service, Lifewise, Wesley Community Action and People's Project.

Finally, we would like to thank our Special Advisor Dr Michael Fletcher, whose extensive knowledge of the welfare system was essential, and our Secretariat members for their advice and hard work.



# Executive summary

In May 2018, the Minister for Social Development announced the establishment of the Welfare Expert Advisory Group to undertake a broad-ranging review of the welfare system and advise the Government on the future of New Zealand's welfare system. We have now considered how the welfare system could be changed to better meet the needs of New Zealanders now and in the future.

We took a participatory and independent approach and prioritised the experience of people who interact with the welfare system. Our advice takes the form of 42 key recommendations that enable the social security system to serve its most fundamental functions but to move beyond a 'safety net' to 'whakamana tāngata' – restoring dignity to people so they can participate meaningfully with their families and communities.

## Current welfare system is no longer fit for purpose and needs fundamental change

The New Zealand Social Security Act is meant to provide a government guarantee of financial and social support to ensure people have an adequate income and standard of living when needed. The lives of New Zealanders are varied, so any social security system needs to be able to respond to this. A wide cross section of New Zealanders face life shocks, such as job loss, illness, disability or relationship breakdown, which mean they need to receive government assistance to support themselves and their family. Other New Zealanders need support because their low wages mean they are unable to meet basic costs such as for housing, food, school and work.

Each year over **630,000** people receive payments from the welfare system.



This excludes superannuitants and those in receipt of student loans and allowances.



**345,900 families** receive a Working for Families tax credit.

Some of those in receipt of the tax credits will also be receiving a payment from the welfare system.

Social security is more than just benefit payments to people not in paid work or who are unable to work. It includes welfare payments to families, students, seniors and others through tax credits, allowances and superannuation<sup>1</sup> and includes help to find work. Funded by taxes and supported by community, this system reinforces our social cohesion and increases the ability of those in receipt of financial assistance to participate in employment, learning, caring or volunteering.

The current social security system was set up in a different time and no longer meets the needs of those it was designed to support. Successive governments have implemented changes to the system with intended and unintended consequences.

Agreement is near universal that the benefit and tax credit systems are unmanageably complex. The level of financial support is now so low that too many New Zealanders are living in desperate situations. Urgent and fundamental change is needed. This change will be challenging because the problems are large and the system complex.

Our recommendations seek to embed a new basis for social security, restoring trust in the system and enabling whakamana tāngata, to ensure people can live in dignity. Adopting this approach will lift outcomes for Māori and others who are particularly adversely affected under the current system.

The Ministry of Social Development (MSD) needs to accelerate its commitment to cultural responsiveness to Pacific People, to take account of the diverse Pacific communities within New Zealand.

The social security system needs to recognise that most New Zealanders are willing to engage, participate, contribute and do their fair share for their communities. Our proposed purpose, principles and values for the system reflect this reality.

At its heart, our approach is about treating people with dignity.

## Rebalancing the social contract

A social contract between the Government and its citizens was established in New Zealand legislation with the Social Security Act 1938. Government would provide financial assistance for New Zealanders unable to achieve an adequate standard of living (which remains central to the social security system), alongside other critical support such as access to health care, education, housing and adequate employment. In return, people receiving financial support would participate in training or other activities and seek employment when appropriate. This social contract is now out of balance.

At its heart, our approach is about treating people with dignity.

<sup>1</sup> New Zealand Superannuation, Veteran's Pension and War Pensions, and the Student Support System are outside the scope of the Welfare Expert Advisory Group. See the Terms of Reference in Appendix B.



The current system is based on conditionality including sanctions and is tightly targeted, with inadequate support to meet even basic needs. The experience of using the system is unsatisfactory and damaging for too many of the highest need and poorest people. We heard overwhelmingly during our consultation that the system diminishes trust, causes anger and resentment, and contributes to toxic levels of stress. There is little evidence in support of using obligations and sanctions (as in the current system) to change behaviour; rather, there is research indicating that they compound social harm and disconnectedness. Recent studies recommend moving away from such an approach towards more personalised services. For the welfare system to work effectively to deliver the new purpose, principles and values we conclude that mutual trust between parties is essential.

Given this, we propose a system based on whakamana tāngata – an approach based on mutual expectations and responsibilities governing interactions between the state and welfare recipients. It is a commitment to improving wellbeing by supporting positive long-term outcomes for the individual, including increased skills and labour market capability. This approach must immediately reform the current obligations and sanctions regime.

The proposed mutual expectations and responsibilities need to be responsive to the circumstances of the individual in a way that will meet the proposed values of the system, with robust checks and balances to mitigate potential negative impacts on individuals and their families. The overarching expectation of both recipients and the Government is to act with respect and integrity in their mutual interaction.

## Many New Zealanders lead desperate lives with seriously inadequate incomes – this must change

Evidence is overwhelming that incomes are inadequate for many people, both those receiving a benefit and those in low-paid work. Current levels of support fail to cover even basic costs for many people, let alone allowing them to meaningfully participate in their communities. In New Zealand, poverty and benefit receipt are strongly associated. Māori, Pacific People, people with health conditions and disabilities, and young people are especially adversely affected.

Many sources of information inform this report, including our consultation and hui with communities, our research using example families, and analysis about the current rates of poverty and hardship in New Zealand (particularly for families with children and people receiving benefits).

Living in poverty often results in long-lasting, poor outcomes for benefit recipients, their children, families and whānau, and society. Evidence is strong of the negative effects that poverty has on a wide range of children's outcomes, including cognitive development, school attainment, health and social, emotional and behavioural development. Evidence is also emerging of poverty's negative impacts on the mental health of people of all ages.

The Government must urgently increase the incomes of people in receipt of a benefit and in low-wage work and maintain these increases over time so that they keep pace with the incomes of the rest of the community. It must also reduce the barriers to people accessing this support and commit to a social security system where people are treated with dignity.

## Eligibility rules don't reflect today's families and need updating

Existing eligibility rules for welfare support reflect an outdated view of New Zealand families. Families, and arrangements for the care of children, are more diverse and fluid than in the past. Most children live in two-parent households, but it is now common for children to spend some part of their childhood in a sole parent family.

In many cases, sole parenthood means reliance on a benefit and is associated with a high risk of poverty. For many families, two (or sometimes three or more) jobs are needed to provide an adequate income. However, income support is still based on a one-earner model where one income was enough for a family. This means when partnered people are affected by job loss, they will often not qualify for any income support from main benefits if their partner is in paid work (even on the minimum wage) because of the joint income test and the tight targeting of payments. Hence, the low number of couples on main benefits and the growing number of working poor.

The Government must modernise the eligibility rules to reflect this changing nature of families and society. Many other rules warrant further consideration that we could not give in the time available.

## Income support system needs substantial reform to significantly improve its adequacy and design

The income support part of the welfare system has fallen behind the real growth in New Zealand incomes. The fiscal cost of improving the adequacy and design of income support is estimated to be around \$5.2 billion a year. There are a number of other options that Government can also consider, each with various trade-offs and at differing costs. However, this package was considered by the Welfare Expert Advisory Group to be the best fit for policy and fiscal purposes. It is important to recognise that the current system has costs of its own – those associated with the broader negative effects of poverty including lower educational attainment, imprisonment and poorer health.

The Government must modernise the eligibility rules to reflect this changing nature of families and society.

**Implementing these changes will substantially reduce the number of adults and children living in poverty.**

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We expect significant gains in wellbeing from our recommended package of changes, including fiscal savings from lower health and justice costs in the longer term and productivity gains from a more skilled workforce. Significant gains beyond the financial are also to be expected – gains in self-esteem and the quality of relationships. Quantifying these gains is beyond the scope of this work.

The Welfare Expert Advisory Group recommends the adoption of 10 principles to guide the redesign of the income support system. These principles focus on ensuring the adequacy of the system for meaningful participation in communities, that people are financially better off in paid work (where work is an option), that support is easy to access, simpler to understand, and timely, and that people are treated with dignity and respect when accessing this support.

The Welfare Expert Advisory Group also recommends a comprehensive package of changes to significantly improve the adequacy of income support and to maintain this support over time in line with wages. These changes are broadly based on the consideration of adequate incomes levels found in the example families research we conducted and presented within this report. Changes include increases to main benefit rates, family tax credits and changes to housing support. This package of changes should reduce the need for additional financial support through hardship assistance.

Implementing these changes will substantially reduce the number of adults and children living in poverty. While estimates of poverty impacts are limited by current models, we expect these changes to reduce the number of children in households with incomes below 50% of the median income (after adjusting for household size and before deducting housing costs) by around 40%, and to reduce the number of working-age adults below the same income threshold (50% of the median income) by around 30%.

The Welfare Expert Advisory Group also recommends further work exploring the adequacy of incomes. The example families research was necessarily limited by the time constraints of this review, and further work to cover additional scenarios and circumstances is needed, particularly around the costs associated with health conditions and disabilities. This research also needs to be underpinned by consultation and focus groups with a wide variety of New Zealanders and should be commissioned from an agency independent of government.

**In the best interests of the child, child support needs improvement**

To improve adequacy of incomes and ensure the system considers the best interests of the child, the Welfare Expert Advisory Group recommends that all child support is passed on to the carers of children. The compulsory application and penalties associated with a parent failing to apply for child support should be removed, with parents deciding whether child support or a voluntary agreement for support is in the child's best interest.

The Welfare Expert Advisory Group recommends further work to ensure shared and split care of children is reflected fairly in income support payments, and that agencies (that is, Inland Revenue and MSD) are aligned in their approach.

## **'Relationship' needs to be redefined**

One of the strongest findings from the consultation was that the rules for determining whether a 'relationship' exists (that is, whether a relationship is 'in the nature of marriage') are not working and are causing considerable harm. The definition of a relationship is unfair and does not reflect how relationships actually form, and the financial penalty for partnering is significant and may be unduly influencing partnering decisions.

The welfare system should not unduly influence the decisions people make about their relationships. We recognise that achieving this is difficult in a system built around different family types.

The Welfare Expert Advisory Group recommends that the welfare system allows more time before deeming a relationship to have formed, so people have a longer period in which to determine whether a relationship is likely to work before their level of support is potentially reduced.

The Welfare Expert Advisory Group recommends moving income support settings over time to become more neutral in their impact on people making relationship decisions. Options to be considered include bringing the couple rate of benefit closer to double the single rate, and introducing a short-term entitlement to a main benefit for partnered people who lose their jobs or become unwell or disabled (such a benefit would disregard the other partner's income).

## **High housing costs exacerbate problems for people on low incomes – housing supply needs urgent attention**

Housing is a major cost for families, and the shortage of affordable housing is a major contributor to the current cost of welfare. The cost on society of inadequate and unaffordable housing is too high. Financial support for housing is provided through a large number of different, complicated payments. The combined welfare payments for housing make up the second-largest cost after the New Zealand Superannuation Scheme – and more than the spending on any one of the main benefits combined. Housing payments are forecast to be 3.1% of total Crown baseline expenditure in 2018/19. Despite this, we learned that not everyone is receiving their full entitlement, especially once they move off a main benefit.

The inaccessibility of home ownership for low and low-middle income households is a major contributor to the growth of wealth inequality in New Zealand, denying them their only chance of acquiring an asset base. Home ownership rates have fallen to their lowest rate since 1953, and Māori and Pacific families are disproportionately affected.

**Home ownership rates have fallen to their lowest rate since 1953, and Māori and Pacific families are disproportionately affected.**



There are just not enough houses to meet demand. Of the current housing stock, too many are unaffordable for low-income families, and what is available to them is often substandard, poorly insulated, damp and unhealthy. The Government must urgently provide affordable housing options for low-income people. A key part of the solution is for the state to expand and accelerate the building of public housing to an industrial scale, to achieve an adequate number of houses for low-income New Zealanders. Urgent efforts to end homelessness need to continue.

Government needs to increase the variety of home-ownership options, including equity sharing, rent-to-buy state houses, papakāinga housing and other affordable home-ownership products for people on low and low-middle incomes. In addition, government needs to work with third-sector community-based housing providers to create a broader range of ownership and renting options.

In addition to raising main benefit rates to provide an adequate income, ensuring changes are made to abatement rates and subsidised housing costs for people on low incomes will, in combination, make households better off.

The Welfare Expert Advisory Group recommends a new payment for people facing housing costs alone (that is, not sharing accommodation with another adult). Indexing for payments should be maintained, in line with housing costs. Furthermore, legislation should be developed to ensure healthy homes and housing security, decent standards of housing quality, universal design and accessibility.

## **Welfare system fails to deliver for Māori – higher quality learning and employment opportunities are needed**

While many Māori are doing well in education and the labour market, a disparity in unemployment rates and benefit receipt persists. Māori make up 36% of all working-age people receiving a benefit as the primary recipient. While other social and economic factors play a role, the failures of the welfare system disproportionately affect Māori.

Achieving a benefit system that better promotes wellbeing will make a greater difference to Māori, and reducing the inadequacies of the current system will also address child and family poverty among Māori.

The Welfare Expert Advisory Group recommends an approach that provides a more realistic liveable income so individuals and whānau can live a more dignified life and participate more fully in their school, community and cultural lives. Given the youthfulness of the Māori population and the higher proportion of Māori in receipt of a main benefit, a dedicated case manager service would better help young people and those receiving a main benefit into part-time or full-time work by providing higher quality learning and employment opportunities that are more responsive for Māori during these transitions.

## Opportunity exists to do things differently and increase people's employability

The inadequacy of incomes is measured against the cost of meeting the most basic needs and being able to participate meaningfully in society. Having sustainable paid work is a route out of poverty. Moving to an economy that generates sufficient good and appropriate jobs that people are able to take up requires a system that is visionary and agile, and inclusive of those presently receiving income support.

A social security system can provide an opportunity to upskill people to participate more meaningfully in the economy, in their communities and with their families. It also provides an opportunity for people to contribute in other ways valued by communities when they are unable to be in paid work because of parenting or care-giving roles. More personalised employment services, along with adaptable education and workplaces, are required.

Our employment support system is not yet well placed to help people into work now or in the future, particularly when people will likely transition more frequently between jobs and need more help to shift to new occupations. The welfare system also provides support for people to get back into paid employment, yet spending on active labour market programmes is low compared with spending in other OECD countries.

Expectations to take up paid work have increased, but support to enter and remain in work has steadily declined over many years. This is reflected in a long trend of falling resources, lack of specialist and expert employment case management, limited access to case managers, and limited support for people entering work, or at risk of entering the benefit system. Large numbers of people receive very limited employment support despite facing explicit work expectations. These systemic weaknesses contribute to high rates of 'churn' where people enter work (or education) for brief periods before returning to the benefit system. This is especially true for young people, Māori, Pacific People and people with health conditions and disabilities. It is also particularly marked for those churning through the criminal justice system.

While we agree that people should undertake paid work where their circumstances allow, the evidence is mixed about how best to do this. Growing the skills of New Zealanders would contribute more to the New Zealand economy. No one action will lead to this improvement, but packages of changes can. Our whakamana tāngata approach assumes a whole-of-government, iwi, employer, union and community partnership that views people receiving a benefit as capable of contributing to society and the economy. This contribution may be as second-chance learners who upskill and retrain (especially on the job).

**Expectations to take up paid work have increased, but support to enter and remain in work has steadily declined over many years.**

Functional illiteracy remains a major challenge for some people receiving a benefit. Increasing functional literacy (including digital and technological literacy) would create many advantages not just for the individual and their family and whānau, but also for employers and the economy.

Employment services need to intervene early and effectively. The Welfare Expert Advisory Group recommends rebuilding a core employment service that is embedded in a wider active labour market system, that emphasises early interventions (with key partners) and provides specialist employment support and ongoing pastoral support where needed.

The Welfare Expert Advisory Group also recommends revamping active labour market policies and other labour market, employment and training policies across government to make them coherent and effective. The Welfare Expert Advisory Group further recommends strengthening MSD redundancy support policies to better help those who lose their jobs.

We want to see better opportunities for young people to participate in healthy relationships with peers and in whānau life and to engage in education, training or work. Given the relatively young age structure of the Māori and Pacific populations, significant demographic dividends will be gained for the nation as well as individuals by improving outcomes for young Māori and Pacific People.

The income support system needs to support the outcomes of good and appropriate work by ensuring people are financially better off in paid work. This requires abatement rates (and effective marginal tax rates) to be reasonable, especially at the point when people are entering work.

The Welfare Expert Advisory Group recommends replacing the current work incentive tax credits with a new tax credit targeted at those on a benefit entering into paid work, including part-time work. Alongside an increase in various abatement thresholds, this will maintain the incentive to work that might otherwise be affected by increases in main benefit rates.

We want to see better opportunities for young people to participate in healthy relationships with peers and in whānau life and to engage in education, training or work.

## More can be done to improve outcomes for people with health conditions or disabilities and carers

People receiving a benefit because they have a health condition or disability, or care for a person with a health condition or a disability, make up 53% of all working-age benefit recipients. Many have poor outcomes. Many receiving a health and disability benefit have mental health conditions that are not well supported. Ill-health and disability caused by a variety of social, economic, psychological and biomedical factors may make it more difficult to access the welfare system. Unemployment has a detrimental impact on the health and wellbeing of benefit recipients. However, policy responses have had a limited impact on improving outcomes for recipients of health and disability benefits, and long-term receipt of such benefits is common.

People with health conditions or disabilities in the welfare system receive much less generous, means-tested payments and face difficulties accessing health services, compared with those eligible for accident compensation. The amount of financial assistance that people may receive from the Accident Compensation Corporation (ACC) is usually higher than that provided by MSD for the same level of incapacity. Some people with health conditions and disabilities not caused by an accident miss out on income and return-to-work support from ACC or MSD due to couples-based eligibility rules for financial assistance.

Single people receiving a benefit are at significant risk of having an inadequate income. Most people in receipt of health and disability benefits are single. A significant cost is associated with having a health condition or disability or being a carer of a person with a health condition or a disability. However, the system response has been inadequate and welfare recipients must navigate the complexity of the health and welfare systems to attempt to get all the support they are entitled to.

For people with health conditions and disabilities, engagement in good, suitable work, when the time is right, supports wellbeing. However, the welfare system has had limited impact on supporting people with health conditions or disabilities into sustainable work. Support for carers of people with health conditions and disabilities to return to paid work when their circumstances allow is also limited in the social security system.

We propose improving the health and wellbeing of people with health conditions and disabilities, along with carers of people with health conditions and disabilities who interact with the welfare system, through the:

- provision of financial support that is adequate to live a life with dignity and is equitable across the social sector
- wide implementation of evidence-based approaches to support engagement in good and appropriate work for people for whom this is possible
- implementation of strategies to prevent work-limiting health conditions and disabilities.

People receiving a benefit because they have a **health condition or disability, or care for a person with a health condition or a disability, make up 53%** of all working-age benefit recipients.



Our social security system does not sit in isolation. Improving outcomes for people on low incomes or in some way receiving support from the welfare system requires a cross-government response.

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## People not undertaking paid work are also contributing

Not everyone can undertake paid work. An opportunity exists to better recognise the contribution people make through unpaid work (such as caring for children, disabled people and elderly people and volunteering with community organisations or cultural and creative enterprises). The value of caring for children and others and volunteering in one's community needs far greater acceptance and recognition.

Equally, a commitment is needed to ensure that people who are unable in the long-term to work because of ill health or disability can live a life with dignity. This is a fundamental human right. New Zealand must better integrate its economic and social strategies so all of its citizens have a chance to better contribute to the economy, civil society, creative and cultural identity, communities and families.

## Isolated change by the welfare system is not enough – integrated, cross-system change is needed

Our social security system does not sit in isolation. Improving outcomes for people on low incomes or in some way receiving support from the welfare system requires a cross-government response. Currently, being on a benefit and/or in poverty often has a detrimental long-term impact on wellbeing for adults and children.

The reasons people receive welfare support are multifaceted, often involving a complex interplay between social, economic, psychological and biomedical factors. The social security system alone cannot prevent or mitigate these factors. What occurs in other parts of the social sector influences who comes into the welfare system and the outcomes for individuals and families supported by this system. Improving outcomes for people receiving support from the welfare system through the use of evidence-informed investments across the social sector now will benefit individuals and families and potentially save money in the longer term.

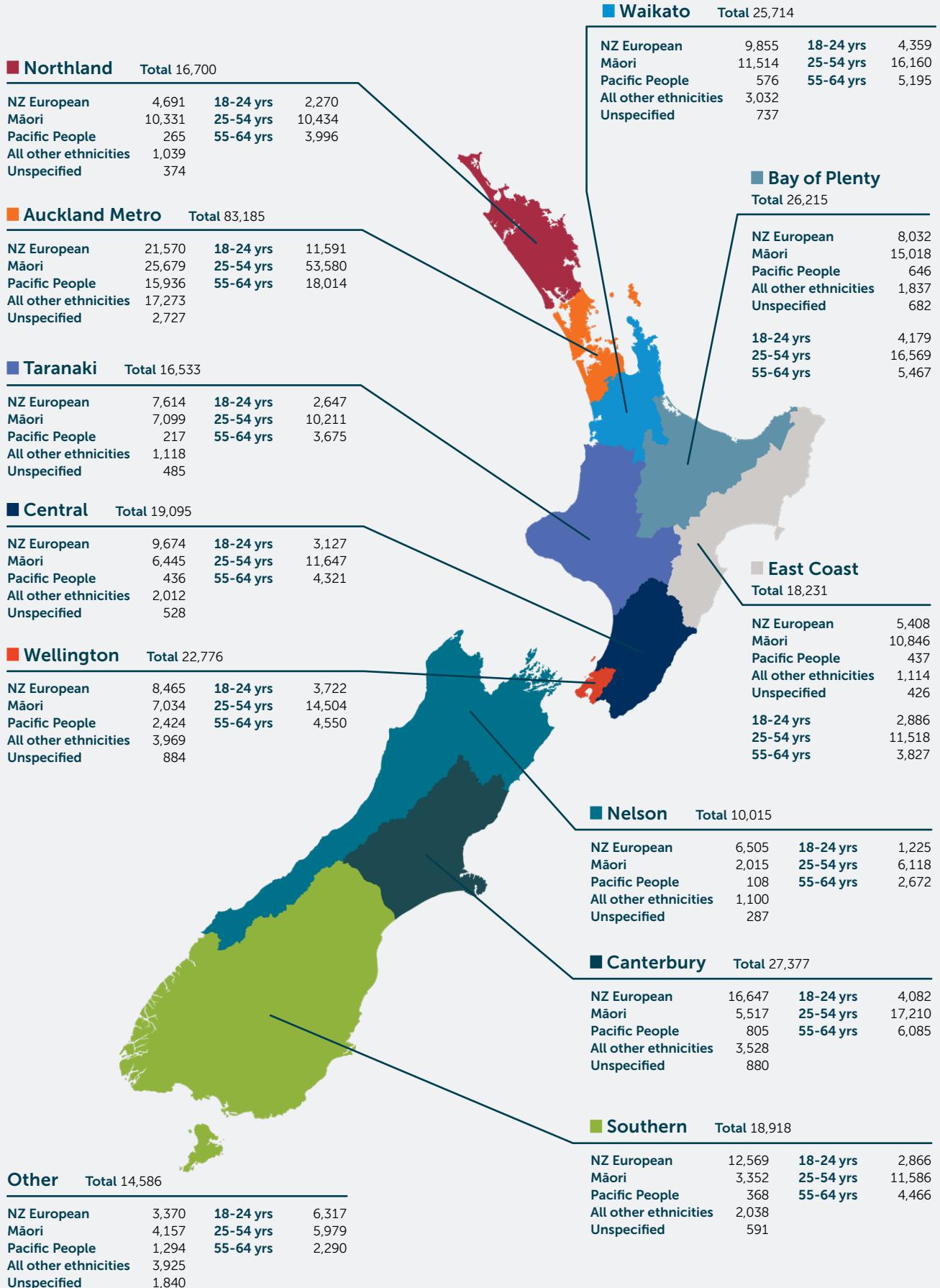
A significant group of individuals and families experience multiple and long-term disadvantage needing interactions with several government systems. They require a responsive, person-centred, cohesive system of support to improve outcomes. The lack of coordination between government services was a common theme throughout our consultation.

Several reviews and changes are under way or are about to start that could consider how to improve circumstances for people on low incomes or receiving support in some way from the social security system.

Our review contributes to a myriad of evidence about the need for fundamental change and to effect a whakamana tāngata approach to social security – an approach that gives people hope for their future. Nō reira, kia manawanui, kia piki ake te mana tangata.

# All benefits by region at a glance

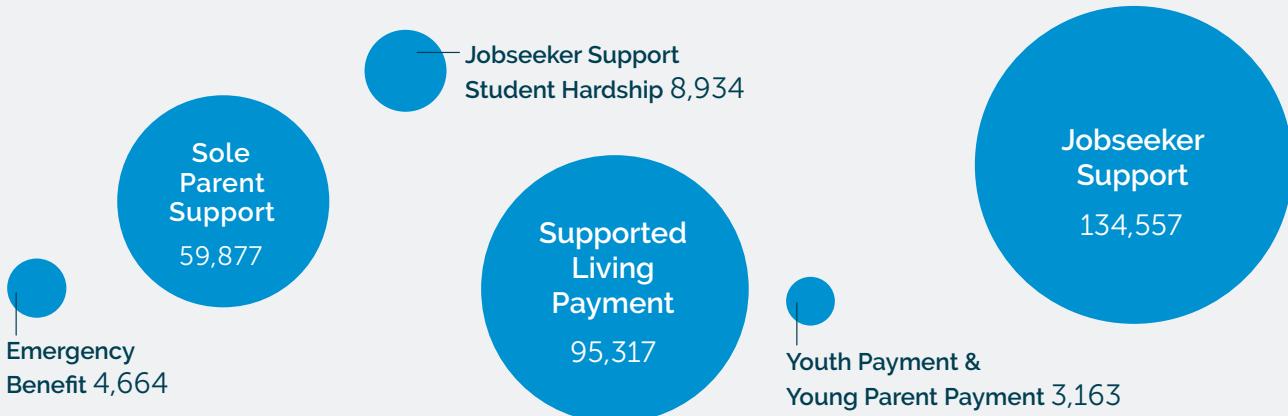
AS AT DECEMBER 2018



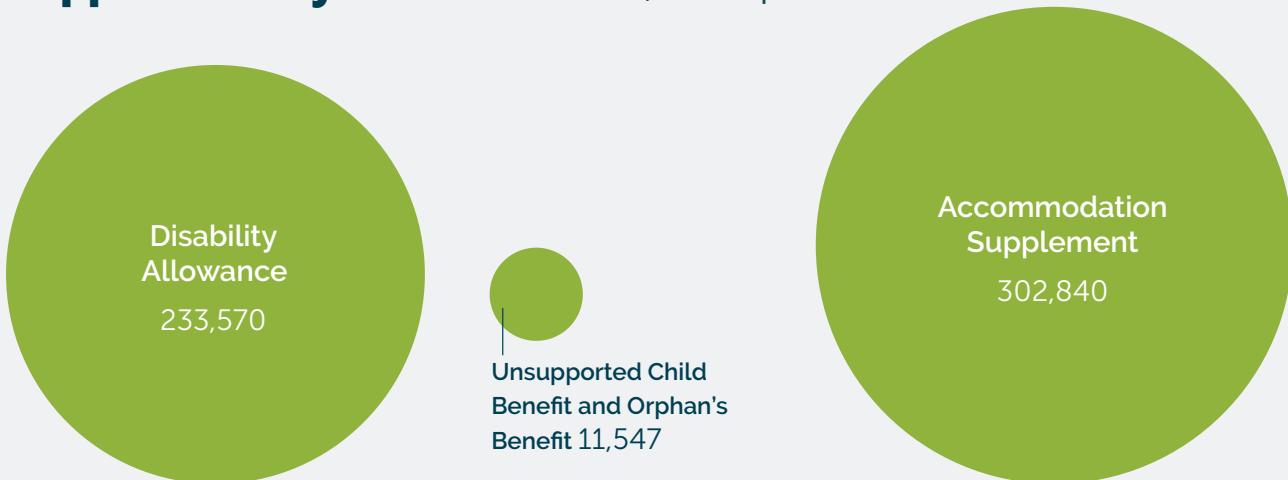
# Financial assistance

PROVIDED BY THE MINISTRY OF SOCIAL DEVELOPMENT AS AT DECEMBER 2018

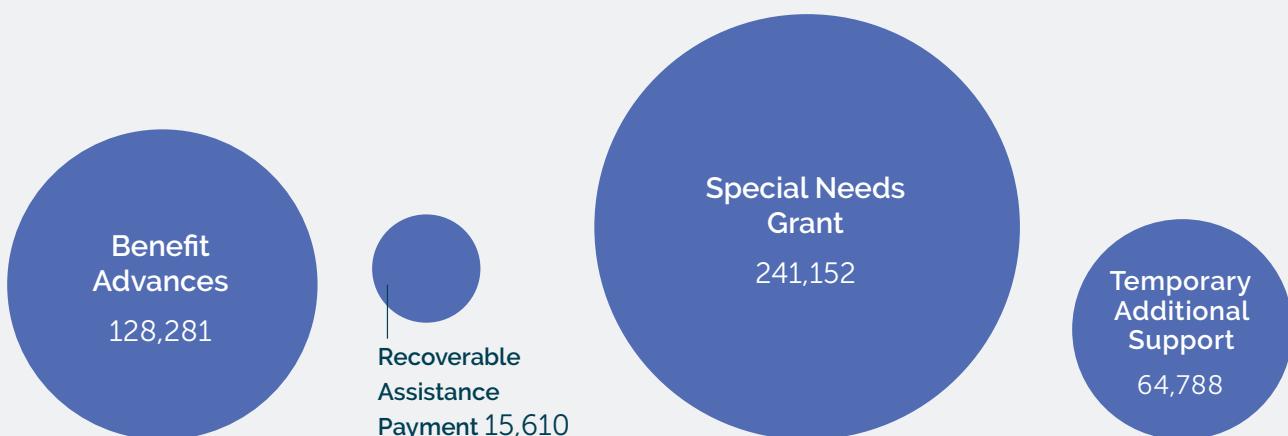
## Main Benefits 306,512 recipients

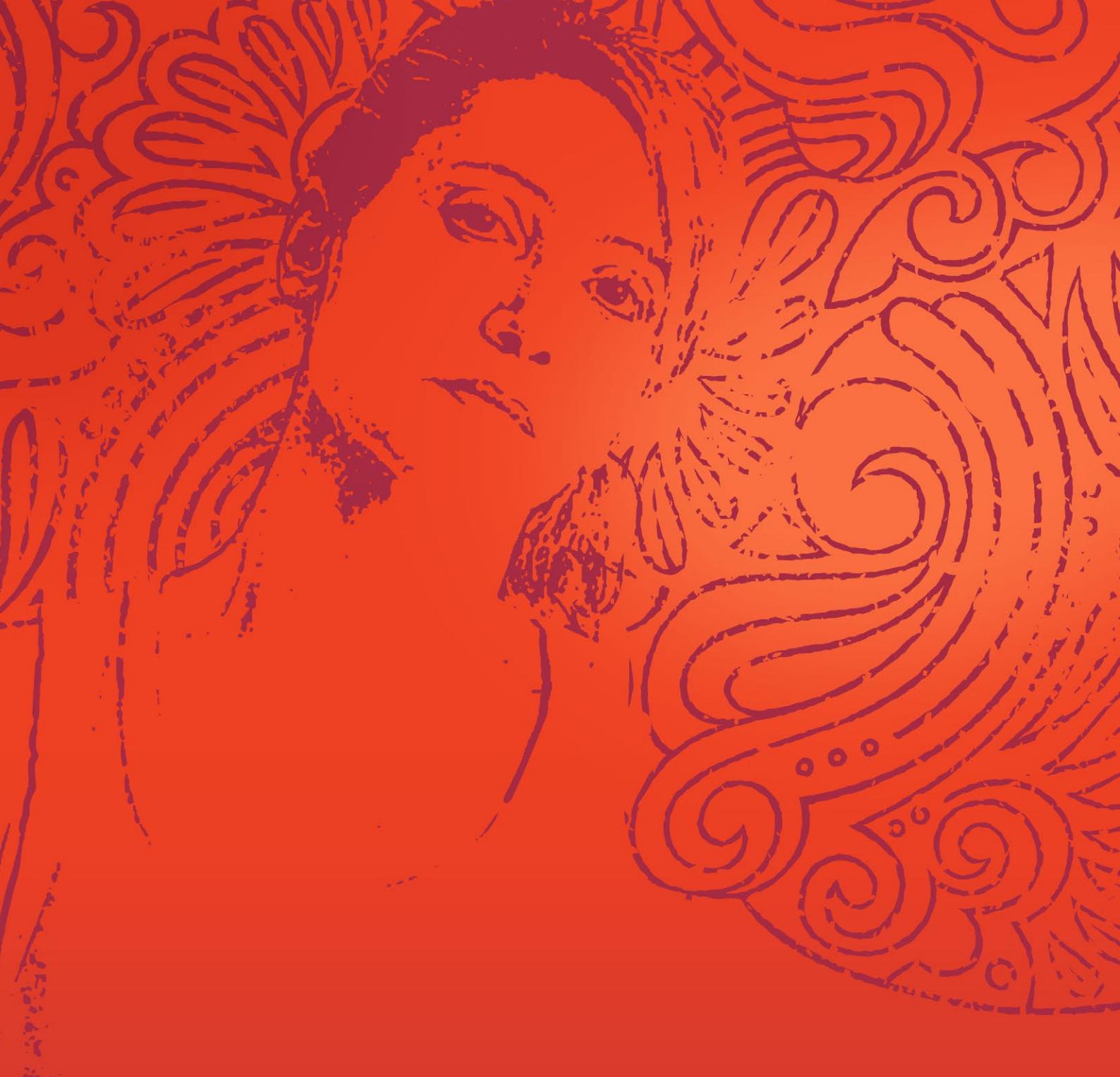


## Supplementary Assistance 547,957 recipients



## Hardship Assistance 449,831 grants granted





# Key recommendations

This chapter collates the key recommendations of the Welfare Expert Advisory Group from chapters 4–11. The 42 key recommendations are supplemented with detailed recommendations at the end of the relevant chapters (which are collated in the table in Appendix D).

## Purpose, values and principles

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### Recommendation 1

Amend the Social Security Act 2018 to state that anyone exercising power under the Act have regard to the following purpose and values.

The purpose of the welfare system is to whakamana tāngata and ensure a dignified life by:

- providing financial security and social security sufficient for an adequate standard of living
- supporting people to achieve their potential for learning, caring or volunteering, and earning through good and appropriate work.

The welfare system is underpinned by Kia Piki Ake Te Mana Tangata, including kaupapa Māori values of:

- manaakitanga – caring with dignity and respect
- ūhangā – economics
- whanaungatanga – treasuring kinship ties and relationships
- kotahitanga – unity
- takatūtanga – preparedness
- kaitiakitanga – guardianship.

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### Recommendation 2

Use the following principles to guide the design and operation of the welfare system.

- Be person-centred and wellbeing focused.
- Keep children paramount.
- Value whānau and families.
- Treat people with dignity, respect, compassion.
- Provide an income sufficient for an adequate standard of living.
- Provide full and correct entitlements.
- Deliver support that is easy to access, timely and appropriate.
- Provide an employment service that supports people into good and appropriate work.
- Support provision of housing that is affordable, secure, of good quality and appropriate for the person (and their family or whānau).
- Promote mutual expectations.
- Aim for equitable outcomes.
- Build and maintain effective linkages with other parts of government.
- Be sustainable.

## Governance and performance

Detailed recommendations for this section are listed on page 71.

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### Recommendation 3

Establish a cross-ministerial approach to implement and monitor the effectiveness of the implementation and impact on outcomes of the Welfare Expert Advisory Group's recommendations (across welfare, health, housing, justice, education and employment) that is cognisant of responsibilities under Te Tiriti o Waitangi (the Treaty of Waitangi) and involves users of the welfare system.

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### Recommendation 4

Direct the Chief Executive of the Ministry of Social Development to design and implement a welfare system that will fulfil the new purpose and principles of the amended Social Security Act, is cognisant of responsibilities under Te Tiriti o Waitangi and involves users of the system.

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### Recommendation 5

Direct the Ministry of Social Development and Inland Revenue to publish yearly, whether as part of their Annual Reports or Statement of Intent, or as a standalone report, information on key outcomes for those interacting with the welfare system, including information about full and correct entitlements, take-up rates of payments, employment outcomes, the impact of employment supports and services, and after-tax and abatement earnings.

Measures should include:

- full and correct entitlement for all who are eligible by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years)
- take-up rates of payments by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years)
- employment outcomes by benefit type, ethnicity, gender, location, health conditions and disabilities, age, and duration off benefit (3, 6 and 12 months)
- impact of employment supports and services on outcomes by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years)
- after-tax and abatement earnings for those receiving financial support from Inland Revenue or the Ministry of Social Development by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years).

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### Recommendation 6

Embed the competencies required to achieve greater equity for Māori in the job descriptions, key performance indicators and performance reviews of the Ministry of Social Development's management and staff.

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### **Recommendation 7**

Include in the amended Social Security Act specific requirements for the Chief Executive of the Ministry of Social Development to be accountable to iwi (as recognised collectives) and to Māori (as individuals, whānau and communities) for achieving equitable wellbeing outcomes for Māori from the welfare system.

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### **Recommendation 8**

Direct the Ministry of Social Development to commit to building its cultural responsiveness to Pacific People, to achieve equitable outcomes for Pacific People engaging with the welfare system. Cultural responsiveness includes having an awareness of cultural obligations experienced by Pacific People around contributions for weddings, funerals and other critical cultural events and taking account of the nuances within diverse Pacific communities.

## **Improving outcomes for Māori**

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### **Recommendation 9**

The Welfare Expert Advisory Group recommends, in addition to the recommendations elsewhere that will improve outcomes for Māori, the Government:

- supports the Ministry of Social Development to continue to shift towards whakamana tāngata – to build the mana of others and uplift them in a way that honours their dignity
- supports the Ministry of Social Development to continue to review and evaluate, with Māori, the services the Ministry delivers to ensure they are effective in improving outcomes for Māori
- works with Māori to consider other effective ways of delivering welfare services and funding that are informed by Te Ao Māori, including longer-term, whānau-centred, strengths-based initiatives.

## **Rebalancing the social contract – improving the operation of the welfare system**

Detailed recommendations for this section are listed on page 90.

### **Restoring trust**

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#### **Recommendation 10**

Develop a mutual expectations framework to govern interactions between the Ministry of Social Development and those who interact with the welfare system.

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#### **Recommendation 11**

Remove some obligations and sanctions (for example, pre-benefit activities, warrants to arrest sanctions, social obligations, drug-testing sanctions, 52-week reapplication requirements, sanctions for not naming the other parent, the subsequent child work obligation, and the mandatory work ability assessment for people with health conditions or disabilities).

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### **Recommendation 12**

Improve outcomes by ensuring the public-facing, frontline service is consistent with the new purpose and principles through sufficient resourcing (for example, staffing, support and services), an appropriate performance framework, and complaints and disputes processes.

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### **Recommendation 13**

Assist recipients of Sole Parent Support to return to part-time work when their youngest child is 6 years old (subject to supports being available, such as good quality childcare) instead of the current 3 years. Support but not require all sole parents to return to work when their youngest child is under 6 years old.

## **Reducing the generation of debt**

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### **Recommendation 14**

Continue to prioritise a reduction in outstanding benefit debt through sustainable repayments, and minimise the creation of overpayments, including reviewing recoverable hardship assistance and current practice, to be more consistent with whakamana tāngata.

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### **Recommendation 15**

Align the regulations and practice around benefit debt so that it is treated in substantially the same way as Inland Revenue treats taxpayer debt.

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### **Recommendation 16**

Instigate a cross-government approach to managing debt to government agencies.

## **Minimising the small amount of fraud**

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### **Recommendation 17**

Endorse the Ministry of Social Development's three-tiered approach to responding to fraud allegation: intervene, facilitate and, as a last resort, investigate. Apply the principles of natural justice in all steps, and, if the outcome is disputed, permit a review independent of the Ministry of Social Development.

## **Interface with the justice sector**

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### **Recommendation 18**

Enhance and improve the support for people exiting prisons, including increasing the Steps to Freedom grant, and ensuring that any person who leaves prison has appropriate identification and is engaged with specialised care and supportive housing initiatives. Move practices around prisoner integration out of the 'pilot' stage and draw on evaluation data to embed integrated support for these individuals.

## Income support

Detailed recommendations for this section are listed on page 114.

### Benefits, Working for Families and supplementary assistance

The following recommended changes need to provide people on low incomes with significantly more than they currently receive (without disadvantaging others on low incomes). Recommendations 19 to 23 should be implemented urgently.

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#### Recommendation 19

Adopt the following 10 principles to redesign the income support system.

- Income support is adequate for meaningful participation in the community, and this support is maintained over time.
- Income support ensures people are always better off in paid work and high effective marginal tax rates are avoided as much as possible.
- Main benefits cover a larger proportion of people's living costs than they do currently (reducing reliance on other assistance).
- Child-related payments follow the child and can be apportioned with shared care.
- Payments for specific costs provide support that is adequate, appropriately designed and easy to access.
- Changes to income support reduce disincentives to form relationships.
- The income support system proactively supports people to access their full and correct entitlements and promotes these entitlements to the broader population.
- The income support system is easy to access and provides timely support, including to people transitioning in and out of the system.
- The income support system is as simple as possible balanced against the need to provide adequate support for people in a variety of circumstances at a reasonable cost to government.
- People are treated with dignity and respect when accessing this support.

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#### Recommendation 20

Reform main benefits by:

- increasing main benefits by between 12% and 47% as set out in table 2, page 99
- increasing the abatement thresholds for:
  - Jobseeker Support to \$150 a week
  - Sole Parent Support and Supported Living Payment to \$150 a week and \$250 a week.

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#### Recommendation 21

Fully index all income support payments and thresholds annually to movements in average wages or prices, whichever is the greater. Index Accommodation Supplement rates to movements in housing costs.

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#### Recommendation 22

Consider introducing a Living Alone Payment that contributes to the additional costs of adults living alone (without another adult) on a low income.

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### **Recommendation 23**

Reform Working for Families and other tax credits by:

- increasing the Family Tax Credit to \$170 a week for the eldest child and to \$120 a week for subsequent children
- increasing the abatement threshold for the Family Tax Credit and changing the abatement rate to:
  - 10% on family annual incomes between \$48,000 and \$65,000
  - 15% on family annual incomes between \$65,000 and \$160,000
  - 50% on family annual incomes in excess of \$160,000
- replacing the In-Work Tax Credit, Minimum Family Tax Credit and Independent Earner Tax Credit with a new Earned Income Tax Credit
- introducing an Earned Income Tax Credit of up to \$50 a week for people with and without children and with a couple-based income test
- making the Best Start Tax Credit universal for all children aged under 3 years.

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### **Recommendation 24**

Reform supplementary assistance and hardship assistance so they are adequate, appropriately designed and easy to access.

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### **Recommendation 25**

Require the Ministry of Social Development to, within 2 years, complete work, including commissioning independent research and focus groups, to establish a minimum income standard for New Zealand (with 5-year reviews).

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### **Recommendation 26**

Increase, as soon as possible, overall income support to levels adequate for meaningful participation in the community, as defined by the minimum income standard (which reflects different family circumstances, for example, children, disabilities and regional area) and maintain this level of support through appropriate indexation.

## **Passing on child support**

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### **Recommendation 27**

Pass on all child support collected to receiving carers, including for recipients of Unsupported Child's Benefit.

## **Clarifying eligibility and relationship status**

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### **Recommendation 28**

Move income support settings over time to be more neutral on the impact of being in a relationship in the nature of marriage.

## Alleviating the housing conundrum

Detailed recommendations for this section are listed on page 124.

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### Recommendation 29

Urgently expand and accelerate Government efforts to substantially increase public housing on an industrial scale and continue urgent efforts to end homelessness.

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### Recommendation 30

Increase the range of home ownership and tenure options for people on low and low-middle incomes.

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### Recommendation 31

Increase the capacity of third-sector community-based housing providers.

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### Recommendation 32

Develop and enact laws and regulations to ensure healthy homes and housing security, decent standards of housing quality, universal design, and accessibility.

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### Recommendation 33

Subsidise housing costs for people on low incomes (in addition to raising main benefit rates to provide an adequate income) and ensure the combination of changes to housing support and abatement rates make households better off.

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### Recommendation 34

Improve access to affordable, suitable housing support for people on low and low-middle incomes, including a range of affordable home-ownership products and papakāinga housing.

## Improving access to employment supports and work

Detailed recommendations for this section are listed on page 140.

### Supporting working-age adults

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#### Recommendation 35

Establish an effective employment service of the Ministry of Social Development so it is better able to assist people to obtain and keep good, sustainable work.

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#### Recommendation 36

Revamp active labour market, labour market, employment and training policies across government to make them more coherent and effective.

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### **Recommendation 37**

Strengthen the Ministry of Social Development's redundancy support policies to better support displaced workers.

#### **Supporting youth to engage in education, training or paid work**

Detailed recommendations for this section are listed on page 140.

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### **Recommendation 38**

Abolish, in the Youth Service, compulsory money management, and separate case management from youth mentoring so it is consistent with and has a positive youth development focus.

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### **Recommendation 39**

Use evidence-based approaches that support young people to be learning, earning and, where young people are parents, caring. These approaches need to build on the strengths of young people and provide a basis for their long-term engagement with the changing world of work.

## **People with health conditions and disabilities and carers**

Detailed recommendations for this section are listed on page 153.

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### **Recommendation 40**

Improve the health and wellbeing of people with health conditions and disabilities, along with carers of people with health conditions and disabilities who interact with the welfare system by:

- providing financial support that is adequate to live a life with dignity and is equitable across the social sector
- implementing evidence-based approaches to support engagement in good, suitable work and the community where this is possible
- implementing strategies to prevent work-limiting health conditions and disabilities.

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### **Recommendation 41**

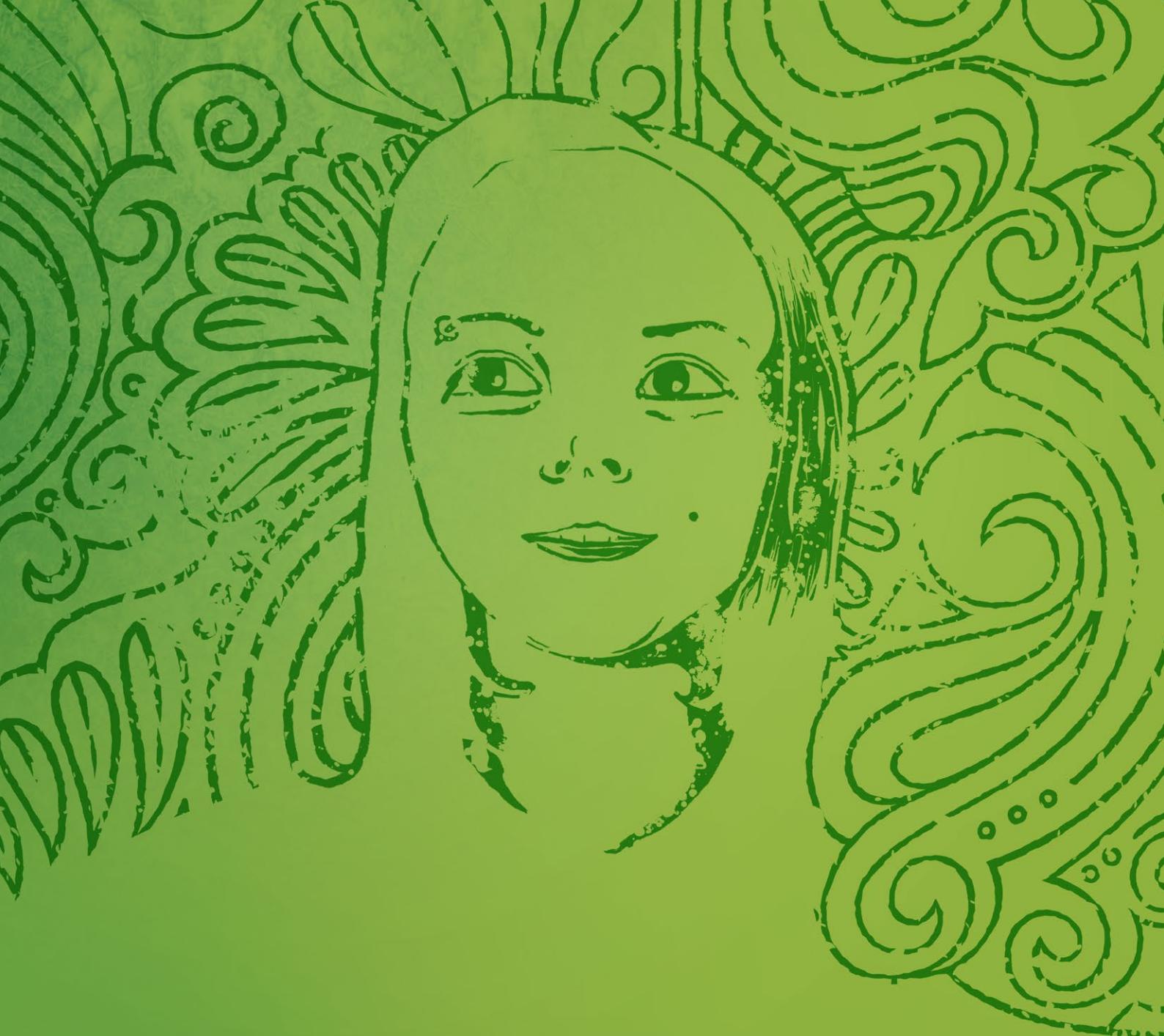
Include in the scope of the New Zealand Health and Disability System Review the relationship between the health and disability system and the accident compensation scheme and how the relationship between these and the welfare system could be changed to improve outcomes for people with health conditions and disabilities and carers.

## **Community**

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### **Recommendation 42**

Direct the Ministry of Social Development to develop the capacity and capability to engage with, promote and fund community organisations to provide wide-ranging opportunities for volunteers and people receiving benefits to be meaningfully engaged in their communities.



# 01 Introduction

The Government's vision for New Zealand's social security system is one that ensures people have an adequate income and standard of living, are treated with and can live in dignity and are able to participate meaningfully in their communities. The Welfare Expert Advisory Group was established in May 2018 to provide advice to the Government on options that could best give effect to this vision.

The 11 members of the group were chosen for the diverse range of expertise and experience they bring. They represent a wide range of views and backgrounds, and the breadth of their competencies and perspectives has been critical to this comprehensive review.

## Process of deciding on the recommendations

We recognised the need to inform our work with the views of New Zealanders supported by and working in New Zealand's welfare system, as well as a solid basis of research and evidence.

To ensure the veracity and rigour of our recommendations, we undertook a broad and inclusive consultation during which we heard the views of over 3,000 people. As well as community forums throughout New Zealand, people shared their thoughts with us through a survey, submissions and stakeholder meetings. We heard from a wide variety of New Zealanders including people receiving welfare payments, employers, service providers, advocates, community workers, and staff of the Ministry of Social Development (MSD). Our consultation process allowed us to hear what happens to shape the lives of New Zealanders and how we might change the system to make a positive difference for families and communities.

Feedback from all consultation channels has been brought together and prepared under key themes and can be found in the Background Paper 'Views on New Zealand's Welfare System' (WEAG, 2019a).

Our work was further supported by background papers on various aspects of the welfare system, to identify and understand the problems along with possible evidence-based solutions. These are listed in the technical appendices. The papers, together with the consultation document, formed the evidence base for the recommendations outlined in this report.

Some of the issues covered in this report were subject to substantial debate within the Welfare Expert Advisory Group. We sought a consensus view on all key issues. While all members might not subscribe to every statement printed here, they endorse this report and its recommendations as a whole.

...we undertook a broad and inclusive consultation during which we heard the views of over **3,000 people**.

## Reform is needed to ensure the dignity of all New Zealanders

The current welfare system was designed for the New Zealand of 80 years ago, to support New Zealanders who find themselves in difficult situations through no fault of their own. It has been subjected to decades of amendments but is not equipped for the needs of society in the 21st century. The increasingly complex nature of family, whānau, community, employment, and business structures makes it no longer fit for purpose.

Too many New Zealanders are living in desperate situations, and there are pervasive and persistent inequities across the system. There is growing concern for the marginalisation of different groups, with many New Zealanders disproportionately affected including Māori, Pacific People, youth, disabled people, and people with health conditions. These imbalances need to be addressed in ways that will treat people more fairly and ensure a better future for all New Zealanders.

It has been our task to recommend reforms to the welfare system to future-proof it for the coming generations. A system that will return dignity to social security in New Zealand, a system in which we can be proud.



**240,000\*** children live in households below the poverty threshold and **40%** of these children live in working households.

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Based on poverty measure of 60% of the median income (after housing costs and adjusted for household size).

\*(Perry 2018: 62)



People with a health condition or disability account for over **50%** of the approximately **300,000** working-age people receiving a main benefit.



Each year over **630,000** people receive payments from MSD.

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This excludes superannuitants and those in receipt of student loans and allowances.



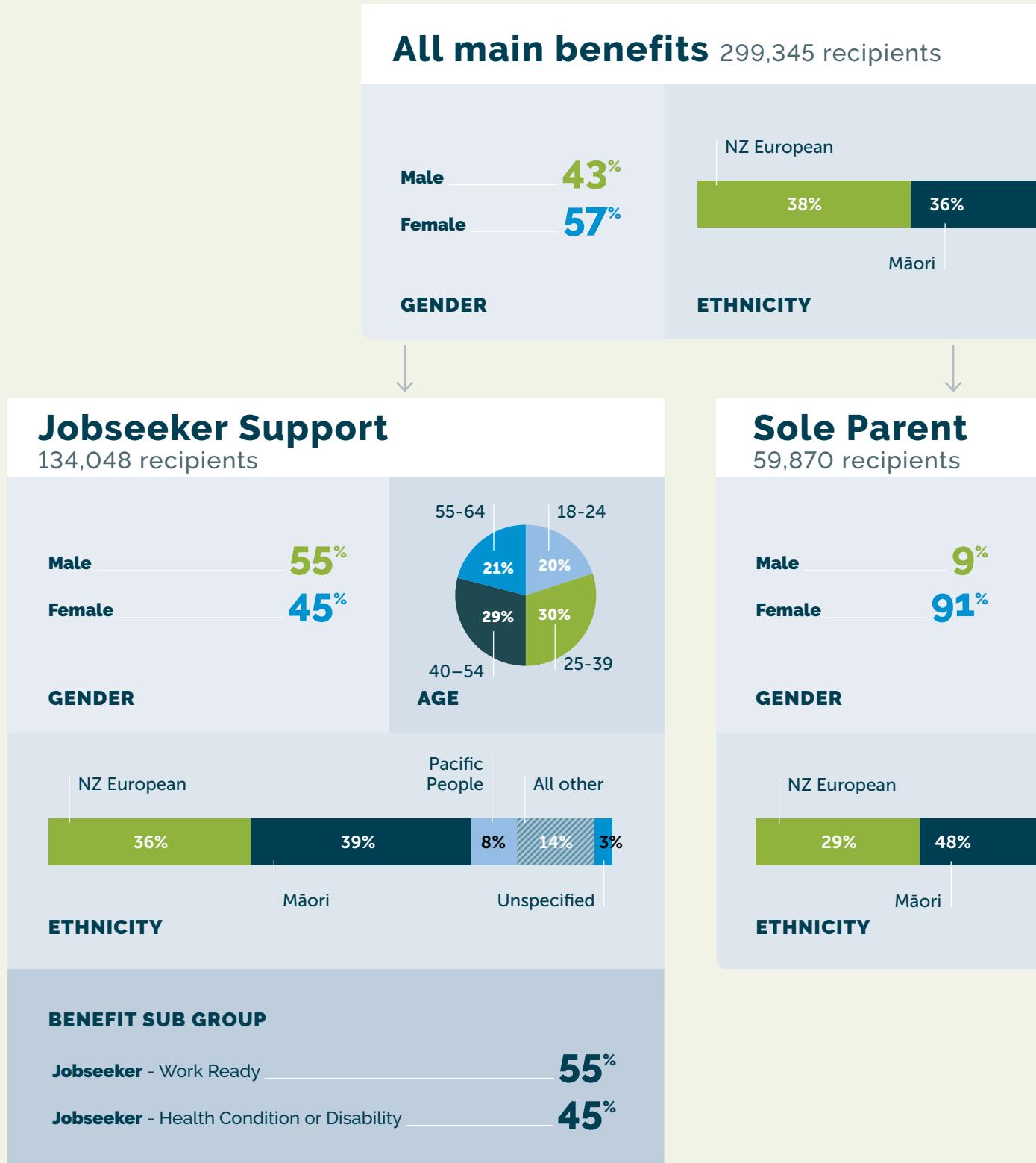
**345,900** families receive a Working for Families tax credit.

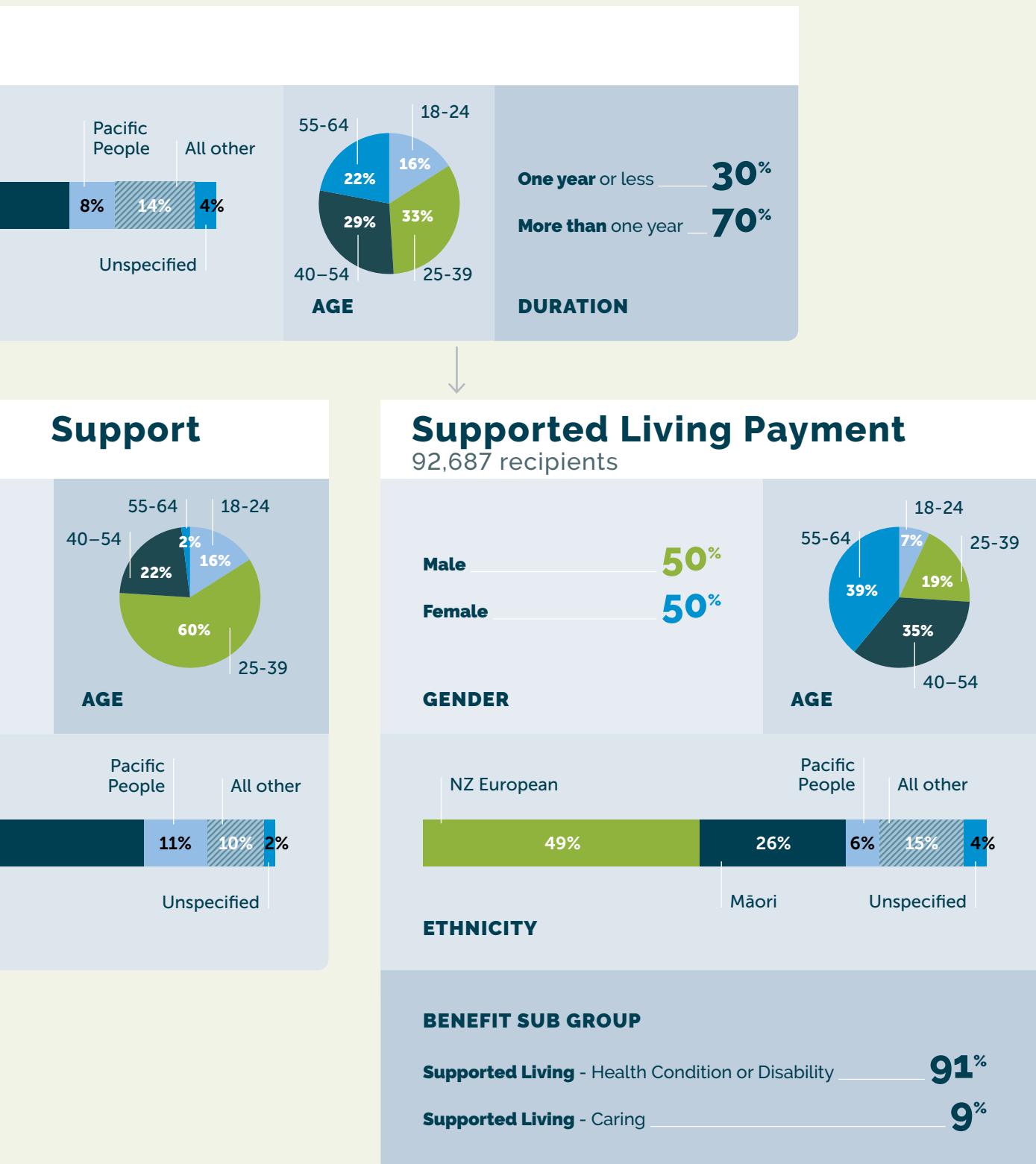
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Some of those in receipt of the tax credits will also be receiving a payment from MSD.

# Benefits at a glance

AS AT DECEMBER 2018







## 02 Fundamental change is needed

The welfare system of New Zealand is the product of decades of amendments to the Social Security Act. Some amendments were ad hoc, some were attempts to adapt the system to social change and others focused on short-term cost cutting. In recent years, the focus has been on tight targeting and increased conditionality, with concern for the fiscal impact and number of benefit recipients. The overall result is a system that is badly in need of repair and no longer fit for the needs of New Zealand in the 21st century.

## Current system was set up in a different time and is no longer fit for purpose

To understand the changes needed now, it is important to understand where the system has come from. New Zealand was one of the first countries to establish a comprehensive social security system following the major disruptions arising from World War I and the Great Depression in the 1930s. The Social Security Act 1938,<sup>2</sup> introduced by the first Labour Government, was seen as taking a world-leading approach. It provided a wide-ranging set of protections against loss of income due to unemployment, sickness or disability, in addition to the existing benefits. It was later accompanied by the universal Family Benefit for each child. Housing was provided through a large-scale state housing programme and subsidised mortgages for home-buyers. The 1938 Act and the subsequent Social Security Act 1964 fitted the social norms and labour market circumstances of the time, high male employment, low labour force participation by married women, a 'family wage' approach to wage setting, and a low rate of sole parenthood (Belgrave, 2012; Blaiklock et al, 2002).

From the 1970s, both social and economic circumstances began to change dramatically in ways that the social security system struggled to cope with. Divorce rates and the numbers of sole parents began to rise. In 1972, the Domestic Purposes Benefit was introduced to provide statutory support for sole parents caring for dependent children or other family members. At the same time, women's labour force participation rose dramatically as women chose to continue their careers after marriage and parenthood. Economically, New Zealand

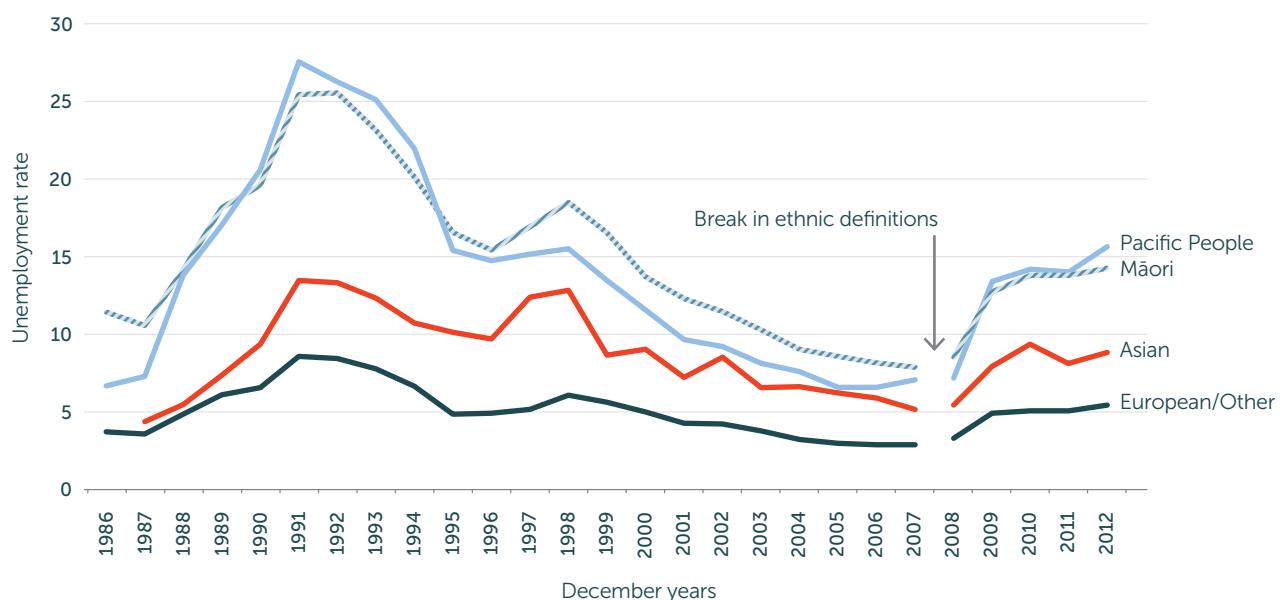
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2 The long title: "AN ACT to provide for the Payment of Superannuation Benefits and of other Benefits designed to safeguard the People of New Zealand from Disabilities arising from Age, Sickness, Widowhood, Orphanhood, Unemployment, or other Exceptional Conditions; to provide a System whereby Medical and Hospital Treatment will be made available to Persons requiring such Treatment; and, further, to provide such other Benefits as may be necessary to maintain and promote the Health and General welfare of the Community".

lost its privileged trading relationship with Britain that had underpinned the welfare system and provided near-continuous real wage growth. "Export revenues became insufficient for a growing population and volatile commodity markets highlighted the vulnerabilities of a narrow economic base" (Conway, 2018: 40). This, and oil-price shocks, led to a stalling in real wage growth, contributed to the unravelling of the old wage-setting system, and contributed to rising numbers of unemployed and declining living standards relative to other OECD countries.

The economic reforms from the mid-1980s to the mid-1990s, intended to adapt the country to the new circumstances through a focus on deregulation and market efficiency, led to a rapid rise in unemployment and benefit numbers further straining the welfare system. In 1981, the unemployment rate<sup>3</sup> was only 3.9% but it reached a peak of 10.6% in 1991<sup>4</sup> and 1992, with 180,400 people unemployed in 1992. The unemployment rate for Māori peaked at 25.6% in 1992 and 27.5% for Pacific People in 1991 (see figure 1). For young people aged 15–24, the unemployment rate reached a peak of 19.1% in 1991 (MSD, 2016).

**Figure 1: Unemployment rate, by ethnic group, 1986–2014**



**Source:** Statistics New Zealand, Household Labour Force Survey in Ministry of Social Development (MSD, 2016).

**Notes:** Year ended December. For 2007 and earlier, people are counted in only one ethnic group (ethnicities are prioritised). From 2008, people can be counted in more than one ethnic group (total response). Caution should be used when comparing the two ethnic series over time.

Asian rates are suppressed in 1986 because of small numbers.

3 The unemployment rate is the number of people aged 15 years and over who are not employed and who are actively seeking and available for paid work, expressed as a percentage of the total labour force, as measured by the Household Labour Force Survey.

4 New Zealand Unemployment Rate [https://www.indexmundi.com/new\\_zealand/unemployment\\_rate.html](https://www.indexmundi.com/new_zealand/unemployment_rate.html)

One of the lessons from the reforms of the 1980s and early 1990s is that persistent long-term unemployment was particularly harmful (Nolan, 2013). In 1987, unemployment was low and the proportion of people unemployed who were out of work for 6 months or more (long-term unemployed) was only 27%. However, by 1991, 44% of people out of work were long-term unemployed. Even in the good times, long-term unemployment amongst disadvantaged communities persisted. This proportion remained above its 1987 level until 2003, because employers were relatively unwilling to take a chance on people who had been out of work for a sustained period (Nolan, 2013).

From 1991, social assistance became targeted and more conditional. Assistance became targeted to those on very low incomes. The 1991 cuts to entitlements were substantial for most benefit categories.<sup>5</sup> The new benefit levels were set in relation to an 'income adequacy standard' that was based on estimates of minimum requirements for food and living expenses. This estimate departed from the principle of relativity that had guided government policy since 1972. Policy reforms through the 1990s focused on reducing benefit 'dependency' and moving benefit recipients into paid work.

This period saw the emergence and expansion of increasingly targeted supplementary assistance programmes on top of the basic benefit to meet a range of individual needs<sup>6</sup> (Mackay, 2001). In the 1990s, supplementary payments were reformed. For example, housing assistance provided through the new Accommodation Supplement was intended to target expenditure on housing support more tightly to those most in need.<sup>7</sup> Together with lowering of the levels of the main first-tier benefits, changes to supplementary payments resulted in a large shift in the balance between the amount of assistance delivered through the basic benefit and the amount delivered through the second-tier programmes. In 1984, spending on second-tier assistance amounted to only 1.1% of total expenditure on benefits and pensions but, by 1996, this had increased to 9.4% of the total (Mackay, 2001). The system of supplementary payments, developed on an ad hoc basis rather than being based on empirical evidence, is complex to administer and difficult for staff and end users to understand. Take up of the supplementary payments is lower than expected, especially among people who are not receiving first-tier assistance.

Financial hardship increased for many New Zealanders in the 1980s and 1990s. This can be seen with the emergence and expansion of food banks (Mackay, 1995; 2003) and increased poverty rates (see figure 2). In response, the Government introduced greater requirements on benefit recipients to use budgeting services.

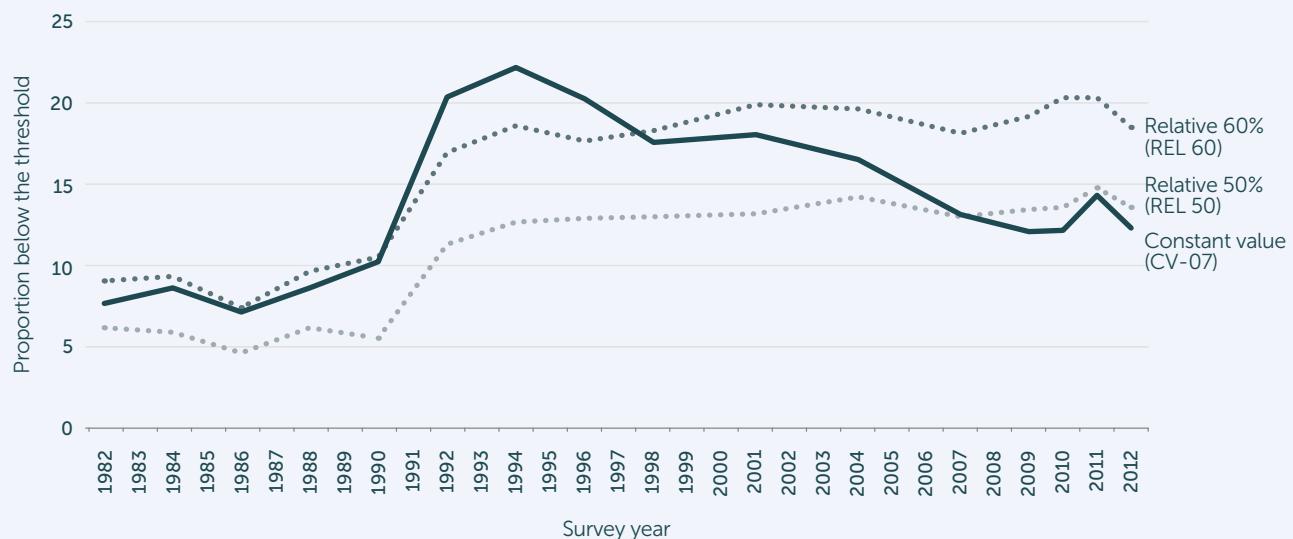
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5 The rate for the Invalid's Benefit remained unchanged.

6 For example, Accommodation Supplement, Special Needs Grant, Disability Allowance, Child Disability Allowance, Childcare Subsidy.

7 This was accompanied by the sale of state houses and the introduction of market rents (Blaiklock et al, 2003).

**Figure 2: Proportion of population with net-of-housing-costs household incomes below selected thresholds, 1982–2014**



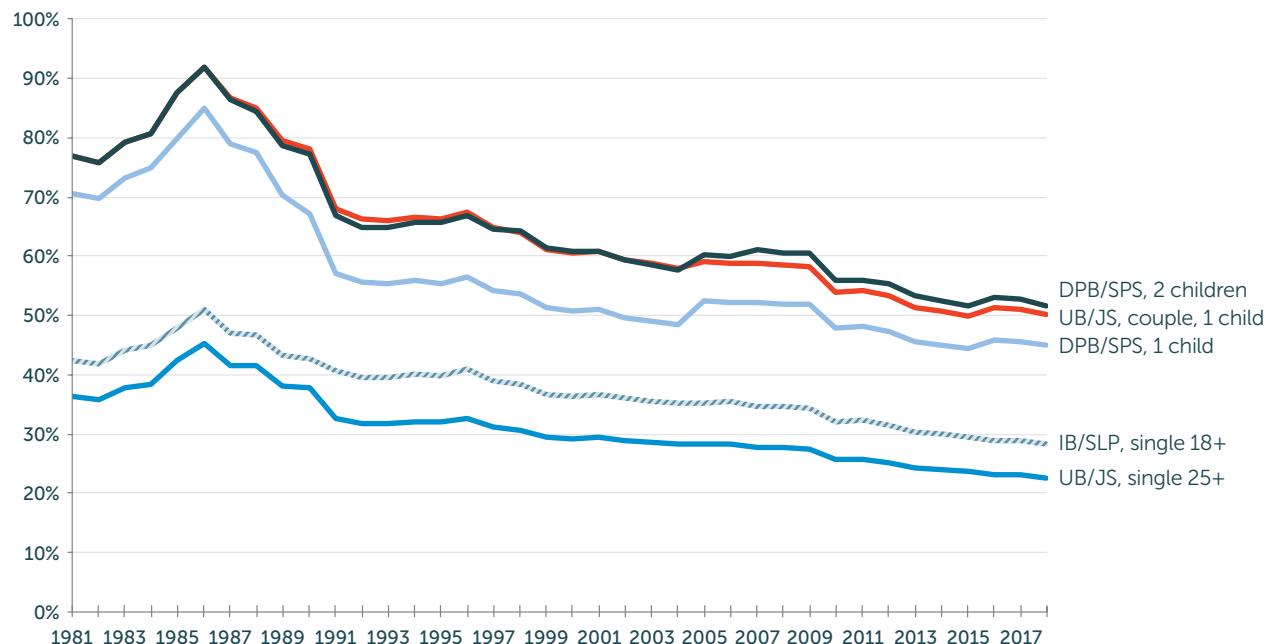
**Source:** In MSD (2016), Ministry of Social Development, using data from Statistics New Zealand's Household Economic Survey.

**Note:** The period between Household Economic Surveys has varied across the period shown.

After 1991, main benefit rates (but not supplementary and other payments) were adjusted annually for changes in the consumers price index. They were not, however, adjusted in line with changes in wages or incomes. The result is that the incomes and living standards of benefit recipients have continued to fall behind those of the rest of the community. This is clearly evident in figure 3, which shows the trend since 1981 in after-tax benefit rates, including family assistance, as a percentage of the after-tax average wage.

**Figure 3: Comparison of benefit rates to average wages, 1981–2018**

SELECTED NET BENEFIT RATES (INCLUDING FAMILY ASSISTANCE) AS A PERCENTAGE OF NET AVERAGE WAGE RATES



**Source:** Fletcher 2018a.

**Notes:** DPB = Domestic Purposes Benefit; IB = Invalid's Benefit; JS = Jobseeker Support; SLP = Supported Living Payment; SPS = Sole Parent Support; UB = Unemployment Benefit.

Family assistance includes Family Tax Credit, Family Support, Child Supplement and Family Benefit over the relevant years. It does not include In-Work Tax Credit or any partial entitlement to Family Tax Credit a person/couple on the average wage might be entitled to. Average wage is all industries, both sexes, average ordinary earnings (FTEs).

The changes to the welfare system in the 1980s and 1990s did not happen in isolation. Increased targeting across health,<sup>8</sup> education<sup>9</sup> and the benefit and tax credit systems resulted in overlapping withdrawal of state assistance with increasing income. This created the potential for poverty traps where people lost more income than they gained from increasing their earnings from work (MSD, 2018a).

The most recent changes, in the period from 2010 to 2017, did not alter the rate of most benefit payments.<sup>10</sup> They sought to make the rules and administration of welfare more 'work focused', with changes in benefit names, a wide range of new obligations and conditions and an emphasis on reducing numbers on benefits using targets and other key performance indicator measures. The changes also sought to target more intensive assistance and case management towards those benefit recipients likely to cost the most in terms of future benefit expenditure (for example, sole parents) and away from benefit recipients who were

8 For example, restructuring the funding and provision of health care, with a new 'user-pays' regime of charges for primary care, with state assistance dependent on income; and deinstitutionalisation.

9 For example, universities being allowed to set their own fees, Student Allowances becoming means tested in relation to parental income and a new Student Loan Scheme introduced to cover fees, courses costs and living expenses.

10 Rates for some sole parents were increased in 2016.

likely to quickly move into work (for example, new job seekers).<sup>11</sup> These changes have reduced total benefit numbers (aided by a strong labour market), which fell from 320,041 in June 2012 to 276,331 in June 2017.<sup>12</sup> No evidence exists that the changes improved the Ministry of Social Development's (MSD's) effectiveness in placing people into employment or resulted in an overall improvement in incomes and wellbeing for current and past benefit recipients.

The rate of 'churn' of people going into unsuitable or precarious work for short periods then back into the benefit system shows many people were experiencing few positive and long-term changes in their wellbeing. A recent study found that close to one out of every two people leaving benefit returns within 18 months, especially those with lower earnings (Judd & Sung, 2018).

### Many people are leading desperate lives with seriously inadequate incomes

The historical trends in the welfare system are consistent with what we heard in our consultation hui. An overwhelmingly common theme throughout the consultations and in written submissions was the wholly inadequate nature of current levels of income support. Associated with these concerns were comments about housing costs, debt and increasing rates of homelessness (Johnson et al, 2018). In addition, the financial incentives to enter paid employment are minimal once benefit abatement rates and thresholds, taxes and work-related transport and childcare costs are accounted for.

These points are supported by evidence from our construction of budgets for a selection of example families. We found evidence that the levels of main benefits are well below those levels necessary for an adequate standard of living, let alone the levels necessary for even modest participation in society. Even with modest levels of expenditure across core spending items (for example, food, power and housing), individuals and families receiving a range of income support payments face ongoing financial deficits (total spending levels greater than their income entitlements). These conclusions also hold for many of those in paid employment on low wages. Further, spending that allows people to participate meaningfully in their communities (for example, children's sports fees) results in even larger deficits, as does servicing existing debt. Our findings from the example budgets analysis are detailed in chapter 7.

<sup>11</sup> The Welfare Working Group found most MSD employment assistance, including case management, went to those unlikely to remain on welfare long term. The Welfare Working Group recommended that MSD better align the level of employment assistance to the expected future liability of the people receiving income support (Welfare Working Group, 2011).

<sup>12</sup> Source [www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/archive-2017.html](http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/archive-2017.html).

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*The current welfare system is inadequate and children and whānau are missing out on necessary things such as food and power. Sacrifices are being made and this is impacting on our children. Hungry children cannot learn at school and these children are the most at risk of future negative outcomes. Whānau are stressed and becoming overwhelmed.”*

**PAST WELFARE RECIPIENT**

As a result of benefit levels being below the level required for sustaining even a basic standard of living, many people receiving benefits are in debt. The combination of unsustainably low incomes and high basic living costs means indebtedness is almost inevitable for many people on benefit for any length of time. The growing debt burden becomes a vicious circle, resulting in even less disposable income as families struggle to repay debts, including recoverable grants from MSD. Debts to third-tier lenders usually involve high interest rates, high fees and high penalties for late payment.

### **High housing costs are exacerbating the problem**

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*[We are concerned about] housing and lack of suitable housing, children and families in emergency accommodation long term.”*

WELLINGTON ROUNDTABLE

One of the largest expenses people face are housing costs. On average, housing costs make up around 45% of expenditure for low-income households. For the bottom 20%, average housing costs as a proportion of average income have increased from 29% to 51% since 1988. Housing affordability is an important contributor to wellbeing and a reasonable standard of living. Home ownership rates have fallen to their lowest rate since 1953. The rate for Māori households declined 20% from 1986 to 2013, while for Pacific households the decline was 35%. Māori home ownership is around 28%, Pacific 19% and European 57% (Johnson et al., 2018, WEAG, 2019i). At the same time, renting has become less affordable, leading to overcrowding, and homelessness is a serious problem.

There are just not enough houses to meet demand. Of the current housing stock, too many are unaffordable for low-income families. Many are substandard, poorly insulated, damp and unhealthy. A critical longer-term aspect of the housing crisis is its contribution to the growth of wealth inequality: a central aspect of our original welfare system was the ability of most people, including low-income families, to acquire an asset base in the form of a house. The policy was effective in reducing poverty in old age because most households paid off their mortgage before retirement (Castles, 1985). We now face the prospect of a large cohort of renters who will become superannuitants, moving into their later years without housing security and with the ongoing cost of rent payments.

The housing crisis is also a critical issue contributing to ill health, with the above factors causing stress for those who are unable to live in a secure, warm, dry home of the right size for themselves or their family. Numerous studies into the health of populations and their housing conditions provide evidence of strong associations between poor health and low-quality housing (Howden-Chapman et al., 2012; Howden-Chapman & Chapman, 2012; Mueller & Tighe, 2007; Thomson et al, 2009).

Overcrowding increases the risk of infections spreading, including life-threatening diseases such as pneumonia and bronchiectasis, asthma attacks, gastroenteritis, serious skin infections, kidney diseases,

rheumatic fever and meningococcal disease. Coldness, damp and mould increase the risk of getting sick with a virus, makes asthma worse, and can increase the incidence of heart and lung disease. Living under financial stress in poor-quality housing or no housing is a contributory cause and consequence of mental illness (Government Inquiry into Mental Health and Addiction, 2018; Potter et al, 2017). Census data consistently shows that Māori and Pacific People are much more likely to live in poor-quality housing and face these higher health risks.

Various aspects of the welfare system work against people building up assets. Housing support for rents or mortgages has harsh asset-testing rules that make it difficult to become a home owner. The state could end up paying much more in housing assistance than it would have had it supported households into their own housing. Housing for disabled people is frequently not modified for their needs. Multi-generational Pacific families seldom have houses large enough to cater for them and end up overcrowded, even though building separate smaller houses is much more expensive than building a larger house on a square metre basis.

### Rebalancing the social contract

The social contract<sup>13</sup> is evident in key New Zealand statutes such as the 1938 Social Security Act. Government provision of financial assistance for New Zealanders unable to achieve an adequate standard of living was central to the social security system set out in the 1938 Act, alongside other critical support such as access to health care, education, housing and adequate employment. On the other side of the contract, there are expectations of people receiving financial support, such as an expectation to participate in training or other activities or to seek employment where appropriate.

While the social security system has undergone periods of significant reform (as mentioned earlier), the broad consensus throughout our consultation is that it is the Government's responsibility to provide that support. Since the 1980s, the support provided to people by government has been reduced. Requirements that must be met, and aligned sanctions, to access the reduced support have increased considerably and contributed to the hardship faced by many in the welfare system. In our view, the social contract has become imbalanced.

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*Often those on a benefit are at the LOWEST point in their lives and they need encouragement and acceptance from Work and Income case managers. They don't need to be pulled lower but need to be pushed higher and supported generously. I think case managers should go through more training on social services and how to relate to people that are dysfunctional and need their help. Compassion! Support your clients with compassion.”*

**PAST WELFARE RECIPIENT**

<sup>13</sup> The social contract is the idea that people consent to be governed. Under the contract, people pay taxes and give up some freedoms but receive fairness and order from the government.

The current benefit system is based on a one of conditionality and sanctions. We heard overwhelmingly through our consultation that such a system diminishes trust, causes anger and resentment, and contributes to toxic<sup>14</sup> levels of stress. The application of obligations and sanctions in New Zealand (and elsewhere) is problematic.

Work obligations have always existed in the social welfare system. The emphasis on work obligations has increased over time, and this increase has included the expansion of full-time and part-time work obligations to more people, with requirements to participate in work-preparation activities for almost everyone who is not subject to a work test. However, most of the obligations under the current regime are not work related, instead they are designed to elicit certain social behaviours or to transfer some administrative burden to the recipient (MSD, 2019a).

The empirical literature provides no single, overarching answer to whether obligations and sanctions in welfare systems bring about the desired forms of behavioural change, such as movement into paid work or whether the positive effects of obligations outweigh the negative (Watts & Fitzpatrick, 2018: 111). Research does indicate that obligations and sanctions can be costly to administer and comply with and have many harmful unintended consequences that compound social harm and disconnectedness (for example, movement in and out of insecure jobs, interspersed with periods of unemployment; disengagement from the social security system; increased poverty; increased crime to survive; worsened ill-health and impairments) (Economic and Social Research Council, 2018; Watts & Fitzpatrick 2018; Butterworth et al, 2006; Kiely & Butterworth, 2013; Davis, 2018). There is even less evidence that non-work-related obligations and associated sanctions achieve the stated aims of intended behavioural modification.

A high number of obligation failures<sup>15</sup> are disputed (46%) and almost all (98%) of these disputes are upheld with the failure being overturned. This may indicate that the disputes process is working effectively, but it also highlights that, often, failures that can lead to sanctions are applied incorrectly and without the proper checks being applied (MSD, 2019c).

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*I have often been to WINZ [Work and Income, Ministry of Social Development] appointments with people on a benefit. The beneficiaries usually get terribly stressed for a week or so before the planned appointment. It shouldn't be a stressful experience. Some staff are wonderful and know what the beneficiaries are entitled to, the next WINZ staff member that the beneficiary may see, may tell them something entirely different – it is very confusing and feels like a roller coaster ride.”*

**FRIEND/FAMILY MEMBER OF WELFARE RECIPIENT**

<sup>14</sup> Researchers at Harvard University have developed the concept of toxic stress to show how the executive functions of the brain are damaged by toxic stress (Shonkoff et al, 2012).

<sup>15</sup> Refer to the glossary.

This environment has contributed to people losing trust in the service they have been receiving. People consulted reported that aspects of MSD's operation that eroded trust included:

- a punitive sanction regime with a wide array of obligations
- a complex and bureaucratic system for both staff and recipients of support, which contributed to inconsistent service
- difficulty in obtaining clear information about entitlements and understanding decisions made by staff
- an often unwelcoming atmosphere in service centres that is not helped by the controlled entry and presence of at least three security guards in each service centre
- too little time allocated for appointments
- delays in processing applications and payments, leading to people not getting what they need when they need it
- performance measures that focus on efficiency and reducing liability rather than on what is best for the individual or family
- a system that makes it hard to avoid debt
- a difficult and intimidating disputes and complaints process.

Recent research recommends a move away from such systems towards more personalised services.

Many people on the consultation talked about the value of advocacy in relation to having support at their interviews, as well as the value of being able to get information about their entitlements. Some MSD staff also commented on how useful and helpful advocates often were in interviews and other interactions. Advocates are often volunteers in their communities or are community workers doing multiple support roles with different agencies, and this vocation needs to be supported by MSD staff and management.

## Some groups are disproportionately negatively affected

### Welfare system has failed to deliver for Māori

Māori have a unique relationship with the Crown as a partner to Te Tiriti o Waitangi (the Treaty of Waitangi). As such, they are entitled to rangatiratanga and to citizenship entitlements. Māori are a heterogenous population with increasing numbers succeeding at university and in business and others with no formal qualifications and few employment prospects. Intra-ethnic variation is greater than inter-ethnic variation (Cunningham & Durie, 2005). That said, economic restructuring in the 1980s hit Māori families particularly hard. Since then, many families and individuals have struggled to survive as the number of low-skilled

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A lot of things haven't worked for a very long time for our whānau. The system is currently broken. We have case managers who are absolutely judgmental as soon as whānau walk through the doors.”

PAST WELFARE RECIPIENT

jobs has decreased and wages for low-skilled jobs have continued to decline relative to the cost of living. Retraining and upskilling require considerable support and access to equity that is not readily available to these families and individuals.

While many Māori are doing well in education and the labour market, there is a persistent disparity in rates of unemployment and benefit receipt. Māori make up 36% of all working-age people receiving a benefit as a primary benefit recipient. Age standardised rates of receipt are more than three times higher for Māori than for non-Māori and are highest for Māori women.

Many of the reasons for this disparity are associated with other systems that influence job opportunity, such as the failure of the educational system to address Māori learning and higher incarceration rates for Māori. Demographic differences, such as a younger age of parenting, having fewer assets (including less stable, quality housing and increased debt), and being geographically concentrated in poor and rural areas, all contribute to a lessening of opportunities for Māori to enjoy the same level of wellbeing, access to employment, progression into more highly paid work and home ownership. While these other social and economic domains play a role, the simple fact is that the failures of the current welfare system will, and do, disproportionately affect Māori because of Māori people's greater reliance on welfare. A benefit system that better promotes wellbeing would make a bigger difference to the Māori population, and addressing the inadequacies of the current system is a prerequisite for addressing child and family poverty among Māori.

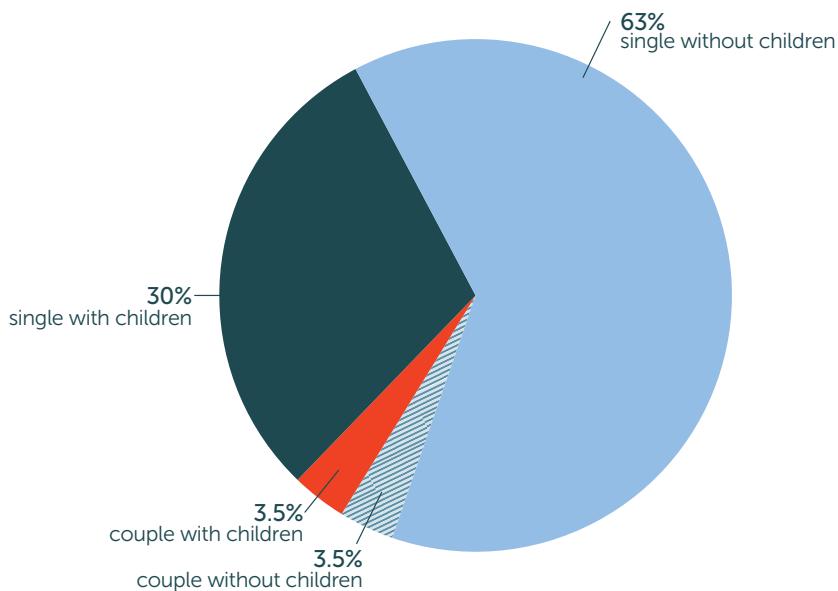
### **System is not responsive to the changed needs of families and whānau**

Families, and arrangements for the care of children, are more diverse and fluid than in the past. Most families with children aged under 18 are two-parent families, but it is now common for children to spend some part of their childhood in a one-parent household. In families where both parents have well-paying jobs, this is less problematic, but where sole parenthood means reliance on benefit, it is associated with a high risk of poverty. New Zealand has a high rate of sole parenthood by OECD standards, a high rate of sole parent benefit receipt, and a high rate of poverty and child poverty among sole parent families. The proportion of families headed by a sole parent has been gradually declining since the mid-2000s after a period of rapid growth. However at 27% in 2013, the proportion remains high compared with other OECD countries - higher than all but two out of 39 OECD industrialised countries (MSD, 2018a, 2018b; Superu, 2018). In addition, Working for Families payments and thresholds, although adjusted periodically, have not been consistently and fully indexed to changes in costs or median incomes.

Current policy settings have also not been able to adapt to the prevalence of two earners in couple families. It is the norm now for both partners in two-parent households to be in employment. Around two-thirds of two-parent households with dependent children are dual-earner families (up from one in two in the early 1980s). For many families, two (or sometimes three or more) jobs are needed to provide an adequate income. Partnered people affected by job loss often do not qualify for income support if their partner is in paid work (even on minimum wage) because of a joint income test and the tight targeting of payments. The system is still based on a one-earner model where one income is enough for a family. Tight targeting worsens that problem. For sole parents and partners in two-parent families, benefit reforms since the early 1990s have extended stand-down and non-entitlement periods, which mean that moving on and off benefit is associated with larger breaks in income. These changes in parents' employment patterns and in the labour market, together with the out-dated structure of the welfare system, have resulted in very few partnered people being eligible for a benefit. Only 7% of all benefit recipients are partnered (see figure 4).

Several recent studies asked families and whānau with high service needs how they experienced accessing benefits and other services (Auckland City Mission, 2014; Baker et al, 2012; Ministry for Women, 2018; Pipi & Torrie, 2018). For families and whānau in the studies, the level of financial assistance provided through the benefit system was often inadequate. To access support, families and whānau often needed to engage with multiple staff within MSD and across different government agencies. While some reported positive interactions, many found the experience unpleasant, time consuming, humiliating and frustrating. The system was seen as complicated. Some families and whānau were not aware of their entitlements and obligations. Some with a high need for support avoided engaging with MSD and other agencies.

**Figure 4: Benefits paid to people by family type as at June 2017**



**Source:** MSD, 2018a.

**Note:** There is a small amount of imprecision in these figures because a partnered person is recorded as single when benefit is paid in Australia, and where the partners are on different benefits (but paid at half married rate each) – for instance, a couple where one is receiving Jobseeker Support and the other Supported Living Payment -Carer because they are caring for someone.

### Many adults receiving a benefit because they have or are caring for someone with a health condition or a disability have poor outcomes

Life outcomes for people with work-limiting health conditions or disabilities are poor, compared with outcomes for the general population. The welfare system plays an important role in supporting such people but is failing to do all that it could.

The number of people on health and disability benefits has remained high, despite efforts to reduce numbers. As at September 2018,<sup>16</sup> 58,234 received Jobseeker Support – Health Condition or Disability (JS-HCD) and 83,828 received Supported Living Payment (SLP) (MSD, 2018b).<sup>17</sup> People receiving either benefit for a health condition or disability make up the largest group (49%) of working-age people receiving

<sup>16</sup> Quarterly Working-Age Benefit Numbers – September 2018 ([www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/statistics/benefit/2018/quarterly-benefits-sept-18-a3-final.pdf](http://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/statistics/benefit/2018/quarterly-benefits-sept-18-a3-final.pdf)).

<sup>17</sup> JS-HCD replaced Sickness Benefit, introduced in 1939, and SLP replaced Invalid's Benefit, introduced in 1939.

**In New Zealand, the association between poverty and benefit receipt is strong, and Māori and Pacific People are disproportionately adversely affected.**

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a benefit. A further 8,585 people receive SLP Carers because they care for someone with a health condition or disability.<sup>18</sup> People receiving a benefit because they have a health condition or disability or care for someone with a health condition or disability make up 53% of all working-age benefit recipients (WEAG, 2019k).

These figures are likely to underestimate the number of people receiving a benefit who have a health condition or disability or care for someone with a health condition or a disability. People receiving other working-age benefits (for example, Sole Parent Support, Jobseeker Work Ready) are not asked whether they have a health condition or disability. Research suggests that people on other benefits are likely to have health conditions or disabilities, especially mental health conditions (OECD, 2018b).

In New Zealand, the association between poverty and benefit receipt is strong, and Māori and Pacific People are disproportionately adversely affected. Poor quality housing, overcrowding, homelessness, alcohol and other drug addictions, and intergenerational trauma are additional factors. Māori are disproportionately represented among those receiving SLP (24%), JS-HCD (30%) and SLP Carers (38%). Māori represented 12.7% (or 340,100) of the total labour force in 2017 (MBIE, 2017). Pacific People make up a small proportion of people receiving JS-HCD (5%) and SLP (7%). Most recipients of health and disability benefits are aged over 40. Many have no educational qualifications. The majority are single and without dependent children. Few have earnings while on benefit, and long-term receipt of benefit is common (WEAG, 2019k).

The composition of the population on benefit for reasons of ill-health or disability has changed in recent decades. Proportionately more people now receive a benefit for a health condition or disability because they have a mental health condition. People with a mental health condition make up the largest proportion of those receiving both health and disability benefits (48% of JS-HCD and 36% of SLP recipients). Of concern, is that greater proportions of younger JS-HCD and SLP recipients have a mental health condition.<sup>19</sup> These figures are likely to underestimate the number of people receiving a benefit with a mental health condition because comorbidity is common and MSD often only reports on the primary incapacity listed on the medical certificate. Musculoskeletal disorders are also common among JS-HCD recipients. Among those receiving SLP, a large proportion has intellectual disabilities or congenital conditions (WEAG, 2019k).

Considerable research into the causes of the long-term increase in health and disability benefit receipt has not drawn conclusive findings. We can say ill-health and disability are caused by variety of social, economic, psychological and biomedical factors. These factors not only affect individuals to make them unwell or disabled but also produce highly patterned health differences in populations that reflect inequalities in society (Kelly et al, 2009). With increasing age, the risk of developing a

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18 Accurate data is lacking about carers, who they care for in the welfare system and their experiences. The population of carers is broader than those receiving the SLP Carers. Some people are likely to be under-represented in the welfare system as carers (for example, young carers, carers of adult children and carers of people with intermittent conditions).

19 Among SLP clients, mental health conditions are the primary incapacity for 48% of clients aged 24 or younger and 34% of clients aged over 40. Among JS-HCD clients, mental health conditions are the primary incapacity for 70% of clients aged 24 or younger and 42% of clients aged over 40.

work-limiting disability or chronic health condition increases. Lifestyle risk factors (for example, obesity) that contribute to poor health and disability have increased. Medical advances mean more people with previously fatal conditions survive, albeit with work-limiting health conditions or disability. Diagnostic improvements and changing attitudes mean conditions that have always existed are more widely recognised (for example, mental health conditions). More people are living in poor social and economic circumstances. Inadequate income (poverty) is linked to poor health outcomes, especially where poverty is long term (Kvalsvig, 2018). Evidence is considerable that unemployment has a detrimental impact on health and wellbeing, and so may contribute to these figures (Curnock et al, 2016; Waddell & Burton, 2006; Whitley & Popham, 2017).

Changes in policy have influenced recipiency rates for health and disability benefits. In New Zealand, until the late 2000s, little policy focused on people receiving health and disability benefits. In the past decade, the growth in the number of people receiving health and disability benefits has slowed but numbers remain high. The slowing in the increase can, in part, be attributed to a greater focus on moving benefit recipients with work-limiting health conditions and disabilities into work. However, as in other OECD countries, in New Zealand, increased activation policies had limited impact on improving outcomes for recipients of health and disability benefits. Long-term benefit receipt remains common – especially among SLP recipients. Rates of engagement in part-time work while on benefit are low for both JS-HCD and SLP recipients. Many recipients of health and disability benefits who do leave benefit for work later return (WEAG, 2019k).

Many New Zealanders will take on a caring role at some stage of their lives.<sup>20</sup> Individual, family, whānau and āiga carers are crucial for enabling those who require additional help to develop, live and participate in their communities, with greater independence, autonomy, quality of life and social inclusion. Experiences across caregiving roles are common, but caregiving trajectories vary in duration and intensity.<sup>21</sup>

As is the case with the wider population of carers, carers in the welfare system are most likely to be women of working age who are caring for an older relative or a child with a health condition or disability (WEAG, 2019l).

Overall, the welfare system lacks accurate data about carers, who they care for within the welfare system and their experiences. The population is broader than that receiving SLP Carers benefit (for example, sole parents and grandparents caring for ill or disabled children who do not qualify for SLP Carers, partners of SLP recipients,<sup>22</sup> those caring for adult children but on benefit for another reason). Some people are likely to be under-represented in the welfare system as carers (for example, young carers, working partners of people with significant health conditions or disabilities, carers of people with intermittent conditions).

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20 Following deinstitutionalisation, the expectation that individuals, families, whānau and āiga would provide care grew (WEAG, 2019l).

21 For example, some carers engage in long-term care of people with significant but stable disabilities. Some carers experience increasing care responsibilities punctuated with episodic events, such as hospitalisation and placement in rehabilitation or long-term care facilities. For others, the care trajectory may begin with sudden intensity, then gradually decrease as the person's health improves. Other carers have a non-linear care trajectory (for example, caring for someone with cancer) (WEAG, 2019l).

22 Currently, where a spouse or partner is caring for someone receiving SLP, they will receive this payment at the couple rate but not as a carer.

## Many Pacific families face multiple disadvantage

"Pacific people have crafted vibrant and dynamic communities, effectively at lower cost, with less capital, and with limited government assistance" (Salesa, 2017). Nevertheless, the struggles faced by many Pacific People are very real.

High proportions of Pacific families (31.6%) face multiple disadvantages (MSD, 2016). Pacific People had the lowest real median hourly earnings of all ethnic groups in the June 2014 quarter, with earnings remaining essentially unchanged in the past 5 years (MSD, 2016). Moreover, Pacific People are largely concentrated in communities characterised by high levels of deprivation (Joynt et al, 2016; Marriot & Sim, 2014; Salesa, 2017). These communities lack many of the supports and services available in wealthier suburbs and often have higher numbers of liquor, fast food and convenience stores. Living in deprived neighbourhoods is associated with negative social outcomes (Cunningham & MacDonald, 2012; Van Ham et al, 2014).

Pacific People have low rates of home ownership and are more likely to reside in state housing (WEAG, 2019i). Most Pacific homeowners are legacy homeowners with homes passed onto future generations to live in. Overcrowding is much more common among the Pacific population (MSD, 2016; 2018a). Pacific People often live in extended families. The family is the centre of the community and way of life and enhances identity and belonging. The availability of affordable housing that supports Pacific ways of living is limited, especially in Auckland. The concentration of two-thirds of the Pacific population in Auckland means this population is disproportionately exposed to the expensive Auckland housing market.

High levels of household debt, which, in many cases, have become intergenerational, significantly affect the wellbeing of Pacific People such that they are unable to participate appropriately in their communities (Stuart et al, 2012). The reliance on short-term loans with excessively high interest rates is a significant contributor to household debt (Stuart et al, 2012; Thomsen et al, 2018). Having sufficient income to fulfil cultural contributions is very important, and not being able to do this is seen as shameful for individuals and the wider family. This shame serves as a barrier for people accessing the welfare system and contributes to engagement with predatory lenders who are seen as more approachable.

The economic reforms in the 1980s had a significant impact on the employment of Pacific People. In 1987, the Pacific population had the highest employment rate of any of the measured ethnic groups. Two decades later, their employment rate was lower than that of Māori and Pākehā (Fletcher, 2009; MSD, 2016).

The Pacific population is young, with almost half (46.1%) aged under 20, compared with 27.4% for the total population. This represents both an opportunity for the future and a challenge. Educational outcomes for Pacific People have improved (MSD, 2016). However, Pacific youth remain more likely than the population as a whole to have characteristics associated with disadvantage in the labour market (Rea & Callister, 2009).

## Young people entering the welfare system often have poor long-term outcomes

Individuals who experience significantly poor outcomes as young people (for example, state care or benefit receipt) tend to come from disadvantaged backgrounds and remain highly disadvantaged throughout their adult lives (Gluckman, 2011; Rea & Callister, 2009; Scarpetta et al, 2010). Our current welfare system contributes to perpetuating this cycle. In New Zealand, those most at risk of poor longer-term outcomes have low or no qualifications, left school early, received a benefit at a young age (16 or 17 years), have been (or are) a teenage parent, have a parent with a prison or community sentence and have been exposed to poverty and adversity in childhood. Māori and Pacific youth are more likely to have characteristics associated with disadvantage in the labour market (Rea & Callister, 2009).

The longer-term social and economic cost of a young person who does not successfully transition to work or further education can be large. A significant number of young people leave the labour market, or never really enter it, by moving onto a benefit. Clear evidence of the failure of the welfare and education systems is that the number of 15- to 24-year-olds not in employment, education or training (NEET) has remained the same since 2009, at around 75,000 (Johnson, 2016). In recent years, the focus has been on re-engaging young people in education and training, but the interventions have not addressed many of the underlying causes of youth unemployment.

Young people who are on benefit are at risk of long-term benefit receipt and, generally, poorer outcomes. Only a small number of young people go onto a benefit as a 16- or 17-year-old. These young people are currently provided a different service designed to support and mentor them to achieve better outcomes. The service is geared towards keeping them engaged in education and training.

Youth on benefit often have complex needs and trauma to cope with, and they require an unconditionally supportive and trusting environment to support them to achieve their potential. To be granted a benefit, youth often have to prove that their relationship with their parents has broken down, which in itself can be retraumatising. Services to young people must support a pathway to independence. Such services should not put a person who is in a 'youth coach' role into a quasi-parental role, controlling the young person's money and choices.

Young people who are on benefit are at risk of long-term benefit receipt and, generally, poorer outcomes.

## Women are significantly affected by the welfare system

"Most women's lives have been touched in some way by the state's social security legislation, as they have given birth and raised children, become sick, disabled or unemployed, lost partners and reached old age" (Beaglehole, 1994).

As at December 2018, women had higher rates (compared with men) of main benefit receipt for the population aged 18 to 64 years (56.7% compared with 43.3% men). This can be mainly attributed to the number of female recipients of Sole Parent Support (91.5% or 54,778). The majority of families with children supported by main benefits are sole parent families. While the numbers are small, most (89.9%) Youth Payment and Young Parent Payment recipients are women. Proportionately more men receive Jobseeker Support (55% compared with 45% women) but a large number of women receive this benefit (60,382). Almost the same number of women as men receive SLP (46,733 men compared with 45,954 women).<sup>23</sup> Most people receiving SLP Carers are women.

Sole parent families face disproportionate levels of disadvantage (MSD, 2018a; Superu, 2018). Sole parenthood has been associated with poor child outcomes, but a causal relationship is not clear. Becoming a sole parent is common, with half of mothers experiencing it before the age of 50 (MSD, 2018a). The sole parent population in receipt of a benefit is diverse, reflecting the variety of pathways into sole parenthood (for example, becoming a teen parent, separation or divorce, death of a partner, imprisonment of a partner). Sole parenthood is also a situation that parents move in and out of, depending on life circumstances (Hutt, 2012 in MSD, 2018a).

When the system of main benefits was created it was based on an assumption that a woman's primary role was the care of children. Over the past 20 years, like other OECD countries, New Zealand has introduced measures to move sole parents on benefit into work. Sole parents have increasingly been treated as workers first, rather than parents (Haux, 2012). However, the state's policies have been uneven and at times contradictory. The differing perceptions of the role of women as mothers can be seen in the way job search obligations for sole parents and partners of primary benefit recipients receiving welfare benefits have been applied and removed at various times over the past two decades.

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<sup>23</sup> MSD benefit fact sheets, December 2018 (<https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/latest-quarterly-results/all-main-benefits.html>).

At present, aspects of the system do not support women's role as carers.

- There are penalties for having a subsequent child when on benefit. Work expectations are reset to their former level after one year for parents having a subsequent child while on benefit.
- Sole parents receiving a main benefit cannot currently receive child support payments.
- Section 70A of the Social Security Act 1964<sup>24</sup> requires that the rate of a sole parent's benefit be reduced for each dependent child for whom the person does not seek Child Support, subject to some exemptions.
- The expectation that sole parents should be working as well as parenting, just as many partnered women do, fails to recognise that sole parents often have no one to help carry the extra load of parenting, and it is difficult to find employment flexible enough to cater for children staying home sick and school holidays.
- Navigating the welfare system to get benefits and entitlements is difficult for many. The stress is compounded if they or their child have a health condition or a disability, live in substandard housing and lack childcare support (Ministry for Women, 2018; MSD, 2018a; WEAG, 2019).

The consultation and previous research reveal that people often find it hard to distinguish where their relationship fits within confusing and intrusive system definitions (MSD, 2018a; WEAG, 2019a). Parents, often women, can find themselves in situations that are deemed 'relationship fraud'. In these situations, they are vulnerable to investigation, penalties, long-term debt and, in some cases, prosecution and imprisonment, with negative effects on the wellbeing of children (MSD, 2018a; St John et al, 2014).

### **People who have engaged with the justice system are at substantial risk of entering or re-entering the welfare system**

Over the past 30 years, New Zealand has seen consistent increases in its prison population even while crime rates have fallen (Gluckman & Lambie, 2018). Māori and Pacific People are disproportionately affected. This has implications for the number of people coming into the welfare system. Equally, the failure of the welfare system to properly support children as they grow up contributes to the number of people going into the justice system.

New Zealand has an incarceration rate of 214 out of 100,000 people (June 2018). This makes it one of the highest incarceration rates in the world. If the data is disaggregated for ethnicity, the rate for

A welfare system that is not adequately responsive to this population may contribute to recidivism, perpetuating a criminogenic cycle.

24 Now covered by Section 192 of the Social Security Act 2018.

Māori is 717 per 100,000. Around 10,000 people are incarcerated at any one time, and the Department of Corrections manages 30,000 people on community-based sentences. Around 16,000 people are released from prison every year into the community (Department of Corrections, 2018).

The impact of the welfare system on these individuals is significant. Barriers to accessing benefits and critical support are documented. This population has significant difficulty securing sufficient income, secure and adequate housing, and good and appropriate employment. They are likely to have large amounts of formal and informal debt. A welfare system that is not adequately responsive to this population may contribute to recidivism, perpetuating a criminogenic cycle.

The effect of incarceration is not purely limited to the individual who is imprisoned. The impact on families and whānau can be devastating and also has implications for the welfare system. Having a parent who has received a community or custodial sentence is highly correlated with long-term benefit receipt.<sup>25</sup> A person with such a parent is four times more likely to receive a benefit for more than 5 years when they are aged 25–34 years than a person without (21% compared with 5%) (Ball et al, 2016).

### **People in rural or remote locations require different services and policies that meet their needs**

People in remote and rural locations have different, and often overlooked, issues compared with others on benefit. Housing is generally cheaper in rural areas,<sup>26</sup> so the rate of Accommodation Supplement is lower, but cheaper housing is offset by higher costs for items like fuel and food, longer travel distances and poor internet or mobile coverage. The availability of some services can be restricted, for example, childcare and out of school programmes.

Without a rural population available for work, rural businesses are limited in their capacity for development. MSD's remote location policy discourages people from moving to rural areas, which may have the perverse effect of contracting the rural labour market further.

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25 Other indicators include having a finding of abuse or neglect, having spent time in the care of child protection services, having spent most of their lifetime supported by benefits, and having a mother who has no formal education qualifications (Ball et al, 2016).

26 This is not always the case. The cost of housing in some rural locations is high (for example, Central Otago) and supply of rental accommodation can be limited.

## Employment and labour market support need revamping

New Zealand has high levels of labour market participation and low unemployment. The New Zealand labour market is highly flexible, with substantial movement between jobs and between industries. This enables many people who become unemployed to regain employment relatively quickly, with the result that New Zealand has a very low proportion of long-term unemployed. This does not mean there is no impact on people from loss of employment.

The economy creates and destroys a large number of jobs each year. In the year ending June 2016, on average, each quarter 142,400 jobs were created and 129,200 jobs were lost (MBIE & MSD, 2017). Since 2000, growth in the New Zealand labour force has been more than twice the OECD average, driven by much faster growth in the working-age population and a greater increase in labour force participation (Culling and Skilling, 2018).

Not everyone has benefited from a highly flexible labour market. Many commentators are concerned that precarious employment is increasing along with the incidence of working poverty, particularly among low-skilled households (Hodgetts et al, 2017; NZCTU, 2013; Wilson, 2014). One in 10 workers is in a temporary job (similar to the OECD average). Half of these workers say they would like permanent work. Job growth since 2000 has favoured high-skilled workers and relatively productive firms.

Skills are increasingly important to labour market participation in New Zealand as in other OECD countries. Most people transition successfully from the education and training system to employment, and low cost or free education and training support is available, especially for young people. Compared with other OECD countries, our workforce is, on average, highly skilled (MBIE & MSD, 2017). Levels of up-skilling and retraining by those already in work are among the highest in the OECD, and New Zealand has an extensive and subsidised further education system that caters for people at all levels, including those who need to gain the equivalent of school-level qualifications. This highlights the importance of an effective education and training system for all, and the risks to people who do not succeed in education and training (Cleland et al, 2016).

Educational achievement has been a strong predictor of future pathways. A significant proportion of those on working-age benefits have obtained no or few educational qualifications. Compared with other OECD countries, New Zealand has a large proportion of young people who leave school early and who do not achieve basic secondary school level qualifications (Agasisti et al, 2018). Youth, especially those without qualifications, are some of the most vulnerable to economic shocks. New Zealand is seen as having a high-quality, low-equity education system and the impact of that is felt most severely by Māori and Pacific youth (McKinley & Hoskins, 2013).

Youth, especially those without qualifications, are some of the most vulnerable to economic shocks.

Skilled workers adopt innovations earlier and are associated with greater firm investment in knowledge-based assets, which is why skills are increasingly important in New Zealand. However, New Zealand has a high incidence of skills mismatch and, consistent with this, among the lowest returns to education in the OECD (Conway, 2018).

Aspects of the New Zealand labour market are poor compared with other countries. Concerns have been raised about the level of wages especially among the low skilled. Wages are often linked to productivity, and New Zealand's productivity performance has been weak over many years (Conway, 2018). Lifting productivity has proven difficult. The issue may lie in the inability of some domestic firms to take advantage of new knowledge and productivity-enhancing technologies and a relatively low movement of capital resources from relatively unproductive firms to relatively productive firms. Skilled workers adopt innovations earlier and are associated with greater firm investment in knowledge-based assets, which is why skills are increasingly important in New Zealand. However, New Zealand has a high incidence of skills mismatch and, consistent with this, among the lowest returns to education in the OECD (Conway, 2018).

High-quality employment support and removing barriers to re-employment are required to address the skills mismatch and lift productivity and wages. Employment assistance through the welfare system is inadequate, and employment support has taken second place to administration of the complex income support system. Spending on active labour market programmes is very low by OECD standards and has been declining steadily for many years. Moreover, in recent years, the emphasis has been on general case management interventions ahead of training or retraining assistance or other forms of labour market programmes. Case management is important if it helps find a person the best possible job match, but many unemployed people need additional assistance to become more employable.

Over the long term, the nature of work will likely change substantially as a result of rapid technological change, globalisation, climate change and demographic change. In the most dramatic scenario, adverse impacts arising from such changes could include substantial displacement and structural unemployment, precarity<sup>27</sup> and income inequality. While these impacts are highly uncertain, some are more likely than others. For example, partial changes in job content are more likely to occur than the mass automation of jobs and consequent structural unemployment.

A welfare system suited to the labour market of the future, which supports productivity and wage growth, needs a substantially greater employment support function than the current system has.

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27 The state of having insecure employment or income.

## Contracting models between the state and voluntary sector have helped create a stressed community sector

Community organisations, along with families and whānau, are necessary to provide the structures for communities to operate. Strong, capable, community-based, not-for-profit organisations provide the resources, facilities and people that give effect to a community vision. These organisations support people and their families and whānau when they need help, along with the infrastructure that allows communities to respond to their self-identified needs in the ways that best suit them.

Since the 1980s, individual and community support has been increasingly delivered by community organisations contracted by government departments. *“Contracts not only mediate relationships between the state and the community and voluntary sector; they determine the structure and outcomes of the relationships”* (Grey & Sedgwick, 2013: 5).

Many in the community and voluntary sector have expressed concerns about the contract environment, including:

- uncertainty about ongoing funding
- difficulties in maintaining independence while taking government contract funding
- restrictions on what services they can provide to whom, and how these will be provided (Grey & Sedgwick, 2013).

Feedback from community organisation representatives in our focus groups and at community forums showed those in community-based social services and social support organisations are highly stressed. This stress is caused by financial constraints, competitive operating contexts and the complexity and depth of community need. Community organisations consulted with said they were operating in highly competitive funding environments, with government funding usually allocated through market-based tendering models and philanthropic funding provided through competitive funding rounds. Contracts were often for short periods or were rolled over from year to year, giving no certainty of funding or ability to plan for the long term. Service providers noted some government funding had been frozen for up to 10 years and this was producing a difficult operating environment where cost savings had moved from being made through improved efficiency to a reduction in services.

Service providers noted some government funding had been frozen for up to 10 years.

Community organisation representatives reported that the community infrastructure, the ability of organisations to successfully work in a place-based, community-responsive manner, has been compromised. Funding levels and contracting arrangements leave little scope for community organisations to address community needs beyond what is specified in contracts. This type of 'added value' from community organisations was once common and was how these organisations deliberately contributed to community development. "This loss in contracting and funding saw the useful and productive practices of achieving both the government funded outcomes and community identified results diminishing and in some cases being lost" (Neilson et al, 2015: 4).

Many representatives of community organisations commented on the 'pilot' and 'trial' approaches used by funding agencies. These approaches consist of organisations being properly funded to implement highly effective local strategies. These strategies would result in the delivery of the required outcomes and make significant contributions to the participants' and the wider community's wellbeing. Unfortunately, even given this success, these initiatives did not go on to receive funding, were funded on only a year-by-year basis or were not rolled out on a wider regional or national basis. We also saw this when we visited service providers during the consultation process. Where such pilots and trials are instigated and evaluation demonstrates their worth, they should move from pilot status to programme status, receive appropriate length contracts and funding, and be implemented on a regional and national basis where appropriate.

### **Summary – fundamental change is needed**

**We cannot solve the existing problems, let alone create a system that will serve future needs, through further ad hoc amendments or marginal changes.**

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The facts outlined in this chapter lead us to the clear and unequivocal conclusion that fundamental change is needed. We cannot solve the existing problems, let alone create a system that will serve future needs, through further ad hoc amendments or marginal changes. Substantial changes and a fundamentally different societal approach to welfare are needed, if we are to address the inadequacy of existing payments and the complexities resulting from excessive reliance on tightly targeted supplementary and hardship assistance.

Similarly, we need to address the lack of adequate employment support that fails to meet the diverse needs of people using the system, the needs of the community sector, and the needs of those groups who are most negatively affected by the current system. Any efforts to improve the wellbeing of New Zealand children are likely to be compromised unless there is a substantial effort to make the welfare system fit for purpose.



## 03 Listening to New Zealanders – what we heard

To deliver recommendations that are robust and rigorous enough to last the next 20 years, they must be based on the real experiences of those interacting with the system every day. We were particularly concerned to hear from people who work in or require support from the welfare system, whether due to disability, responsibility of caring for others, a health condition, job loss, low wages, high housing costs or similar. It was essential we heard what happens to shape people's lives and how we might make a positive difference in ways that benefit them, their families and whānau, and our communities.

We conducted an inclusive and consultative engagement process in which people could participate in ways that suited them. We provided as many options as possible for people to share their views and experiences. We heard from people through our a survey, submissions, community forums and hui. Feedback from all consultation channels is brought together in the background paper – 'Views on New Zealand's Welfare System' (WEAG 2019a) available from the Welfare Expert Advisory Group's website.

Our overwhelming impression from this consultation is of a system in crisis – people find it judgemental, punitive and severely under-resourced. People do not have enough to live on, the support to help people to independence is inconsistent and punitive, the most vulnerable are becoming further marginalised and disenfranchised, and those working in the system are often frustrated and disappointed that they can't do more.

Dignity and respect are missing. People want to see more compassion and empathy. They want those making decisions to understand their backgrounds, experiences and culture, current situation and constraints. They want access to toilets in Ministry of Social Development (MSD) offices, to be given enough time in appointments to explain their situation, and to proactively receive all the support they are entitled to.

There were strong calls for a simple, responsive and fair system as well as a desire for people to be connected with in ways and at times that suited them and that fit in with obligations such as childcare and work.

It was particularly disheartening to hear from MSD staff who had taken on roles out of a desire to help people, but felt the system stymied this. Staff spoke of inadequate training, severe lack of resourcing, a disconnect with head office that meant unrealistic caseloads and meeting schedules and performance measures and frameworks that had little to do with actively helping those they are meant to be supporting.

There were many ideas and suggestions for changes and solutions that would lead to improvements in the system, including:

- an increase in benefit levels to ensure a reasonable standard of living for all New Zealanders
- a system that reflects Te Tiriti o Waitangi (Treaty of Waitangi)
- a dedicated case management system
- far greater cultural awareness
- withdrawal of stand-downs and sanctions
- changes to abatement thresholds and rates
- the provision of warm, dry and safe housing
- prioritising health and wellbeing.

The insights from the nearly 3,000 New Zealanders we have heard from are invaluable.

We heard from people who had interacted with the system in some way at some stage in their life and had a deep and profound knowledge of the system. Their stories were often harrowing, and we were shocked and saddened by the extent of the suffering and deprivation that is occurring.

This understanding of the reality in which people are living and working in the system has formed a solid basis for our report and informed our recommendations. We are extremely grateful to all the people who took the time to meet with us or let us know their views through the survey or submissions. We hope we have done their views justice in our deliberations.

The insights from the nearly **3,000** New Zealanders we have heard from are invaluable.



## 04 Reforming social security

**Kia Piki Ake  
Te Mana Tangata**

Fundamentally, the social security system needs to be founded on the belief that most New Zealanders are willing to engage, participate, contribute and do their fair share for their communities. Social security needs to be designed with these people utmost in our minds.

In other words, having appropriate support will result in better outcomes than wielding a stick at every opportunity. Our combination of recommendations will, over time, restore trust in the system and in people, and shift us all towards realising that meaningful participation is desirable and rewarding for all.

While most people will follow the rules, in any system a small minority will commit fraud. These people should be dealt with accordingly, just as they are dealt with in other systems (such as the tax system). But designing the whole system based on this small minority has resulted in a system that is complex and costly to administer and has contributed to undermining trust between the Ministry of Social Development (MSD) and users.

This chapter sets out the foundation for a fundamentally different system of social security, one underpinned by a kaupapa Māori values framework that recognises and addresses the interests of all New Zealanders under Te Tiriti o Waitangi (the Treaty of Waitangi).

The Welfare Expert Advisory Group recommends:

- the Social Security Act be amended with a new purpose statement to reflect a holistic approach that places welfare in the context of wider wellbeing and with a new set of principles to guide the design and operation of the welfare system
- appropriate accountabilities be created for implementing the recommendations and a new set of performance measures that focus on key outcomes for MSD
- MSD's accountabilities and competencies be changed to improve outcomes for Māori.

“

*I think people that are on the benefit should not look, experience or feel different to anyone else in our country. I think people receiving benefits or welfare supports should be completely supported to thrive...”*

PAST WELFARE RECIPIENT

## The foundation

The overall direction of welfare reform has been to reduce financial and other support and to raise expectations and penalties, making an increasingly complex system. The important work of parenting children is undervalued. Reform has occurred in a context of reduced employment protection and a lack of commitment to full employment by government.<sup>28</sup>

Nevertheless, many promising initiatives are starting in areas such as employment support, improving the experience of those using the welfare system, and the amounts of some payments have increased. We also note that the welfare system does work well for many people, and consultation revealed that New Zealanders value the system, but it needs to improve.

New Zealand needs an approach to welfare that expresses New Zealanders' values and upholds the social contract between citizens who fund welfare through taxation and citizens who require assistance – an approach that makes all citizens proud.

That social contract needs to strike a fair balance between the support the state provides and the expectations on people receiving support. The system today is imbalanced, with the weight of expectations overshadowing the support provided.

We want people in marginal financial and social positions to regain their dignity and have every opportunity to thrive.

## The future

Our advice on the future of the welfare system is guided by the vision outlined in our terms of reference (in Appendix B):

**A welfare system that ensures people have an adequate income and standard of living, are treated with and can live in dignity and are able to participate meaningfully in their communities.**

We support this vision. The aspirations reflected here were voiced throughout our public consultation. A welfare system that fulfils this vision will provide opportunities to enrich the lives of the people receiving support and their families, whānau and communities. In this way, we will all benefit.

A successful welfare system should strengthen the mana (dignity, respect) of those who engage with it. This system must be strengths-based and recognise the human rights of people needing and receiving support.

Inequities experienced by Māori are longstanding and difficult to change. The approaches taken by different governments to social security and welfare policy have compounded this inequity. We consider that a system

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<sup>28</sup> For example, the adoption of a 'natural rate of unemployment' modelling framework by Treasury and the Reserve Bank.

to address inequity requires chief executive-level accountability to iwi and Māori. These arrangements should be embedded in a revised Social Security Act. Similar requirements are in the Children, Young Persons and their Families (Oranga Tamariki) Legislation Act 2017.<sup>29</sup>

We describe our approach to reform of the welfare system as *Kia Piki Ake Te Mana Tangata*. *Kia piki ake* means to uplift, strengthen or raise up. *Mana tangata* refers to “the power and status accrued through one’s leadership talents, human rights, mana of people”. Therefore, *kia piki ake te mana tangata* is to uplift and strengthen the mana of the people. A related term is *whakamana tāngata*. This officially means “enhancing the authority and power of the people” but we are adopting the term to mean restoring dignity to people so they can participate meaningfully with their families and communities.

## Values underpinning the new system

To underpin the design and operation of the new welfare system, we propose a kaupapa Māori framework that recognises and addresses Te Tiriti interests of all New Zealanders.

Our approach is consistent with the Tax Working Group’s kaupapa Māori values model, *He Ara Waiora* (The Treasury, 2018) (McMeeking et al, 2019). The tax and welfare domains are closely related, both focusing on the (re)distribution of income and influencing labour market participation. They are two sides of a coin, with tax raising the revenue needed to fund the redistribution of income through welfare.

At the heart of our approach are six values with particular meanings in the welfare context. These values, explained in table 1, underpin all of our advice and recommendations.

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<sup>29</sup> Section 7AA of the Children, Young Persons and Their Families (Oranga Tamariki) Legislation Act 2017, and comes into force on 1 July 2019.

**Table 1: Six values at the heart of Kia Piki Ake Te Mana Tangata Framework**

Value	Meaning	Application in Kia Piki Ake Te Mana Tangata
<b>Manaakitanga</b>	Hospitality, kindness, generosity, support – the process of showing respect, generosity and care for others	People are treated with, and able to live in, dignity
<b>Ōhanga</b>	Economics, economic	Ensuring people have an adequate income and standard of living, including support to access long-term, healthy housing
<b>Whanaungatanga</b>	Relationship, kinship, sense of family connection – a relationship through shared experiences and working together that provides people with a sense of belonging  Whanaungatanga develops as a result of kinship rights and expectations, which also serve to strengthen each member of the kin group. It also extends to others with whom one develops a close familial, friendship or reciprocal relationship	A system that values whānau, families, children and relationships
<b>Kotahitanga</b>	Unity, togetherness, solidarity, collective action	People are able to participate meaningfully in communities
<b>Takatūtanga</b>	(Takatū) to prepare, get ready (used only of people getting ready), make ready	A system that is fit for the present and prepared for the future, can respond to future ways of working and can support participation in the economy
<b>Kaitiakitanga</b>	Guardianship, stewardship, trusteeship, trustee	A system that is financially and politically sustainable across the medium to long term

**Source:** Meanings are from Te Aka Online Māori Dictionary (<https://maoridictionary.co.nz>)

This values framework should continue to be developed alongside other frameworks and involve further engagement with Māori. We recognise that our approach – Kia Piki Ake Te Mana Tangata – is valuable only to the extent that it materially improves outcomes for Māori in a practical and tangible way. If this framework is used during the implementation of this report's recommendations, tangible changes will occur.

MSD is developing its own kaupapa Māori strategy and action plan, Te Pae Tata, which applies kaupapa concepts in its relationships with its clients (MSD, 2018d). We took the 'takatūtanga' concept in our framework from MSD's framework. We commend the Ministry for its start in this work. If properly implemented and deeply ingrained in the culture of the organisation, MSD's new strategy will bear positive results.

# Kia Piki Ake Te Mana Tangata



## Welfare and wellbeing – purpose of the welfare system

We propose a holistic approach that places welfare in a wider wellbeing context and that recognises mutual responsibilities on the state and on people receiving welfare support.

No consensus exists on the definition of wellbeing but it is usually considered a multidimensional concept. In its broadest sense, wellbeing encompasses physical, mental and social domains. There is no sole determinant of individual or family/whānau wellbeing. In general, wellbeing is dependent on good health, positive social relationships, and access to basic resources such as shelter, belonging and income.

The welfare system fulfils a particular purpose in supporting the wellbeing of New Zealanders. The most critical elements are to replace or supplement incomes when they are insufficient to enable an adequate standard of living, and to support participation, especially through paid employment, but also in other ways, including parenting or caring for others.

The purpose of the welfare system is to support wellbeing by:

- providing social and financial security sufficient for an adequate standard of living
- supporting people to achieve their potential for learning, caring or volunteering, and earning through good and appropriate work, and ensuring a dignified life for people for whom these options are not possible.

Our mandate was to advise on an updated purpose for the welfare system to inform an updated Social Security Act. The Act provides the legislative basis for welfare policy and the operation of the welfare system.

Our proposed purpose is consistent with the original intentions of the welfare state, as expressed in the Social Security Act 1938. These intentions were to provide benefits that “safeguard the People of New Zealand...[and to] maintain and promote the Health and General welfare of the Community”.

Our recommended purpose underpins the wider body of recommendations in this report. It requires a significant shift from the purpose of the current Act, which focuses heavily on the welfare system’s role in encouraging paid work, to the exclusion of the system’s core role of ensuring adequate incomes. The extent of change means the current Act will need to be substantially amended.

## Core principles

Legislative amendments are also needed to the principles in the Act that guide the design and operation of the welfare system.

The principles of the current legislation focus excessively on encouraging people into paid work, with little regard for the suitability of that work for their wellbeing or for alternative forms of participation. There is scant reference to the welfare system's fundamental role in ensuring adequate incomes.

Our six values underpin the principles that should guide the design and operation of the welfare system.

- Be person-centred and wellbeing focused.
- Keep children paramount.
- Value whānau and families.
- Treat people with dignity, respect and compassion.
- Provide an income sufficient for an adequate standard of living.
- Provide full and correct entitlements.
- Deliver support that is easy to access, timely and appropriate.
- Provide an employment service that supports people into good and appropriate work.
- Support the provision of housing that is affordable, secure, of good quality and appropriate for the person (and their family or whānau).
- Promote mutual expectations.
- Aim for equitable outcomes.
- Build and maintain effective links with other parts of government.
- Be sustainable.

## Responsibility for implementing recommendations

The changes to the welfare system we recommend will, when fully implemented, realise the vision set out in our terms of reference. The bulk of the responsibility for implementing these changes sits with MSD, but the interactions between the welfare system and other systems (labour market, housing, education and health) mean this vision will not be achieved without considerable cross-agency effort.

For this reason, the Welfare Expert Advisory Group recommends:

- the Chief Executive of MSD designs and implements a welfare system that fulfils the purpose and principles of the amended Social Security Act
- a cross-ministerial approach be taken to implement and monitor the effectiveness of the implementation and outcomes of the recommendations in this report (across welfare, health, housing, justice, education and employment).

The changes to the welfare system we recommend will, when fully implemented, realise the vision set out in our terms of reference.

In both the cases, the approach should be consistent with Te Tiriti responsibilities and involve the users of the welfare system. A governance group could include non-governmental organisations, employers, unions, beneficiary advocates, iwi and Māori as well as people directly affected by the system.

### Performance measures focused on key outcomes

MSD's performance measures should reflect the key outcomes that it is trying to achieve – providing adequate incomes and support for participation (particularly through employment) – and should be consistent with the new purpose, principles and values.

Current performance measures in MSD's Statement of Intent focus on off-benefit outcomes, such as time off a main benefit and average future years on a main benefit (MSD, 2018c). MSD's key outcomes do not directly relate to the numbers (or time) that people spend receiving a main benefit (though this may be useful information for other purposes such as fiscal forecasts). This focus on numbers of people on benefit, rather than on positive outcomes for people (both while they receive a benefit and when they cease to), underpins a negative view of benefit recipients as purely fiscal costs rather than as people to invest in to improve their wellbeing and support to meaningfully participate in their communities.

The Welfare Expert Advisory Group recommends that MSD and Inland Revenue publish annual information, reflecting the core outcomes the social security system is tasked with achieving, including:

- full and correct entitlement of payments
- take-up rates of payments within the eligible population
- employment outcomes of benefit recipients
- impact of employment supports
- incomes (after tax and abatement) of people receiving financial support.

Each of these outcomes should, where possible, be broken down by ethnicity, gender, location, benefit type, health conditions and disabilities, and number and age of dependent children (aged 0–17).

These outcomes should be included, as appropriate, in each agency's Statement of Intent and Annual Report. Further details could be published in a standalone report.

## Improving outcomes for Māori

Earlier, we outlined how the welfare system has failed to deliver for Māori. Changes to MSD's accountabilities and competencies are required to improve outcomes for Māori.

The Welfare Expert Advisory Group recommends:

- that MSD embeds the competencies needed for achieving greater equity for Māori, by including them in job descriptions, key performance indicators and performance reviews for staff of MSD
- the Social Security Act be rewritten to incorporate specific responsibilities for the Chief Executive of MSD to be accountable to iwi and Māori for the achievement of equitable wellbeing outcomes for Māori from the welfare system.

The reporting on key outcomes by ethnicity, recommended above, will provide a basis for this accountability. The next chapter includes further recommendations for improving outcomes for Māori.

## Better serving the needs of Pacific People

Reflecting the values of Pacific People in MSD's policies and services would better serve the needs of Pacific People. "Pacific communities want approaches tailored to Pacific values and aspirations – one that recognises communities themselves can drive their own innovative solutions" (Ministry for Pacific Peoples, 2018). The four values that need to be acknowledged are family, collectivism and communitarianism, reciprocity and respect (Ministry for Pacific Peoples, 2017: 12).

- **Family:** Pacific peoples live in extended families. The family is the centre of the community and way of life. Every person belongs to a family, aiga and kainga, and every family belongs to a person. This brings identity and belonging. Ancestry and a sense of place involve a kinship with what and who has gone before. [There is a need for a people-centred, family-centred system. There is a need to develop housing solutions that work for how Pacific People live.]

- **Collectivism and communitarianism:** Most Pacific peoples are communal people. Their way of viewing the world and doing things is mostly driven by what is commonly perceived as acceptable to the community. This includes teamwork, consultation and co-operation, with all members striving to work together to achieve common goals through a consensual approach.
- **Reciprocity:** Acknowledging the value of relationships and obligations of care between individuals and groups interacting for a shared purpose. Mutual help and interdependence are viewed as more effective than individualism.
- **Respect:** Pacific peoples learn from an early age to show respect when relating to one another. This is an expected behaviour, including respect towards elders, parents, women, children and people in positions of authority. Respect includes keeping face, acknowledging someone's status and observing proper etiquette.

MSD needs to accelerate its commitment to cultural responsiveness to Pacific People. This includes an awareness of cultural obligations experienced by Pacific People around contribution for weddings, funerals and other critical cultural events. Additional support in the welfare system is also needed to provide appropriate resources to achieve equitable outcomes for Pacific People. The Ministry also needs to appreciate that, in interacting with MSD, individual Pacific People may feel a strong sense of shame for the reasons listed earlier in chapter 2.

There is no one-size-fits-all approach to Pacific People, and providers of supports and services (including MSD) need to be aware of diversity amongst Pacific People. Significant diversity in the Pacific community will impact on service delivery. Pacific People are multilingual, multi-generational, represent many ethnic-specific interests, and hold various skills. The Pacific population is relatively youthful, with a mix of island-born and New Zealand-born members living within a dynamic and changing cultural landscape. Cultural obligations, cultural identity and ties to the Pacific Islands remain essential aspects of Pacific life. However, there are significant differences between different ethnic groups and within these groups. For example, young people's responses to their culture vary enormously.

Government can build on the strengths in Pacific communities (Integrity Professionals, 2018).

- Pacific People make a significant contribution to the New Zealand economy. More could be done to enhance this contribution by improving Pacific People's participation in the labour market. In this respect, the Pacific youth population is a strength that needs to be supported and nurtured.
- Pacific People make a significant contribution through volunteering in the community, which needs to be valued.
- Churches are an important part of many Pacific families' lives,<sup>30</sup> and an opportunity exists for government and other agencies to establish meaningful partnerships with churches to help deliver programmes and initiatives to Pacific communities (Ministry for Pacific Peoples, 2018).

**MSD needs to accelerate its commitment to cultural responsiveness to Pacific People.**

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30 More than 80% of Pacific People identify as belonging to a religion. Although many young Pacific People do not have such strong ties to churches.

## Recommendations – key

Our recommendations embed a new basis for social security, to restore trust in the system, enable whakamana tāngata so people can live in dignity, strengthen the application of kaupapa Māori, and will lift outcomes for Māori.

The Welfare Expert Advisory Group recommends the following.

**Recommendation 1:** Amend the Social Security Act 2018 to state that anyone exercising power under the Act have regard to the following purpose and values.

The purpose of the welfare system is to whakamana tāngata and ensure a dignified life by:

- providing financial security and social security sufficient for an adequate standard of living
- supporting people to achieve their potential for learning, caring or volunteering, and earning through good and appropriate work.

The welfare system is underpinned by Kia Piki Ake Te Mana Tangata, including kaupapa Māori values of:

- manaakitanga – caring with dignity and respect
- ūhanga – economics
- whanaungatanga – treasuring kinship ties and relationships
- kotahitanga – unity
- takatūtanga – preparedness
- kaitiakitanga – guardianship.

**Recommendation 2:** Use the following principles to guide the design and operation of the welfare system.

- Be person-centred and wellbeing focused.
- Keep children paramount.
- Value whānau and families.
- Treat people with dignity, respect and compassion.
- Provide an income sufficient for an adequate standard of living.
- Provide full and correct entitlements.
- Deliver support that is easy to access, timely and appropriate.
- Provide an employment service that supports people into good and appropriate work.
- Support the provision of housing that is affordable, secure, of good quality and appropriate for the person (and their family or whānau).
- Promote mutual expectations.
- Aim for equitable outcomes.
- Build and maintain effective links with other parts of government.
- Be sustainable.

**Recommendation 3:** Establish a cross-ministerial approach to implement and monitor the effectiveness of the implementation and impact on outcomes of the Welfare Expert Advisory Group's recommendations (across welfare, health, housing, justice, education and employment) that is cognisant of responsibilities under Te Tiriti o Waitangi (the Treaty of Waitangi) and involves users of the welfare system.

**Recommendation 4:** Direct the Chief Executive of the Ministry of Social Development to design and implement a welfare system that will fulfil the new purpose and principles of the amended Social Security Act, is cognisant of responsibilities under Te Tiriti o Waitangi and involves users of the system.

**Recommendation 5:** Direct the Ministry of Social Development and Inland Revenue to publish yearly, whether as part of their Annual Reports or Statements of Intent, or as a standalone report, information on key outcomes for those interacting with the welfare system, including information about full and correct entitlements, take-up rates of payments, employment outcomes, the impact of employment supports and services, and after-tax and abatement earnings.

Measures should include:

- full and correct entitlement for all who are eligible by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years)
- take-up rates of payments by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years)
- employment outcomes by benefit type, ethnicity, gender, location, health conditions and disabilities, age, and duration off benefit (3, 6 and 12 months)
- impact of employment supports and services on outcomes by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years)
- after-tax and abatement earnings for those receiving financial support from Inland Revenue or the Ministry of Social Development by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years).

**Recommendation 6:** Embed the competencies required to achieve greater equity for Māori in the job descriptions, key performance indicators and performance reviews of the Ministry of Social Development's management and staff.

**Recommendation 7:** Include in the amended Social Security Act specific requirements for the Chief Executive of the Ministry of Social Development to be accountable to iwi (as recognised collectives) and to Māori (as individuals, whānau and communities) for achieving equitable wellbeing outcomes for Māori from the welfare system.

**Recommendation 8:** Direct the Ministry of Social Development to commit to building its cultural responsiveness to Pacific People, to achieve equitable outcomes for Pacific People engaging with the welfare system. Cultural responsiveness includes having an awareness of cultural obligations experienced by Pacific People around contributions for weddings, funerals and other critical cultural events and taking account of the nuances within diverse Pacific communities.



## 05 Delivering for Māori

The impacts of colonisation on tāngata whenua, and the subsequent loss of assets and an economic base, have been well recorded.<sup>31</sup> In the long run, this has contributed to over 50% of Māori children growing up in households receiving a main benefit. This was not just about Māori being economically disenfranchised but also the impact of erosion of culture and the experience of racism that fuelled a reliance on the low levels of main benefits to survive. Bias in services was a point made in the 1986 report *Puao-Te-Ata-Tu* from the Ministerial Advisory Committee on a Māori Perspective for the then Department of Social Welfare and continued to be made to us in our consultation.

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*The welfare system is belittling of the mana and integrity of our people – kuia, kaumātua, matua, tamariki, mokopuna.”*

PROVIDER FORUM, KAITAIA

While social security cannot fix these long-term patterns, their impacts can be ameliorated with adequate welfare support and mana in how people are treated. This is guaranteed under Article 2 of Te Tiriti o Waitangi (Treaty of Waitangi).

We heard how the Ministry of Social Development (MSD) is looking at its future role, including a focus on mana manaaki – to build the mana of others and uplift them in a way that honours their dignity. We support this approach.

The introduction of Whānau Ora responded to the need for a way to provide support that recognised and built on the strengths and assets of whānau to encourage whānau development (Boulton et al, 2014; Te Puni Kōkiri, 2018). There was concern that health and social services often intervene after matters go wrong for an individual, rather than intervening to restore full whānau functioning or extend whānau capabilities. It arose due to concerns that contracting practices had led to many Māori providers competing for contracts, which fostered a piecemeal approach to services and inhibited collaboration and coordination. In 2009, the then Minister for the Community and Voluntary Sector secured Cabinet’s agreement to set up a taskforce to address these concerns. The New Zealand Productivity Commission (2015: 20) concluded that steps could be taken to strengthen Whānau Ora and that it “embodies concepts important to Māori and holds much potential to improve Māori wellbeing and mana whakahaere [the power to manage; authority].”

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31 See a summary in Expert Advisory Group on Solutions to Child Poverty (2012b).

Māori expressed a strong desire to be in the driving seat of their own solutions to the endemic problems that erode mana and whānau. However, social security remains an obligation on the state. Baker (2010: 12) argues there “is a greater maturity and a desire for integrated solutions. From this platform both Treaty partners are increasingly forming governance to governance partnerships to address crucial issues”. She adds the “landscape allows room for Māori entrepreneurship and self-governance/self-determination to grow further, and develop in a way that can only benefit New Zealand as a whole”.

While there is some improvement, social indicators continue to demonstrate an underdevelopment of Māori potential, with disparities in the numbers on benefit, with those presenting with health conditions or disabilities, and the need for housing and employment. If the welfare system is to deliver greater wellbeing for New Zealand, it needs to be able to deliver for Māori.

This is especially important for young Māori. Māori, along with Pacific People, make up a relatively young and fast-growing share of the New Zealand working-age population. However, they have poor labour market outcomes, in part, because, on average, Māori have lower educational attainment and are over-represented in lower-skilled industries and occupations that are typically more adversely affected in an economic downturn.<sup>32</sup> Growing up in a jobless household is a major contributor to poor outcomes for children. While there have been some improvements, such as an increase in students staying at school until Year 13 and going onto tertiary study, the educational system continues to fail Māori. This happens within a context of New Zealand producing high levels of educational achievement overall.

Māori expressed a strong desire to be in the driving seat of their own solutions to the endemic problems that erode mana and whānau.

## Changes are needed to improve outcomes for Māori

The Whānau Ora approach demonstrates Māori capability and potential can be activated by strength-based approaches. The need is critical for more long-term support for whānau-centred,<sup>33</sup> strengths-based initiatives from within the whānau rather than crisis-driven, short-term interventions from the outside (Baker, 2010). Hapū, iwi and the state need a joined-up, evidence-based strategy informed by the reality of the lives of whānau. Whānau Ora was an innovative intersectoral policy intended to empower whānau and move resources closer to them and away from formal institutions. This can be further developed and

<sup>32</sup> Māori were among the highest employed population in the 1950s, 1960s and into the 1970s. Māori unemployment increased following significant changes to the labour market in areas such as manufacturing, forestry, railways and the post office.

<sup>33</sup> “‘Whānau’ is not interchangeable with the term ‘family’” (Baker, 2010: 101). Operationalising the concept of whānau is a challenge for government.

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*The current system fails Māori both through inadequate levels of assistance and an individualised approach to accessing support that is more likely to exclude Māori.”*

NEW ZEALAND COUNCIL OF CHRISTIAN SOCIAL SERVICES

extended. Ample opportunity exists for a more cohesive approach by the state and iwi to whakamana tāngata for the most impoverished Māori and to encourage a whakamana tāngata approach based on potential.

Addressing immediate needs, including financial issues, on-job training, innovative education and active labour market interventions are all possible contributions to this approach. We are not advocating a ‘work for the dole’ scheme. The aim is for decent, well-paid jobs, education and training opportunities to continue to build the skills of employees. The relatively low number of Māori employed in high-skilled jobs could be addressed through policies that provide a practical commitment to achieving equitable outcomes. These policies could be supported by an appropriately skilled employment service that can recognise the intra-variability of Māori. This employment service would provide a variety of opportunities: from enhancing access to high-level academic and modern technologies qualifications to supporting iwi, hapū, marae and Māori communities to offer innovative whānau-based employment schemes and systems to support intergenerational change.

The Expert Advisory Group on Solutions to Child Poverty (2012b: para 67) stated that “significance of the demographic importance of Māori needs to be underscored”. Māori and the nation would benefit from improvements in Māori school and post-school education outcomes. In terms of post-school education and training, the group recommended “a specific work creation strategy for Māori youth” (para 67). Demographic dividends are there to be had. Attention needs to be paid to supporting young Māori as they transition from school to further education, training or work. “Ensuring that there is good training in place (and jobs to go into) is important” (para 67).

Mainstream government work programmes must be responsive to Māori as per Article 3 of Te Tiriti. Several researchers have argued that the success of policies and programmes must be sourced in or informed by Te Ao Māori – the Māori world (Belgrave, 2012; New Zealand Productivity Commission, 2015; Superu, 2017; Welfare Justice, 2010). This is not a new suggestion. The 1988 Royal Commission on Social Policy called out the principle of recognising the different perspectives of different cultures (at p 735):

The income maintenance and taxation systems should recognise the different perspectives of those from different cultures, not only in relation to the administrative processes involved in assessing eligibility for income maintenance and in the delivery of entitlement, but also in relation to the principles on which those systems are based.

A Māori perspective is required not only in the regional service centres of MSD, where people in need are seeking help, but also in the back offices, national office and governance positions guiding the

**In the context of Te Tiriti, it is important that hapū, iwi and Māori have a significant role in providing governance to and in the monitoring of the social security system.**

development of the policy and operations of the welfare system. This is not in terms of creating special programmes for Māori, although this may be required, but recognises the need for mainstream, day-to-day service delivery of the welfare system to address the needs of Māori. Universal services need to work for all but this does not mean one size fits all.

This approach means engaging with Māori in meaningful partnerships in design, delivery and evaluation of social services to Māori, including mainstream services. It means the funding of services to Māori needs to be sufficient to achieve outcomes for, and with, Māori.

Such a response requires Māori participation at all levels – governance and front line. In the context of Te Tiriti, it is important that hapū, iwi and Māori have a significant role in providing governance to and in the monitoring of the social security system. We recommend a variety of changes, to ensure Māori have a significant influence on the system at this level. By putting these systems in place, a long-term strategic approach to gaining equity for Māori in the implementation of the social security system can be enacted.

Devolution of service delivery to Māori must be part of the mix. It gives an expression of Te Tiriti and is something that came through clearly in our consultation hui with Māori. There are past and current examples of the devolution of responsibility for service delivery to Māori.<sup>34</sup> There are questions about how the state should best devolve responsibility to Māori and how that responsibility would develop in the face of or in conjunction with the existing benefit system (New Zealand Productivity Commission, 2015; Stephens, 2015).

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*There is a need to embed the principles of the Treaty of Waitangi much more deeply – less about a safety net, more about self-determination and wellbeing frameworks for Māori.”*

**WELLINGTON ROUNDTABLE**

<sup>34</sup> Current examples are Te Hiku O Te Ika – Crown Social Development and Wellbeing Accord (see Te Hiku Development Trust, 2014: 17) and Ngāi Tūhoe Service Management Plan (Social Service Taskforce, 2012).

## Recommendations – key

**Recommendation 9:** The Welfare Expert Advisory Group recommends, in addition to the recommendations elsewhere that will improve outcomes for Māori, the Government:

- supports the Ministry of Social Development to continue to shift towards whakamana tāngata – to build the mana of others and uplift them in a way that honours their dignity
- supports the Ministry of Social Development to continue to review and evaluate, with Māori, the services the Ministry delivers to ensure they are effective in improving outcomes for Māori
- works with Māori to consider other effective ways of delivering welfare services and funding that are informed by Te Ao Māori, including longer-term, whānau-centred, strengths-based initiatives.



## 06 Restoring trust with people using the welfare system

For the welfare system to work effectively to deliver the purpose, principles and values recommended in this report, a mutual trust between all parties is essential. Ministry of Social Development (MSD) staff who engage with people provide a relationship-based service and, to do their job well, need to be trusted by those they serve. This trust needs to be built on providing recipients with the right support and services when they need them.

As mentioned earlier, inadequate payments that mean people require financial assistance to meet basic living costs, such as food and housing, increase stress and undermine benefit recipients' trust in MSD (MSD 2019i). Some people avoid seeking assistance from MSD because they do not see it as an organisation that can help (WEAG 2019a). The system at its heart disempowers those it is set up to serve, by not providing enough time or private space for staff to hear people's stories, by being overly complex so it is difficult to access full entitlements and processing delays are common, by having stand-downs, sanctions, and unnecessary obligations, and through the inconsistent application of policies and discretion (Cotterell et al., 2017; MSD 2019i).

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*It would help to care, to put people first. I reckon, a lot of the people who are beneficiaries, are people who have been abused. They're adults, who were abused as children, who have grown up, and have gone on to be abusive, or lead abusive lives, and have raised children in an abusive environment. It's a cycle, of abuse, but I do think it's possible to break the chains, and it would be good if the government realised, the breakdown of people, has been from a breakdown in life, and that's caused all sorts of social damage. If we could fix and repair the damage, we can begin to rebuild our communities.”*

**SOLE PARENT**

## How the Ministry of Social Development can work to restore trust

### Embed the proposed purpose, principles and values within policy and system development

Work is under way in MSD to ensure benefit recipients are treated with respect and dignity in all their interactions with the system. MSD has introduced a new strategic direction (Te Pae Tawhiti), initiated a client commitment charter and begun a programme to refurbish offices to create a secure environment for staff and service users while creating a more welcoming space.

MSD is also in the process of changing its approach to systems and organisation design to improve performance and service user experience. An example of this is the Better Every Day<sup>35</sup> initiative, which is changing management thinking to focus on the service user's experience and what is needed to achieve positive outcomes. However, for real change to be effective and sustained, the legislative and value settings, policy and system development, and outcomes being sought

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<sup>35</sup> An MSD work programme based on the purpose measures method (<https://vanguard-method.net/thinking-things/counter-intuitive-truths/purpose-measures-method>).

must be aligned. For this reason, we recommend that, following the adoption of our proposed purpose, principles and values, MSD embeds these into its policy and system development.

### Require mutuality of expectations and responsibilities

Whakamana tāngata is a new approach based on mutual expectations and responsibilities. It is strongly connected to improving wellbeing by focusing on supporting positive long-term outcomes for a person, including increasing their skills and the labour market capacity of them and their family or whānau.

The current obligations and sanctions regime must be immediately reformed into a system of mutual expectations and responsibilities that are applied according to the circumstances of the individual. They must be applied in a way that meets the values of the system, with robust checks and balances to mitigate potential negative impacts on individuals and their families and whānau. The overarching expectation of welfare recipients and MSD is to act with respect and integrity in their mutual interactions.

### Expectations of the Ministry of Social Development to govern interactions with benefit recipients

MSD should be held to the following expectations.

- MSD recognises that, without adequate financial support, people move further away from a connection to the labour market, and inadequate income is likely to increase the length of time a person or their family and whānau will receive benefit income.
- People are listened to and their circumstances, culture, skills and barriers are understood and taken into consideration in the service they are provided.
- People are made aware of all the assistance that may be available to them, are given clear information about the qualifying criteria and how to apply for assistance, and are granted assistance in a timely manner, as soon as practicable after making the representation for help.
- People are given any assistance they need to access opportunities (such as assistance for travel to work or job interviews).
- The right people are sent to the right jobs (that is, they are sent to jobs for which they have relevant skills and experience).
- People are supported when in part-time or casual work, and efficient systems are in place so people can easily report their income and receive their full and correct entitlement.
- People are advised of the purpose of any appointment with MSD and are given reasonable notice of the time of this appointment.
- People are able to make representation and application through whichever service channel works best for them.
- Stakeholders are consulted and advised about services that may affect their population.

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*We don't get given the time to 'care'. Conversations are so limited. Get them in, get them out – we don't have time to do what we know we should."*

WORK AND INCOME STAFF FORUM

## Expectations of benefit recipients

In reciprocation, people in receipt of benefit should be expected to:

- look for, and accept, suitable employment and other opportunities when they arise, with consideration being given to the suitability of the employment, the person's caring responsibilities and health or disability barriers, and any other restrictions on work capacity for a:
  - part-time expectation for people whose youngest dependent child is aged 6 years or older
  - full-time expectation for people without caring responsibilities and whose youngest child is aged 14 years or older
- attend and participate in appointments with MSD
- give full and correct information about their circumstances, and advise MSD promptly when these circumstances change
- seek ways to participate in their community through earning, learning, caring or volunteering, where this is appropriate and fits with their skills and aspirations
- engage with services that help them in their earning, learning, caring and volunteering aspirations.

Within the welfare system, there is currently a mandatory requirement to seek part-time work when a parent's youngest child is 3 years old. In New Zealand, it is common for parents to return to at least part-time work when their children are young, where there is appropriate and affordable support in place to do so. Where it fits with their individual circumstances, the welfare system should support but not expect the parents of young children to take up paid work. Not everyone will be in a position to do work while their children are young. Once children are at settled at school, a part-time work expectation is reasonable. We propose having a part-time expectation for those whose youngest dependent child is 6 years or older. However, it is important that MSD take account of individual circumstances (for example, children with health conditions or disabilities) (MSD 2019h).

Parenting teenagers can be challenging, especially for sole parents. Adolescence is a time when many young people engage in risky behaviours. It also a time when mental health can deteriorate. New Zealand's suicide rate for young people is among the worst in the OECD (Gluckman, 2011; Government Inquiry into Mental Health and Addiction, 2018). While we support the full-time work expectation for sole parents with a youngest child aged 14 years or older, it is important that MSD adopts an approach to the application of the work expectations that takes account of the individual circumstances of sole parents.

We do not support the continued use of a financial sanctioning regime. If the Government considers financial sanctions are necessary, people should lose no more than 10% of income. In a few situations, people with payments reduced by up to 10% may still not be willing or able to meet reasonable expectations. In these cases, it may be necessary, after exhaustive consideration of the reasons the person is not meeting

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*In my experience of working alongside a number of people who are welfare recipients I would say that the experience of going to WINZ is quite an ordeal for people. They feel like they are treated as 'criminals', like they are guilty until proven innocent, and there is no openness to describing their situation and explaining the issues inherent in their position."*

**FRIEND OR FAMILY MEMBER OF WELFARE RECIPIENT**

their reasonable expectations, to cancel this person's assistance. Where there are dependent children, it would be inappropriate to cancel assistance, and we would expect MSD to continue to work with such families to facilitate meeting the expectations associated with receiving MSD assistance.

### Use case management to support a positive client experience

In New Zealand, case management is the intervention most commonly offered to people receiving a benefit. Case management is a relationship-based service and the mainstay of service delivery across welfare and health sectors in many countries.

The basic functions within any case management model are assessment of client needs, development of a comprehensive service plan, arranging for services to be delivered, evaluating and following up, and advocating for service improvements. However, 'case management' means different things to different people and no consensus exists about its components and appropriate application<sup>36</sup> (Butler et al, 2012). Despite this lack of consensus, there is general support for case management approaches.

Studies show that positive relationships in the context of welfare service provision are associated with increased levels of client engagement and satisfaction with the way the service was delivered, as reported by clients (Gladstone et al, 2012; Hasluck & Green, 2007; Mandlik et al, 2014). UK research indicates that clients generally support the case management approach in which personal support and advice is given with appropriate services to meet their needs. Friendly, experienced staff, a welcoming setting and a sense of shared purpose are not just desirable, somewhat cosmetic features of service but may be essential elements in the effectiveness or otherwise of provision (Hanson et al, 2006; Hasluck & Green, 2007; Mandlik et al, 2014).

There is no one-size-fits-all approach to case management. Case management interventions need to be modified and extended for the more complex needs of those workers further from the labour market (Hasluck & Green, 2007). Hasluck and Green add that, for the most disadvantaged jobseekers, the research suggests "the circumstances

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*...main area of concern is the conditional nature of support and difficulty obtaining it. This includes the many and onerous obligations of recipients, the complexity of requirements, the lengthy waits and difficulty in communication, the frequent threat of withdrawal of support and frequently unhelpful or frankly demeaning attitude of staff."*

NGO EMPLOYEE

36 There are several different models of case management. For example:

- the 'broker model' – it does not involve any direct provision of service. It is purely information and referral only.
- the 'generalist case manager' who provides coordination of services as well as direct service functions such as advocacy, casework and development of support systems.
- the 'primary therapist as a case manager' – this focuses primarily on the therapeutic relationship with the client and supplements this intervention with traditional case management functions (Hanson et al, 2006).



and context of engagement between [case manager and client, are] as (if not more) important than the specificities of types of provision" (2007:138). Lower caseloads appear more likely to be effective,<sup>37</sup> especially for those with complex needs.<sup>38</sup>

Barriers to building trusting relationships between clients and case managers include:

- case managers' disregarding or being seen to disregard the client's values and knowledge of their own circumstances (Mandlik et al, 2014; Warr et al, 2017)
- clients being placed in programmes in which they cannot perceive value (or the link to the overall goal) (Altman, 2008; Damiani-Taraba et al, 2017)
- case managers using or being perceived to use coercive techniques to elicit client compliance (Altman, 2008; Kimel, 2007)
- service provider processes overriding the addressing of client's needs (for example, case managers not having enough time to talk with people, or performance targets that prioritise efficiency over relationship building) (Mandlik et al, 2014)
- poor communication
- wider structural barriers to the delivery of what the client needs (for example, lack of access to technology or poor service coverage) (Warr et al, 2017).

In New Zealand, working age benefit recipients are streamed into different types of case management, depending on their risk of staying on benefit long-term and their amenability to moving into work. Work-obligated benefit recipients with the highest risk of long-term benefit dependency receive more intensive case management services. Those streamed into intensive case management services receive one-to-one engagement with an assigned case manager to help them move into work. Benefit recipients with no or deferred work obligations are streamed into general case management – a service that involves only the maintenance of income support payments. This latter group makes up the majority of benefit recipients (for example, most people receiving a benefit for a health condition or disability and most sole parents with very young children). They would benefit greatly from the dedication and continuity of individual case management.

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37 A German pilot of lower caseloads found robust evidence on the utility of reduced caseloads as an effective and efficient strategy for public employment services but cautioned that it was unclear what would happen if all sites reduced caseloads (Hainmueller et al, 2015).

38 With Individual Placement and Support – an integrated employment and health intervention aimed people with severe mental illness – very low caseloads are an important component of its success (Bond & Drake, 2014; Modini et al, 2016; Waghorn et al, 2014).

Through our consultation process, we heard from service users and case managers that it is especially hard for people with complex or long-term issues to establish a trusting relationship with MSD without a dedicated case manager. The lack of an assigned case manager creates stress for both parties and results in a poor and uncoordinated service. Recipients often have to repeat their story multiple times – a situation that is, at best, frustrating and, at worst, traumatic. Many staff consulted with were equally discouraged by the current case management system – not having the time to listen and understand a person's full story made it more difficult for staff to provide people with the appropriate support. We acknowledge that not everyone will need or want an assigned case manager.

### **Resource front-facing services sufficiently to achieve positive outcomes**

For people interacting with MSD to achieve positive outcomes (including having a trusting relationship with staff), sufficiently resourced front-facing services are an important prerequisite. This includes staff with sufficient capacity and capability, the appropriate systems to support staff to achieve outcomes, tools and interventions, and enough time to undertake what is required.

People we consulted with, including staff, welfare recipients and service providers, reported that MSD has a severely under-resourced workforce that is not allocated the time needed to work with people to understand and support them to achieve their goals and develop their potential. We also heard about a lack of the requisite skills and systems training for staff. Staff spoke about wanting more time with clients, much more training and more staff to do their jobs well.

Many public services are delivered via digital platforms but not everyone can use them. The move toward a more digital platform of service delivery came up often during consultation. While many supported new developments, such as MyMSD, we also received feedback that a significant group was unable or struggled to use this platform (because they, for example, lacked internet access living in rural areas without coverage, could not afford access or lacked technical knowledge to use the internet). Not being able to access information online or complete forms online meant people were more likely to need to come into a service centre, which was time consuming and costly for people in many parts of the country.

Particular groups of service users must have their needs taken into account when consideration is given to the allocation of resources. For example, in our consultation with the deaf community, we heard of the need for more information to be provided in accessible formats such as New Zealand Sign Language and Easy Read.

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*...the levels of support differ and are based on our client's needs. I definitely feel that more can be done in the case management space where we could better help and equip our clients with more information about the outside support services (that) are available. But unfortunately case managers don't have enough time to get down to the nitty and gritty of things."*

**MSD EMPLOYEE**

## **Have transparent reviews, complaints and appeals processes**

No organisation will get things right every time. Where people believe the wrong decision has been made and they want it reviewed, transparent processes should enable them to do so. The consultation revealed a lack of faith in the current systems for reviewing a decision or interaction that has gone wrong. People had concerns that complaining about a service would have a negative impact on their future interactions and that little attention was paid to natural justice in the way the current review and medical appeals processes operated.

## **Reduce the generation of debt to help rebuild trust**

While there are multiple reasons for erosion of trust between MSD and benefit recipients, a significant one is the impoverishment created by the payment of desperately inadequate levels of income and the related generation of debt to MSD and other sources.<sup>39</sup> Developing a trusting relationship is important when working with people who have high levels of debt and poverty (McFarlane et al, 2017).

MSD has a range of products available to address hardship. Some of these products are non-recoverable Special Needs Grants, but most are in the form of recoverable grants and loans that need to be paid back. As at June 2018, \$557.8 million was owed as recoverable hardship assistance (WEAG 2019b).

In addition to other qualification criteria, all hardship payments require an immediate and essential, or emergency, need that the client cannot meet from their own resources.

Another proportion of debt owed to MSD by those receiving benefits is from clients who have received money from MSD to which they were not entitled. As at 30 June 2018, this debt stood at \$768.7 million. Overpayments can be a result of trying to comply with a complicated income support system that no longer flexes and adapts with the changing nature of income. Decisions relating to debt can often be wrong, and changes are made after a client has lodged a review of a decision or disputed the debt. In contrast, there is no data on clients being underpaid by MSD, that is, the debt from MSD to clients (WEAG 2019b).

“

*Now that I am back at work and am in debt. Every year you need to give WINZ an overview of what you have earned and what you might earn. I am so afraid I might have earned more than I thought and be penalised with even more debt.”*

**WELFARE RECIPIENT**

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39 A lack of money increases stress and the likelihood people will make risky financial decisions. People use sources of financial support that they trust and avoid those where they feel judged and shameful (McFarlane et al, 2017; Sheehy-Skeffington & Rea, 2017). This can mean that people take out high-interest loans with third-tier lenders who make them feel welcome rather than seeking assistance from MSD which is perceived as being difficult to deal with.

Inland Revenue and MSD are both part of the wider welfare system but Inland Revenue treats debt significantly differently from MSD.<sup>40</sup> These two government agencies should substantially align their policies and processes to provide an equitable way of treating debt creation and reducing indebtedness. This alignment should be at both legislative and practice levels.

For some benefit recipients, the impacts of indebtedness are long-lasting, because they have no ability to repay. This includes the many MSD clients affected by long-term health conditions or disability. These clients often receive benefits for a large proportion of, sometimes all, their lives. Others are caught in cycles of low income, insecure employment and benefit receipt.

This cycle of inadequate payments requiring one-off assistance top-ups, and resulting in debt, further limits the ability of benefit recipients to sustain themselves and increases stress. It further undermines benefit recipients' trust in MSD. These one-off payments, such as Special Needs Grants and advance payments of benefit, are usually for essential and immediate items to achieve a basic level of living.

We are concerned that a growing debt burden will undermine the ability of people and families receiving benefits to achieve the level of wellbeing intended through the social security overhaul recommended in this report. The level of indebtedness of many of those receiving benefits could result in increases in income being soaked up in high-interest and high-fee debt servicing. We support the rapid development of more stringent regulations on lending, particularly third-tier lenders, already under way. The debt burden presents a major obstacle in the achievement of the underpinning goal of whakamana tāngata, increasing the intrinsic wellbeing and dignity of the people.

An ethical lending network is starting in New Zealand. This network of community-based lenders, some with the support of major banks, makes fee-free and interest-free loans to low income New Zealanders. One of these organisations provided information to us demonstrating the significant savings that can be made by consolidating some of the highest interest loans into single interest-free loans. This supports people to become debt-free, leading to the promotion of savings and financial resilience.

For some benefit recipients, the impacts of indebtedness are long-lasting, because they have no ability to repay.

40 Refer to the Tax Administration Act 1994, section 177, Taxpayer may request financial relief (1a), and section 177A, How to apply serious hardship provisions (2) ([www.legislation.govt.nz/act/public/1994/0166/356.0/DLM358340.html?search=s\\_w\\_096be8ed8176dba3\\_177\\_25\\_se&p=1&sr=9](http://www.legislation.govt.nz/act/public/1994/0166/356.0/DLM358340.html?search=s_w_096be8ed8176dba3_177_25_se&p=1&sr=9)).

## **Minimise the small amount of fraud within the welfare system**

Since the 1980s, anti-fraud measures in the welfare system have become more prominent. Critics of anti-fraud measures argue that they further stigmatise benefit recipients; they do not help build trust. In reality, most people do not commit fraud and want to comply (Cabinet Office Behavioural Insights Team, 2012). This view needs to underpin the treatment of people in the welfare system.

However, we acknowledge that, as in any system, a small number of people will deliberately seek to receive more than their entitlement. This behaviour is not acceptable and must be prevented, and, if fraud is committed, offenders should be punished. There are significant costs with fraud and abuse within welfare systems, including fewer funds to help people who need assistance. Moreover, those who commit fraud may face significant negative outcomes (for example, convictions reduce employability and money obtained fraudulently means less incentive to look for work).

MSD advised us that its fraud investigation unit is adopting a new three-tier approach to alleged fraud: facilitation, intervention and, as a last resort, investigation. These changes are in line with our recommended purpose and principles while also maintaining the integrity of the welfare system.

In addition to this, a fairer approach needs to be taken to the anonymous reporting of other people's relationships to MSD. Anonymous tips can come from, for example, aggrieved former partners and can result in significant stress for the person 'reported' before the allegations are resolved.

Evidence about what works to prevent fraud is limited (Prenzler, 2011a; 2011b), but we support this three-tier approach and believe it fits well with a more preventative way of responding to, and reducing, potential fraud.

The principles of natural justice are paramount and should always be applied to an alleged fraud case.

The Welfare Expert Advisory Group recommends that if a decision made in the investigation stage is contended, then a review independent of MSD should be carried out and all findings applied to the case.

In the cases that result in court proceedings, we are concerned about the inconsistent treatment of benefit fraud cases, compared with other fraudulent activities such as tax fraud; plus we are not certain that prosecution acts effectively as a deterrent (Marriott & Sim, 2017). MSD should explore and look to align its approach to that used by Inland Revenue in relation to prosecutions. This would help to minimise the inconsistencies across the two government agencies responsible for providing welfare support to New Zealanders.

When someone chooses to defraud the welfare system, there are always individual attributing factors to their decision. Drivers of fraud in the welfare system include:

- some benefit recipients and other members of the public perceiving fraud to be a victimless crime
- compliance with MSD policies being difficult for many benefit recipients
- the design of MSD systems and processes presents opportunities for people to commit fraud
- benefit recipients' circumstances (such as poverty and indebtedness) make recipients more open to committing fraud.

The repercussions of benefit fraud have a significant impact on a person's wellbeing and often include significant debt. This does not override the underlying position that this behaviour is not accepted and must be prevented. At the same time, all necessary steps should be taken to support the person, including making sure they are receiving their full and correct entitlement and allowing them to meaningfully participate in their communities. Making it easier to comply with MSD's processes will lead to more people doing the right thing.

### **Improving the justice–welfare intersection for positive outcomes**

We strongly support ongoing and enhanced interaction between MSD and the Department of Corrections so individuals are fully supported to best achieve positive integration when released from prison.

While work is being done to provide identification, information, health, housing and employment support to people being released back into the community, it is clear many individuals are not adequately prepared or resourced in ways that support their reintegration into families and the community and reduce the likelihood of reoffending. Access to MSD prison reintegration coordinators is very uneven, for example.

The Steps to Freedom grant is not meeting its objective of providing adequate financial support for being released from prison. The eligibility requirements and grant of up to \$350 is inadequate.

Arrest and remand, even for short periods, can have huge impacts on individuals and their whānau. Benefit payments are stopped immediately and people may lose their housing (and often possessions) due to their inability to pay, and partners and children are left with no finances and having to organise this through MSD. Upon release, this can increase indebtedness because individuals are having to meet costs to re-establish themselves. In other jurisdictions (Germany, for example), rent is continued to be paid for short sentences so that housing is available on release.

### **Justice and welfare must work together to improve outcomes for those interacting with both systems**

New Zealand has seen consistent increases in its prison population even while crime rates have fallen (Gluckman & Lambie, 2018). Māori and Pacific People are disproportionately affected. This has implications for inflows into the welfare system.

Te Uepū Hāpai i te Ora (the Safe and Effective Justice Advisory Group) should look at opportunities to improve social and economic outcomes for those who engage with both the Department of Corrections and MSD.

People who have been imprisoned often encounter significant barriers, including accessing benefits, on release. Many encounter great difficulty securing jobs and stable housing, because of their recent incarceration. They often have difficulty re-establishing relationships with their families or other social supports. Significant investment in the welfare and justice sector is providing poor outcomes for people who have been imprisoned and their families and whānau. These poor outcomes are disproportionately felt by Māori. Significant social and fiscal costs are borne by whānau and other victims of crime. Access to stable housing, appropriate supports and employment improves life chances and reduces recidivism (Shelupanov & Ali, 2010; Visher et al, 2008).

People who have been imprisoned often encounter significant barriers, including accessing benefits, on release.

Successive governments have supported a progressively retributive rather than a restorative approach to crime (Gluckman & Lambie, 2018). This has been accompanied through greater use of obligations and sanctions in the welfare system. In both the justice and welfare systems, it would be useful to look for opportunities for sustainable transformative change that replaces negative spending with positive investment, that enhances the ability of people to reintegrate with dignity and that increases their chances of securing employment, reducing debt and having enough money to live on.

Many people imprisoned are parents. Children with a parent in prison experience a wide range of negative impacts, including long-term poor health, educational and social outcomes and are at high risk of future imprisonment themselves (Gluckman, 2018; Superu, 2015). Taking a life course approach to those who cause harm is the basis of a whakamana tāngata approach that considers education and training opportunities, active labour market policies, public housing provision and adequate incomes.

Alcohol and other drug addictions, mental and physical illness and learning difficulties contribute to offending and are often undiagnosed and untreated in prison (Gluckman & Lambie, 2018) and in the community. Improving treatment and social services for people experiencing mental illness or addiction or both will have benefits for the welfare and justice sectors (Government Inquiry into Mental Health and Addiction, 2018; Potter et al, 2017).

Understanding gang dynamics is important, if the welfare and justice sectors are to respond in ways that will effect positive and sustained change. Gang members and their whānau have high levels of interaction with the welfare and justice systems. They are also disproportionately represented in incidences of family violence and child maltreatment. It is critical to engage with this hard-to-reach sector because the associated fiscal, social and generational costs are so high.

Fines (for example, infringement fines through local councils, NZ Police and other prosecuting authorities) are easily administered but do not discriminate on the basis of a person's ability to pay, and a series of minor fines can easily mount up quickly from one initial offence. Fines can further compound problem debt for people on low incomes (Expert Advisory Group on Solutions to Child Poverty, 2012a).

## Recommendations – key and detailed

Considerable effort is under way to change the culture of MSD, including development of a client commitment charter. The environment in MSD offices is also being made more welcoming for benefit recipients. The direction of change is positive, but considerable effort is needed to ensure it is substantial, consistent across all offices and sustained over the long term.

It will take time, sustained commitment and additional resources to achieve a shift in MSD's culture. Most importantly, the thinking behind the design of MSD systems and policies needs to change, to create lasting and real change in behaviour towards the wide range of users of MSD's supports and services.

We support the direction of change. Our recommendations seek to reinforce the changes by setting demanding key performance measures to hold MSD to account. These should be measurable and informed by the purpose, principles and values we recommend.

## Key recommendations

### Restoring trust

**Recommendation 10:** Develop a mutual expectations framework to govern interactions between the Ministry of Social Development and those who interact with the welfare system.

**Recommendation 11:** Remove some obligations and sanctions (for example, pre-benefit activities, warrants to arrest sanctions, social obligations, drug-testing sanctions, 52-week reapplication requirements, sanctions for not naming the other parent, the subsequent child work obligation, and the mandatory work ability assessment for people with health conditions or disabilities).

**Recommendation 12:** Improve outcomes by ensuring the public-facing, frontline service is consistent with the new purpose and principles through sufficient resourcing (for example, staffing, support and services), an appropriate performance framework, and complaints and disputes processes.

**Recommendation 13:** Assist recipients of Sole Parent Support to return to part-time work when their youngest child is 6 years old (subject to supports being available, such as good quality childcare) instead of the current 3 years. Support but not require all sole parents to return to work when their youngest child is under 6 years old.

### Reducing the generation of debt

**Recommendation 14:** Continue to prioritise a reduction in outstanding benefit debt through sustainable repayments, and minimise the creation of overpayments, including reviewing recoverable hardship assistance and current practice, to be more consistent with whakamana tāngata.

**Recommendation 15:** Align the regulations and practice around benefit debt so that it is treated in substantially the same way as Inland Revenue treats taxpayer debt.

**Recommendation 16:** Instigate a cross-government approach to managing debt to government agencies.

### Minimising the small amount of fraud

**Recommendation 17:** Endorse the Ministry of Social Development's three-tiered approach to responding to fraud allegation: intervene, facilitate and, as a last resort, investigate. Apply the principles of natural justice in all steps, and, if the outcome is disputed, permit a review independent of the Ministry of Social Development.

### Interface with the justice sector

**Recommendation 18:** Enhance and improve the support for people exiting prisons, including increasing the Steps to Freedom grant, and ensuring that any person who leaves prison has appropriate identification and is engaged with specialised care and supportive housing initiatives. Move practices around prisoner integration out of the 'pilot' stage and draw on evaluation data to embed integrated support for these individuals.

## Detailed recommendations

Theme	Detail
Mutual expectations framework	<p>Reform the obligations and sanctions regime into a system of mutual expectations and responsibilities, apply these according to the circumstances of the individual and in a way that is consistent with the proposed purpose, principles and values. Strong checks to mitigate potential negative impacts on individuals and their families will be required. This new approach is strongly connected to improving wellbeing and supporting the increased skills and labour market capacity of the individual and family or whānau.</p>
Obligations and sanctions removal	<p>Remove:</p> <ul style="list-style-type: none"> <li>the requirement to complete specific activities before a benefit is granted (pre-benefit activities)</li> <li>the sanction where benefit payments stop if people have a warrant out for their arrest, and continue data matching with the Ministry of Justice and take a proactive supportive approach to contacting these people</li> <li>social obligations that require people receiving a benefit to take all reasonable steps to have their children enrolled with a medical practice, be up to date with their Wellchild/Tamariki Ora checks and be attending early childhood education or school</li> <li>pre-employment drug testing and provide specialised support for people with substance use disorders</li> <li>the mandatory work ability assessment for people with health conditions or a disability and link workability assessments to return to work plans</li> <li>the requirement to reapply for a benefit every 52 weeks – MSD is expected to provide full and correct entitlements through regular reviews (at least annually)</li> <li>work obligations when an additional child is included in a benefit (the subsequent child rule)</li> <li>the sanction on not naming another parent (was section 70A in the Social Security Act 1964 and is now section 192 of the Social Security Act 2018).</li> </ul>

Theme	Detail
<p>Resourcing and other processes of the public-facing, frontline service are consistent with the new purpose and principles</p>	<p>Resource frontline services to the level required to achieve outcomes as a priority.</p> <p>Implement an ongoing, comprehensive, active and agile staff training strategy.</p> <p>Adopt an improved and accessible complaints process that is measured by a satisfactory restoration of the relationship between the parties.</p> <p>Make the review process simpler, speedier and more accessible, and ensure the principle of natural justice is observed.</p> <p>Make a further hearing at the Social Security Appeal Authority available to those who take an unsuccessful claim to the Medical Appeals Board.</p> <p>Assign people likely to be in long-term receipt of a benefit or with complex needs a dedicated case manager, and give such case managers small caseloads so they can adequately address the wellbeing of the person in need and their family or whānau.</p> <p>Resource the workforce adequately, and streamline systems in consultation with the frontline workforce to improve work flow and recipient service experience.</p> <p>Put people at the centre of decision making, seek feedback from staff about how system changes affect their roles, and empower staff to work proactively to enhance the mana of benefit recipients.</p> <p>Provide multiple channels for service so applicants can access assistance through whichever channel they are most comfortable using.</p> <p>Take a Whānau Ora-type approach where the complexity of a person's situation means multiple agencies are involved and skilled navigators support the person's interactions with the agencies and community organisations.</p>

Theme	Detail
<b>Reducing the generation of debt</b>	
Ways to minimise the creation of overpayments and reduce overall indebtedness	<p>Review all hardship payments and ensure eligibility is in line with the new purpose and principles of the Social Security Act.</p> <p>Give MSD the mandate to improve, simplify and redesign practice around income declarations.</p> <p>Increase funding for community initiatives that promote financial literacy and for debt reduction, such as no interest, no fee and debt consolidation loans.</p> <p>Introduce a scheme of incentivising benefit debt repayment, such as a Matched Debt Reduction Scheme, to reduce outstanding benefit debt.</p> <p>Review internal performance measures relating to debt, to bring them in line with the new purpose and principles.</p>

### Minimising fraud

Minimising the small amount of fraud	<p>Endorse MSD's three-tiered approach towards alleged fraud.</p> <p>Introduce independent review proceedings prior to a Benefit Review Committee for prosecution investigations.</p> <p>Explore and align prosecution practice with Inland Revenue's approach to prosecution.</p>
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### Improving the interface with the justice sector

Improving the service provided to people released from prison	<p>Scale up the Supporting Offenders into Employment intervention and MSD's reintegration efforts, in conjunction with the Department of Corrections.</p> <p>Pastoral care for people released from prison should be increased.</p> <p>Review and increase the current value of the Steps to Freedom grant, to ensure it is adequate for basic living costs, including housing.</p> <p>Monitor and ensure prisoners have the appropriate documentation to obtain income support or work on release (for example, an official form of identification, a driver's licence, bank account, contact details).</p> <p>Consider continuing housing cost assistance for people entering prison for a short period, on remand or in custody.</p>
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## 07 Achieving security requires adequate income

It is clear that the system of income support must be substantially reformed to significantly improve its adequacy and design. However, any changes to income support will require difficult trade-offs (Boston, forthcoming). These trade-offs are often represented in the so-called 'iron triangle' – the three main objectives of an income support system that are difficult to achieve at the same time. These objectives are to:

- reduce poverty
- ensure there are incentives to work
- provide support at a sustainable cost to government.

These trade-offs are clear over the short term, but they become more nuanced over the longer term. For example, while higher benefit payments increase costs to government in the short term, longer-term savings for government come from the impacts of reduced poverty on the broader wellbeing of people, such as lower costs from better health, higher educational attainment, higher employment and productivity, and less crime. In addition, there will be significant benefits to the wellbeing of people and their families, which, aside from any reduced costs to government, are important in their own right.

In other words, the longer-term costs of doing nothing are considerably larger than the admittedly large short-term direct fiscal costs of reducing poverty.

Consequently, to be explicit about the trade-offs we are comfortable with, it is important that the principles underlying the provision of income support by the social security system are similarly explicit.

We have developed 10 principles for the redesign of the income support system.

- Income support is adequate for meaningful participation in the community and maintains this support over time.
- Income support ensures that people are always better off in paid work, and high effective marginal tax rates are avoided as much as possible.
- Main benefits should cover a larger proportion of people's living costs than they do currently (reducing reliance on other assistance).
- Child-related payments follow the child and can be apportioned with shared care.
- Payments for specific costs provide support that is adequate, appropriately designed and easy to access.
- Changes to income support reduce current disincentives to form relationships.
- The income support system proactively supports people to access their full and correct entitlements and promotes awareness of entitlements to the broader population.
- The income support system is easy to access and provides timely support, including for people transitioning in and out of the system.
- The income support system is as simple as possible, balanced against the need to provide adequate support for people in a variety of circumstances at a reasonable cost to government.
- People are treated with dignity and respect when accessing this support.

## Social and financial security sufficient for an adequate standard of living

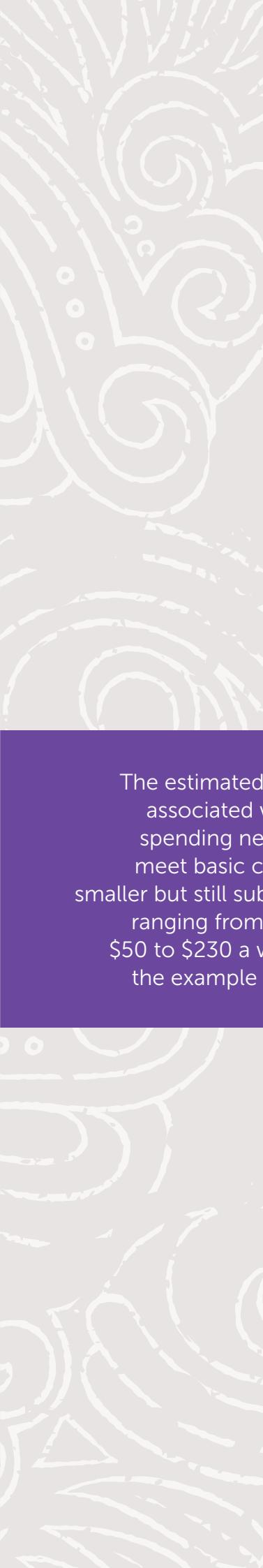
Example families on benefit and in private housing would need over \$100 per week more to meet their costs to participate in their communities...



ADEQUATE INCOME  
\$1,225

SHORTFALL  
**-\$356**

OTHER  
WFF  
ACCOMMODATION SUPPLEMENT  
BENEFIT



## Investigating adequacy using example families and budgets

We commissioned research that explores the adequacy of the income support system by considering the circumstances of six example families (WEAG, 2019c). This research compares the incomes of these families in a variety of circumstances to their estimated costs (their budgets) and identifies any deficits (if their income is not sufficient to meet these costs) or surpluses (if their income is sufficient).

For estimated costs, the research uses budgets that reflect two levels of spending: spending on core or basic costs (for example, rent, power, food and transport) that are needed to 'just get by' without borrowing, and spending at a slightly higher level that allows for some relatively minimal participation spending (for example, playing a sport and cheap presents for family). Data was drawn from a variety of sources and the budgets were reviewed by experienced budget advisors to test the assumptions chosen.

The estimated deficits between people's current incomes and the spending needed for a minimal level of meaningful participation in their communities are large.

- For a single person receiving a benefit and renting privately, the deficit is around \$130 to \$170 a week.
- For a sole parent receiving a benefit and renting privately with one child aged under 2 years, the deficit is around \$110 a week, and with three children rises to around \$250 a week.
- For a couple receiving a benefit each and renting privately with two children, the deficit is around \$350 a week.

The estimated deficits associated with the spending needed to meet basic costs are smaller but still substantial, ranging from around \$50 to \$230 a week for the example families.

The estimated deficits associated with the spending needed to meet basic costs are smaller but still substantial, ranging from around \$50 to \$230 a week for the example families.

These deficits result in people and families making unenviable spending decisions, such as purchasing cheap food, relying on food banks or going without food, avoiding doctor visits, foregoing children's involvement in activities, living in overcrowded housing of poor quality or borrowing from high-cost 'payday lenders'. There are undoubtedly negative consequences for broader wellbeing from social exclusion, an inability to invest sufficient resources for child development and the stress that such difficult circumstances place people under. These impacts on mental health, cognitive development, school achievement and social and behavioural development can limit opportunities and perpetuate, indeed magnify, future support needs.

Ultimately, such deficits mean little opportunity to save or to build assets for future wellbeing (for example, for housing or retirement), further impacting on the dignity and ability of people to participate meaningfully in their communities.

This research shows that many individuals and families receiving benefits, as well as people in low-wage work, are unlikely to have enough income to be able to meet basic costs or meaningfully participate in their communities. It also unambiguously points to the need for significant increases in rates of payment of income support, including main benefits.

This research also compares the example families' incomes to median household incomes in New Zealand. Compared with the median income in New Zealand (equivalised across households and after deducting housing costs), all example families receiving a benefit have incomes below 40% of the median.

For example, a single person receiving a benefit and renting privately has an income, after housing costs, at around 22% of the median if they are receiving Jobseeker Support and at around 28% of the median if they are receiving the Supported Living Payment. The couple with two children receiving a benefit and renting privately is at around 29% of the median income. By any measure of poverty, these examples reveal a dire situation.

## Immediate steps towards adequacy

The large deficits identified above support the repeated calls by many groups for an immediate and significant increase in main benefit rates (Child Poverty Action Group, 2019). Notably, though, a 20% increase in main benefit rates, as many have suggested (including in submissions and during our consultation hui), would still leave many with inadequate levels of income. This is especially the case if meaningful participation in communities is an objective.

Additionally, an immediate increase on its own risks being negated by reductions in Accommodation Supplement, Temporary Additional Support and other payments. Therefore, we have developed a package of changes that significantly improves the adequacy of income support and are broadly based on the deficits shown in the example families research.

**“**

*Benefit and tax credit levels have been too low to support families. The need for hardship grants from Work and Income [MSD], particularly for food and housing, has soared over the past few years. Thousands of parents have been forced into debt to meet their families' basic needs or to pay an emergency bill, or they have relied on charity to ensure children are fed and clothed. The Families Package delivers well under what is needed.”*

**AN EMPLOYEE**

The main parts of this package of changes are:

- significant increases to main benefit payments and an increase in abatement thresholds
- increasing the Family Tax Credit substantially and reducing its abatement to make it a near-universal payment
- the introduction of a Living Alone Payment to contribute to the additional costs of adults living alone (without another adult) on a low income
- the introduction of an Earned Income Tax Credit, a work incentive payment for people with and without children, to replace the three existing work-related tax credits: the In-Work Tax Credit, Minimum Family Tax Credit and Independent Earner Tax Credit.

The Welfare Expert Advisory Group recommends the package of changes shown in table 2.

**Table 2: Recommended changes to improve the adequacy of income support**

Category	Payment rates, abatement thresholds and rates, new or removed	Current state	Recommended change
<b>Main benefits – payment rates</b>	Jobseeker Support (and Youth Payment) – single (18–24 years)	\$179 per week (p/w)	\$315 p/w
	Jobseeker Support – single (25 years+)	\$215 p/w	\$315 p/w
	Jobseeker Support – sole parent	\$334 p/w	–
	Sole Parent Support (and Young Parent Payment)	\$334 p/w	\$374 p/w
	Jobseeker Support – couple	\$179 p/w each	
	Jobseeker Support – couple with children	\$192 p/w each	\$268 p/w each
	Supported Living Payment – single (16–17 years)	\$218 p/w	\$359 p/w
	Supported Living Payment – single (18+ years)	\$269 p/w	\$359 p/w
	Supported Living Payment – sole parent	\$379 p/w	\$399 p/w
	Supported Living Payment – couple	\$224 p/w each	
	Supported Living Payment – couple with children	\$237 p/w each	\$305 p/w each
<b>Main benefits – abatement rates and thresholds</b>	Jobseeker Support	70% after \$80 p/w	70% after \$150 p/w
	Sole Parent Support and Supported Living Payment	30% after \$100 p/w; 70% after \$200 p/w	30% after \$150 p/w; 70% after \$250 p/w

Category	Payment rates, abatement thresholds and rates, new or removed	Current state	Recommended change
<b>Living Alone Payment</b>	Introduce a Living Alone Payment	n/a	\$30 p/w
<b>Working for Families</b>	Family Tax Credit – eldest child	\$113 p/w	\$170 p/w
	Family Tax Credit – subsequent children	\$91 p/w	\$120 p/w
	Family Tax Credit – abatement	25% above \$42,700 per annum (p/a)	10% from \$48,000 p/a to \$65,000 p/a; 15% from \$65,001 p/a to \$160,000 p/a and 50% above \$160,001 p/a
	Remove the In-Work Tax Credit (IWTC) and Minimum Family Tax Credit (MFTC)	IWTC: \$72.50 p/w once working 20 hours p/w (sole parents) or 30 hours per week (couples) (abates after the Family Tax Credit at 25%)  MFTC: tops up income to \$503 p/w once working 20 (30) hours p/w (effective abatement rate of 100% above \$503 p/w)	n/a  n/a
<b>Earned Income Tax Credit</b>	Introduce an Earned Income Tax Credit that phases in above \$150 p/w at 20%, up to a maximum of \$50 p/w	n/a	Up to \$50 p/w
	Earned Income Tax Credit abatement	n/a	15% above \$48,000 p/a
<b>Independent Earner Tax Credit</b>	Remove the Independent Earner Tax Credit	\$10 p/w from \$462 p/w to \$846 p/w	n/a
	Independent Earner Tax Credit abatement	13% above \$44,000 p/a	n/a

We considered many variations of packages. Some trade-offs are difficult, and the most significant are discussed in the sections below. The package in table 2 is our preferred option within the information and time constraints we faced. It strikes a good balance between improving incomes for people receiving benefits, making work pay, and the additional costs to government. It also represents a genuine investment in wellbeing.

While this package will substantially improve the incomes of many people, our analysis suggests that it does not result in increases sufficient enough to enable meaningful participation for many families. Further increases would be needed to reach this level and lift more adults and children out of poverty.

### **Raise main benefits**

Consistent with the principle that a main benefit should cover a greater proportion of people's costs, the Welfare Expert Advisory Group recommends significantly increasing the rates of main benefits to increase their incomes closer to those required to enable meaningful participation. In summary, these increases are:

- \$100 a week for Jobseeker Support (single rate)
- \$89 a week for Jobseeker Support (couple rate)
- \$90 a week for Supported Living Payment (single rate)
- \$81 a week for Supported Living Payment (couple rate)
- \$40 a week for Sole Parent Support.

The gains from this package for sole parents and couples with children are concentrated in the significant increases to the Family Tax Credit (discussed in the next section).

Further increases to main benefits are prevented by two principles:

- Jobseeker Support should not be available to people in fulltime work (40 hours a week) on the minimum wage, so needs to be fully abated by this point
- main benefit payment rates should not exceed the payment rates of New Zealand Superannuation.

In this package, the couple rates of main benefits are maintained at 1.7 times the single rates. In our view, the ideal position would be for couple rates to be double the single rates. However, we have proposed the lower couple rates to keep them within the limits of New Zealand Superannuation (where the couple rate is 1.67 times the single sharing rate). Consideration should be given to addressing this issue across the welfare system.

Couple benefit rates could have been increased to double the single rates, but this would have reduced the amount by which the single rates could have increased, given the constraint of the rates of New Zealand Superannuation. For reasons of adequacy, the choice was made to maximise the increase in the single rate rather than fully remove the partnering disincentive in the couple rate (that is, prioritise improving adequacy for most over individualising the payment rate), though this is a difficult trade-off.

The new couple rate of Supported Living Payment is just below that of New Zealand Superannuation. These changes maintain a higher payment rate of Supported Living Payment, compared with Jobseeker Support, to recognise the likely longer-term nature of receiving Supported Living Payment. Further changes to benefit rates would need to consider changes across the suite of income support payments, including main benefits, New Zealand Superannuation and student support.

The Welfare Expert Advisory Group recommends increasing the rate of Sole Parent Support by less than other benefits for two main reasons. The first is that, in our view, it is preferable to concentrate the increases in support for children through the Family Tax Credit. This means these increases are available to both couples and sole parents, and these increases flow through to low-income working families (potentially better preserving incentives to work). In the example families research, couples with children faced some of the biggest deficits between their incomes and incomes sufficient for meaningful participation in their communities.

The second reason is that these increases to main benefits slightly reduce the financial disincentive to partner within the benefit system by reducing the difference between the sole parent rate of benefit and the couple rate of benefit. Further increases to Sole Parent Support could be considered, particularly if further reductions in poverty are prioritised. However, these would increase the financial disincentive to partner in the benefit system and could reduce financial incentives to work for sole parents.

The Welfare Expert Advisory Group also recommends increasing the abatement thresholds for main benefits (see table 2 on page 99) to improve the adequacy of incomes for people working part-time on low wages and to improve the financial incentives to work part-time.

In addition, the Welfare Expert Advisory Group recommends removing youth rates of main benefits, because there is no evidence that living costs are significantly lower for 16- to 24-year-olds who are living away from home than for people 25 years and over. This includes increasing the rates of Youth Payment and Young Parent Payment to the same levels. These changes also simplify the system.

The Welfare Expert Advisory Group further recommends removing the initial stand-down periods for main benefits, which mean that people currently face one to two week gaps in income from when their income from work ends to when their benefit starts. These stand downs place (predominantly low-income) people in unnecessary financial hardship, make it harder for people to transition into the system and can discourage people from taking up employment (for fear of future gaps in income if the job ends).

The Welfare Expert Advisory Group also recommends removing the 13-week non-entitlement period for voluntary unemployment. Whether a person has a good and sufficient reason for leaving work is inconsistently considered (as is whether people are offered opportunities to re-comply with the obligations on them). This non-entitlement places people into unnecessary financial hardship for a significant period. A better approach uses the new mutual expectations framework, combined with a substantially improved public employment service, so people are quickly supported to return to good and appropriate work.

Other changes the Welfare Expert Advisory Group recommends to main benefits are to:

- remove the '30-hour rule' for Jobseeker Support (which prevents payment of Jobseeker Support if the primary recipient of this benefit works for more than 30 hours a week), to avoid creating a significant loss in income for a person working that number of hours (on a low wage) when combined with the other changes recommended
- introduce individual entitlement to Jobseeker Support while retaining a couple-based income test (currently, only one member of a couple is legally entitled to Jobseeker Support, reflecting an out-dated 'breadwinner' model in relationships)
- keep sole parents on Sole Parent Support until their youngest child turns 18 (rather than switching them to Jobseeker Support once their youngest child turns 14), to remove the need for a sole parent rate of Jobseeker Support – noting that this does not affect their work expectations, just the benefit type they receive
- consider changing the name of Jobseeker Support – Health Condition or Disability to better reflect people's needs (for example, to Health Support), because many people during consultation raised their unhappiness with being considered a jobseeker when they were unwell and not able to work.

### **Introduction of a Living Alone Payment**

The Welfare Expert Advisory Group recommends the introduction of a new Living Alone Payment to contribute to the additional costs associated with not sharing accommodation with another adult. This payment should be \$30 a week. This payment will abate after a person's main benefit has finished abating, at the same rate (70%), and is available to people receiving a benefit and in low-wage work.

The rate is based on the difference between the single sharing and single living alone rates of New Zealand Superannuation (around \$30 a week). This payment is unlikely to cover the full costs of living alone (or to financially incentivise this option for those who are able to share), but is intended to contribute to these costs.

While sharing accommodation is a good option for many people to significantly reduce their costs, it is not an option that everyone is able to take. Sole parents may be reluctant to share accommodation with an unrelated adult (if they do not have family or friends who they can live with), and some people, particularly those with serious health conditions or disabilities, may also find it more challenging to find suitable flatmates.

We recognise that this payment introduces further complexity into the welfare system. However, the example families research clearly demonstrates that people living alone (without another adult) are likely to face some of the most significant deficits in their incomes, compared with what is required for both core and participation levels of expenditure. The Living Alone Payment is one way to address this. Other options to increase incomes for these groups could include further increases to Sole Parent Support and/or further increases to housing assistance (in particular, Accommodation Supplement).

## Substantial changes to Working for Families

The Welfare Expert Advisory Group recommends substantial changes to Working for Families, to improve the adequacy of incomes and the returns from paid work for families with children.

We take the view that the Family Tax Credit should move closer to being universal, available to all except high-income families. The rationale for this is that all of society benefits from the next generation and should contribute to the costs.

To significantly increase support for families with children, Family Tax Credit rates should be increased to \$170 a week for the eldest child and \$120 for subsequent children. We considered further increases to the subsequent child rate (up to \$150 a week) that preserved the current gap between the eldest child rate and the subsequent child rate (of around \$20 a week). We do not recommend this, for reasons of fiscal cost and in recognition that the highest additional costs are associated with a first child.

The Welfare Expert Advisory Group recommends that the abatement threshold for Family Tax Credit is increased to \$48,000 annual family income so it does not overlap with abatement of main benefits or the Living Alone Payment. We propose the abatement rate is reduced to 10% on income from \$48,000 to \$65,000 and 15% on income from \$65,001 to \$160,000. This compares with a flat rate of 25% currently. The Welfare Expert Advisory Group further recommends that the abatement rate is increased to 50% on incomes over \$160,000 per year.

The effect of these changes to the Family Tax Credit is to increase the support for low- and middle-income families raising children and improve the returns to work by reducing the effective marginal tax rate for most families. The high abatement rate for better-off families ensures Family Tax Credit assistance is withdrawn rapidly once families reach that level of income. It will mean some high-income families who do claim a Family Tax Credit will face a relatively high effective marginal tax rate over a short range of income.

Overall, these changes will lift a large number of children out of poverty and hardship.

The Welfare Expert Advisory Group also recommends that the Best Start Tax Credit be made universal for all children aged under 3 years. Currently, Best Start is universal for only the first year and abates at 21% above a family income of \$79,000 a year for the next 2 years. The separate abatement regime (from the Family Tax Credit and In-Work Tax Credit) creates unnecessary complexity and could result in a small number of families facing effective marginal tax rates over 100%. Universalising Best Start comes at a relatively modest fiscal cost, focuses support to families with young children, and simplifies the system.

The proposed increases to the Family Tax Credit enable main benefit rates to be simplified and enable the repeal of the Child Tax Credit (a grand-parented payment that was replaced by the In-Work Tax Credit) because the higher rates of the Family Tax Credit ensure this group will still be substantially better off.

The detailed recommendations at the end of this chapter propose minor changes to tidy up and improve the design and administration of various Working for Families tax credits and to take a more consistent, practical and considerate approach to families with children. In summary, these recommendations are to:

- tidy up the different timeframes for stopping payments when a child has died – the Family Tax Credit stops on the day the child dies, whereas other payments (including Best Start) can continue for 4 weeks after a child dies, in recognition that it is unreasonable to expect grieving parents to call agencies to stop payments immediately on the death of a child
- consider changing the interaction between the Best Start Tax Credit and Paid Parental Leave payments so unavoidable overpayments do not occur and to pay the payments at the same time
- consider how the increases in the Family Tax Credit affect other rates of payments for children (such as Unsupported Child's Benefit and Orphan's Benefit) – previous reforms increased these two payments by equivalent amounts to match Family Tax Credit increases because recipients of these payments are not entitled to receive the Family Tax Credit.

## **New Earned Income Tax Credit**

The Welfare Expert Advisory Group recommends that the other two tax credits in Working for Families – the In-Work Tax Credit and Minimum Family Tax Credit – be replaced by a new tax credit, referred to in this report as the Earned Income Tax Credit.

The current Minimum Family Tax Credit significantly increases people's incomes as they move into part-time work on low wages (20 hours a week for a sole parent and 30 hours for a couple), alongside the In-Work Tax Credit. However, once people are working these hours they see no increase in their incomes as they earn more – they face an effective marginal tax rate of over 100% until they are almost working full-time on the minimum wage.

The current system provides a significant 'step up' in income at a particular point, but it also means that people face a significant drop in income (a 'step down') if they are unable to meet the hours requirement in a particular week. This can be difficult for people who are working variable hours from week to week. The Earned Income Tax Credit provides no significant 'step up' in income at a particular number of hours; instead providing a gradual increase of in-work support.

The Welfare Expert Advisory Group recommends that the Earned Income Tax Credit be set at a maximum \$50 a week for a single person or family. Because it can be claimed by individuals with and without children, it should replace the Independent Earner Tax Credit. The new work incentive tax credit is targeted based on family income, rather than individual income, so that only families on relatively low incomes receive it. A significant proportion of recipients of the Independent Earner Tax Credit are low-income individuals who are part of a relatively high-income family.

The Earned Income Tax Credit phases in at 20% once a person or family is earning \$150 a week. If they are also receiving a main benefit while they are working, this effectively reduces the abatement rate of the benefit (for example, from 70% to 50% if they receive Jobseeker Support). Once the person or family is earning \$48,000 a year the Earned Income Tax Credit is reduced by 15% above this.

For a family with children, this will mean the Earned Income Tax Credit will abate at the same time as the Family Tax Credit for those families earning from \$48,000 to \$65,000 a year, resulting in a total of 25% abatement above their marginal tax rate, the same rate as they currently face from the Family Tax Credit and In-Work Tax Credit. However, abatement rates will be significantly lower for people

no longer receiving the Minimum Family Tax Credit, for people working and receiving a main benefit (as described above), and for families who earn above \$65,000 (the Earned Income Tax Credit cut-out point).

Because the Earned Income Tax Credit abates at the same time as the Family Tax Credit, instead of after the Family Tax Credit (like the current In-Work Tax Credit), it is more tightly targeted to families on lower incomes where it is more effective. Particular consideration has been given to improving the incomes of low-income working people, particularly given the scale of the recommended increases to main benefits. This means gains for low-income working people are close to those of people receiving a main benefit, to preserve a reasonable gap between income support and work.

While this recommendation has the same rate of Earned Income Tax Credit for people with and without children, it would be possible to pay a higher amount to families with children (or a lower amount to people without children), to reflect that families with children generally face higher costs associated with work. An alternative would be to pay the Earned Income Tax Credit only to families with children, in which case the Independent Earner Tax Credit could be retained for people without children (and consideration given to reforming it to have a couple-based income test to better target its support).

### **Impacts on households of our proposed package**

The recommended package provides considerable gains to many households, as estimated by the Treasury tax and welfare analysis (TAWA) model. The limitations and caveats associated with this modelling are in Appendix C.

For households with children:

- 80% of households gain
- the average gain per household is \$6,400 a year (around \$123 a week)
- 5% of households are financially disadvantaged and have an average loss of \$700 a year (around \$13 a week).

For households without children:

- 47% of households gain
- the average gain per household is \$3,400 a year (around \$65 a week)
- 8% of households are financially disadvantaged and have an average loss of \$600 a year (around \$12 a week).

For those who are financially disadvantaged:

- very few of these households are below 50% of the median income (equivalised across households and before deducting housing costs)
- most of these households are relatively high-income households who would have previously been eligible for the In-Work Tax Credit or Independent Earner Tax Credit but are not eligible for the new Earned Income Tax Credit
- some financial disadvantage may be caused by interactions with Accommodation Supplement – these losses could be avoided with further work to consider the interactions between payments and likely relatively minor impacts on the overall fiscal cost.

### **Impacts on example families of our proposed package**

We estimated the impacts of the recommended changes on the example families used in our research on adequate incomes.

For sole parents:

- the example sole parents **working part-time and full-time** on low wages gain around \$110 to \$170 a week – enough to reach or exceed participation levels of expenditure
- all sole parent example families **who are not working** gain enough to reach core expenditure levels (gaining around \$80 to \$165 a week)
- two of the example sole parent families **who are not working** gain enough to reach participation levels of expenditure – the sole parent who is sharing private rental accommodation (gaining around \$80 a week) and the sole parent who is in public housing (gaining around \$150 a week)
- the remaining sole parent example families **who are not working and renting in the private market** still face deficits in their weekly incomes of around \$25 to \$90, compared with the levels needed to reach participation expenditure (despite gaining around \$90 to \$165 a week)
- gains are highest for the example sole parents who are working (part-time and full-time) on low wages.

For couples with children:

- the example couple with children with **one full-time earner** on low wages gains around \$195 a week – enough to reach participation levels of expenditure
- the example couple with children with **one full-time and one part-time earner** gains around \$100 a week – almost enough to reach participation levels of expenditure
- the example couple with children **who are both not working and renting in the private market** still face deficits in their weekly incomes of around \$180 to \$190, compared with the levels needed to reach participation expenditure (despite gaining around \$175 a week)
  - compared with the levels needed to reach core expenditure, they face deficits in their weekly incomes of around \$55 to \$65.

For single people without children:

- the example single people **working full-time and part-time** on low wages gain around \$85 to \$190 a week – enough to exceed participation levels of expenditure
- only one of the example single people **who is not working** gains enough to reach participation levels of expenditure – the person receiving Supported Living Payment and living in public housing (gaining around \$90 a week)

- two other example single people **who are not working** gain enough to almost reach core levels of expenditure – the person receiving Jobseeker Support and sharing private rental accommodation (gaining around \$80 a week), and the person receiving Supported Living Payment and renting in the private market (gaining around \$85 a week)
- the remaining example single people **who are not working (and receiving Jobseeker Support), living alone and renting in the private market** still face deficits in their weekly incomes of around \$55 to \$85, compared with the levels needed to reach participation expenditure (despite gaining around \$85 to \$90 a week)
  - compared with the levels needed to reach core expenditure, they face deficits in their weekly incomes of around \$14 to \$45
- the gains are most significant for the example single person working part-time on low wages
- the gains for the example people who are not working and those working full-time on low wages are similar.

### **Impacts on poverty of our proposed package**

Our terms of reference asked us to consider the impacts on child wellbeing and the Government's child poverty strategy. This package is estimated to substantially reduce the number of children in poverty and contribute to significant improvement in wellbeing.

The TAWA model can provide estimates relating to only two of the poverty thresholds recommended by the Government Statistician: 50% and 60% of the median income (equivalised across households and before housing costs (BHC)), relative to the median income in that year – referred to as 50% BHC and 60% BHC. Given the importance of housing costs, particularly for low-income people, further work should be done to estimate the impacts on incomes after housing costs. The impacts on children are that the number of children:

- below the 50% BHC threshold is estimated to fall by around 45,000 (around a 40% decrease)
- below the 60% BHC threshold is also estimated to fall by around 50,000 (around a 25% decrease).

It is important to note that this package also increases the median household income, so these decreases are compared to this higher median income. This analysis highlights the importance of considering both relative poverty thresholds (as above) and constant value poverty thresholds (which fix the median at a certain point in time and increase it with inflation). Both relative and constant value measures are reflected in the Child Poverty Reduction Bill (though there are limits to the measures that can be modelled for estimates of future changes).

This package also substantially reduces the number of adults in poverty.

The impacts on adults are that the number of adults:

- below the 50% BHC threshold is estimated to fall by around 70,000 (around a 30% decrease)
- below the 60% BHC threshold is also estimated to fall by around 65,000 (around a 15% decrease).

## **Fiscal costs of the package**

The fiscal cost of these changes is estimated to be around \$5.2 billion a year when fully implemented.

We expect these short-term costs will generate longer-term benefits in genuine wellbeing. In fiscal terms, such wellbeing benefits would see lower health and justice costs over the longer term, along with an improved economy with higher participation in the skilled workforce. However, attaining such benefits would require that significantly higher levels of income support are embedded in the social security system and maintained over the long term.

Significant costs from the current inadequate levels of income support payments cannot be ignored. The poverty and hardship they create place a significant burden on the most vulnerable members of society, including poorer mental health for adults and poorer outcomes for children in the short and long term (across a variety of areas, such as cognitive development, school attainment and social, emotional and behavioural development).

Put simply, much larger fiscal, economic and societal costs await us over the horizon – and into future generations – should we choose to do nothing now.

## **Limitations**

Time has been insufficient to explore the myriad complex interactions in the income support system as a result of the recommended changes and to fully assess the impacts of this package on incentives to work. Further work would be required to systematically address the interactions in the system to avoid unintended impacts and to better understand the impacts on incentives to work. It is important to note that this package has assumed current eligibility settings for payments are largely maintained. There was insufficient time to address other eligibility settings, such as residence periods.

## **Indexation**

Some of the problems with the current system have come about because the relative value of payments has not been maintained. This is clearly demonstrated in chapter 2, particularly in figure 3 on page 37, which shows the decline in the relative incomes of benefit recipients compared with wages. The increases in income that we recommend need to be maintained, to ensure people's incomes when they are not working remain adequate and do not gradually reduce compared with the incomes of people who are working.

## **Child support and shared care**

A key principle is the importance of the child in the welfare system. Welfare should be designed so that child-related payments follow the child and can be apportioned with shared care.

How child support is paid and treated in the welfare system should change significantly to align it with the recommended values and principles.

*Put simply, much larger fiscal, economic and societal costs await us over the horizon – and into future generations – should we choose to do nothing now.*

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The Welfare Expert Advisory Group recommends that all child support collected by Inland Revenue is passed on to the carer of the child,<sup>41</sup> including people receiving Unsupported Child’s Benefit. The purpose section of the Child Support Act 1991 should be amended accordingly. The main benefit system is about providing for the cost of the adults, and money intended for children should not be withheld by the Government to offset those costs. We consider this recommendation is likely to encourage more liable parents to pay knowing that it will be passed on to support their children.

The child support that is passed on to carers should be treated as income for benefit abatement in the same way as wages. Similarly, it should not be treated as part of the paying parent’s income. Child support received is already counted as income (and a reduction of income when paid by a liable parent) for the Family Tax Credit. This reflects that child support is a transfer of income from one parent to another.

With child support being passed on, carers would have more of an incentive to apply for child support if that is in their child’s best interests. For this reason, and consistent with the move to a less punitive and more child-centred system, the Welfare Expert Advisory Group recommends removing the sanction for sole parents who do not apply for child support and the compulsory requirement to apply for child support. This is an area where we heard a lot from submitters – the penalty on sole parents around child support were seen as unfair and should be repealed (section 70A in the Social Security Act 1964).

Unsupported Child’s Benefit is different from main benefits, and we recommend there still be a requirement to apply for child support. The Welfare Expert Advisory Group recommends that people, such as grandparents, receiving Unsupported Child’s Benefit also receive any child support collected, but that the role and level of Unsupported Child’s Benefit payments be reviewed to account for the changes recommended to both the Family Tax Credit and child support. Similarly, the child expenditure table in the child support formula should be updated to account for the recommended changes to the Family Tax Credit.

In light of removing the compulsion and penalties for sole parents, we would still encourage and expect that, if a carer does not already have a voluntary arrangement in place or a good reason for not applying, they would apply for child support. We would expect the relevant agencies to also make the child support application process easy and ensure child support is collected from liable parents and promptly passed on.

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<sup>41</sup> In the child support legislation this is referred to as the receiving carer.

The Welfare Expert Advisory Group recommends:

- the Government, where possible, aligns the definitions in the Family Tax Credit and in child support, especially the definitions of shared care, split care<sup>42</sup> and income, to make it easier for families to understand
- the minimum amount of shared care that is recognised for receiving financial support be aligned at 35% of shared care.

Shared care and split care of children should also be recognised in a wider range of payments, for example, Childcare Assistance and Accommodation Supplement. During consultation people raised concerns, for example, that the practice of allowing only one parent in a shared care arrangement to receive Childcare Assistance was inequitable, put further strain on the relationship between parents, and defeated the purpose of encouraging people back to work.

## Additional steps to achieve adequacy

The changes described above should be seen as a minimum, immediate first step in an overhaul of the system of income support.

Our assessment of income adequacy has necessarily been limited. We acknowledge that income adequacy varies according to many factors, including family type and circumstances and region. We have not covered several family types or costs outside the locations included in the example families research. Time was also insufficient to adequately examine health and disability costs – and this is a significant gap.

In determining what is 'adequate', we have made various assumptions. We submit that the level of income required for adequate living standards and meaningful participation in the community should be the subject of discussion and agreement. While we have attempted to construct budgets noting a range of needs (for example, nutritional needs), we have had to use actual spending data for low-income families for some categories rather than determining what is actually adequate.

The level of income deemed to be adequate needs to be verified through robust data analysis and research, including consultation with a variety of New Zealanders through focus groups. We recommend this be done by an agency independent of government. Once the level of adequate income is established (across family types and in different locations), we expect income support levels be moved closer to such levels as soon as possible. The assessment of the adequate level of income (across family types and in different locations) should be updated regularly and income support levels adjusted accordingly.

Other recommendations include further review of the payment rates and settings for types of assistance that have not been included in the recommended package. The scale of the changes recommended in our package mean further review of this assistance is likely required, which will also provide an opportunity to better align these payments with the recommended principles. These detailed recommendations are briefly described below.

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<sup>42</sup> Split care is where each parent has the full care of different children.

In relation to hardship assistance:

- increase income and asset limits to allow a larger proportion of low-income working people to access payments
- review and increase grant limits for items so they cover current costs (for example, the cost of emergency dental treatment)
- make a larger proportion of payments non-recoverable (for example, payments for the cost of school uniforms), to reduce indebtedness
- review the Temporary Additional Support formula, including the accommodation loading and maximum amount, so it adequately covers costs.

In relation to income definitions:

- align definitions of income and assets with those established by Inland Revenue, unless clear and robust reasons exist for different definitions – simplification and common definitions will improve understanding of the rules and reduce overpayments<sup>43, 44</sup>
- treat earnings-related compensation from the Accident Compensation Corporation (ACC) the same as other income from work in the benefit system, to ensure a consistent and fair treatment of income – this would replace the direct deduction based on the ‘one benefit’ approach currently in the legislation
- review how income is measured and allocated to people, including assessment periods and, especially the treatment of lump-sum payments, retrospective payments, joint investments and annual business income – different types of payments follow a variety of approaches, and better information around the payment of income coming from changes in the tax system provides an opportunity to reconsider these.

In relation to Childcare Assistance (including Childcare and Out of School Care and Recreation (OSCAR) subsidies):

- change the definition of income to remove other non-taxable transfer payments (that is, Accommodation Supplement, Disability Allowance and Temporary Additional Support), to make the income definition for Childcare Assistance more consistent with other supplementary assistance and remove circularity in the system (where increases in payments like Accommodation Supplement can result in people losing Childcare Assistance and being worse off overall)
- improve take-up by promoting greater awareness to working families, alongside Inland Revenue (given its role in administering Working for Families payments), because take-up of Childcare Assistance may be low (WEAG, 2019e)
- review subsidy rates and their interaction with minimum session times in childcare and OSCAR services, to determine if they are adequately subsidising costs to support labour market participation of low- and middle-income families, and increase the rates if they are inadequate
- consider increasing income thresholds to provide greater subsidisation of childcare costs for low- and middle-income working families and to ensure that effective marginal tax rates for these families are not too high.

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43 Some movement towards alignment has occurred over the past decade and this should continue, where appropriate.

44 The definitions should also be updated to reflect recent court cases concerning loans and gifts.

## Relationship status within the welfare system

The current system is designed around a now outdated notion of family with a primary breadwinner supporting a family on a single income. This has long since ceased to be the norm in New Zealand. Today, families are diverse in structure, and social security needs a modern and flexible definition of family that recognises this diversity. The current rules for defining who is in a 'relationship in the nature of marriage' are not working and are causing considerable harm.

At the core of the problem is that most parts of the welfare system are based on whether a person is single or part of a couple and, if part of couple, the amount the couple is entitled to receive is assessed on both partners' incomes. This is unlike the tax system, which is based on individual income. Couple-based systems bring with them two problems: the need to determine relationship status, and financial advantages and disadvantages depending on relationship status (in the current system, this is nearly always a 'couple penalty').

Recipients of MSD support and MSD staff raised the issues of the couple penalty and defining a relationship as being in the nature of marriage as problematic, causing significant stress and hardship, and being a barrier to people re-partnering, especially those with dependent children, or a health condition or disability.

We investigated the concept of individualised entitlement as a potential solution to these problems and support moves towards individualisation. However, we acknowledge that individualisation of all parts of the system is difficult to achieve while still ensuring sole parent families receive enough assistance. We do, however, recommend that the Government investigates options to bring the couple rate of benefit closer to double the single rate (it is currently 1.7 times) as well as other means of individualising the system.

We are also aware of the pressure the current relationship status rules place on people forming new relationships. Most often this affects women who are sole parents. At times, it has resulted in harsh treatment by MSD and the courts if they are deemed to have been in a relationship while still receiving Sole Parent Support, which, in turn adversely affects their children.

Relationships evolve and develop over time. A system based on dignity and trust must allow for this without putting people at risk of losing the income they need to support themselves and their children. The Welfare Expert Advisory Group recommends that a new or formative relationship be allowed a development period of 6 months from initial moving in together rather than the current 6 weeks. We regard this as a

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I feel strongly that benefit entitlements should be individual and not allocated based on relationship status. As a single person with a permanent disability, I can never enter a relationship unless my potential partner agrees to completely support me. So I am unlikely to be able to have a relationship, and surely I have a human right to be in a loving relationship. Making me reliant on a partner also makes me more likely to suffer abuse in a relationship, and less likely to leave an abusive situation.”

**WELFARE RECIPIENT,  
DISABLED**

fair balance between the equity issue of treating some more generously than others for a period and the need to allow people time to test whether the relationship, and often the blending of families, is sustainable and the best option for the wellbeing of the people involved.

This development period would remove some of the stress of having to commit to a live-in relationship, and subsequent reduction of family income, until parties were confident this was in the best interests of all people involved. It would also reduce the risks for people of getting a retrospective debt for a change of relationship status, because they would have a 6-month grace period during which they could discuss the new relationship with MSD without fear of debt.

As part of the move towards individualisation, the Welfare Expert Advisory Group also recommends consideration of a short-term entitlement to a benefit for partnered people in the case of loss of a job or income. This loss of job or income could result from redundancy, illness or disability, or the illness or disability of a dependent child. This entitlement would disregard the income of a person's partner for 6 months, and enable couples to have a period in which to adjust to their change in circumstances. This could also be targeted to lower-income couples by capping the earnings disregard at a family income of around \$48,000 a year. This recommendation is also briefly discussed in chapter 9 (improving access to employment and labour market support).

## Recommendations – key and detailed

### Key recommendations

#### Benefits, Working for Families and supplementary assistance

**Recommendation 19:** Adopt the following 10 principles to redesign the income support system.

- Income support is adequate for meaningful participation in the community, and this support is maintained over time.
- Income support ensures people are always better off in paid work and high effective marginal tax rates are avoided as much as possible.
- Main benefits cover a larger proportion of people's living costs than they do currently (reducing reliance on other assistance).
- Child-related payments follow the child and can be apportioned with shared care.
- Payments for specific costs provide support that is adequate, appropriately designed and easy to access.
- Changes to income support reduce disincentives to form relationships.
- The income support system proactively supports people to access their full and correct entitlements and promotes these entitlements to the broader population.
- The income support system is easy to access and provides timely support, including to people transitioning in and out of the system.
- The income support system is as simple as possible balanced against the need to provide adequate support for people in a variety of circumstances at a reasonable cost to government.
- People are treated with dignity and respect when accessing this support.

**Recommendation 20:** Reform main benefits by:

- increasing main benefits by between 12% and 47% as set out in table 2, page 99.
- increasing the abatement thresholds for:
  - Jobseeker Support to \$150 a week
  - Sole Parent Support and Supported Living Payment to \$150 a week and \$250 a week.

**Recommendation 21:** Fully index all income support payments and thresholds annually to movements in average wages or prices, whichever is the greater. Index Accommodation Supplement rates to movements in housing costs.

**Recommendation 22:** Consider introducing a Living Alone Payment that contributes to the additional costs of adults living alone (without another adult) on a low income.

**Recommendation 23:** Reform Working for Families and other tax credits by:

- increasing the Family Tax Credit to \$170 a week for the eldest child and to \$120 a week for subsequent children
- increasing the abatement threshold for the Family Tax Credit and changing the abatement rate to:
  - 10% on family annual incomes between \$48,000 and \$65,000
  - 15% on family annual incomes between \$65,000 and \$160,000
  - 50% on family annual incomes in excess of \$160,000
- replacing the In-Work Tax Credit, Minimum Family Tax Credit and Independent Earner Tax Credit with a new Earned Income Tax Credit
- introducing an Earned Income Tax Credit of up to \$50 a week for people with and without children and with a couple-based income test
- making the Best Start Tax Credit universal for all children aged under 3 years.

**Recommendation 24:** Reform supplementary assistance and hardship assistance so they are adequate, appropriately designed and easy to access.

**Recommendation 25:** Require the Ministry of Social Development to, within 2 years, complete work, including commissioning independent research and focus groups, to establish a minimum income standard for New Zealand (with 5-year reviews).

**Recommendation 26:** Increase, as soon as possible, overall income support to levels adequate for meaningful participation in the community, as defined by the minimum income standard (which reflects different family circumstances, for example, children, disabilities and regional area) and maintain this level of support through appropriate indexation.

#### **Passing on child support**

**Recommendation 27:** Pass on all child support collected to receiving carers, including for recipients of Unsupported Child's Benefit.

#### **Clarifying eligibility and relationship status**

**Recommendation 28:** Move income support settings over time to be more neutral on the impact of being in a relationship in the nature of marriage.

## Detailed recommendations

### Benefits and supplementary assistance

Theme	Detail
<b>Main benefits</b>	<ul style="list-style-type: none"> <li>Remove youth rates of main benefits. Increase Jobseeker Support for under 24 years living away from home (and the rate of Youth Payment) to match the rate for people 25 and older, and increase Supported Living Payment for 16–17 year-olds to the rate for people aged 18 and over.</li> <li>Remove initial income stand-down periods.</li> <li>Remove the 13-week non-entitlement period for voluntary unemployment.</li> <li>Remove the 30-hour rule.</li> <li>Introduce individual entitlement to Jobseeker Support while retaining a couple-based income test.</li> <li>Keep sole parents on Sole Parent Support until their youngest child turns 18 (rather than switching them to Jobseeker Support once their youngest child turns 14).</li> <li>Consider changing the name of Jobseeker Support – Health Condition or Disability to better reflect people's needs (for example, Health Support).</li> </ul>
<b>Hardship assistance</b>	<ul style="list-style-type: none"> <li>Increase income and asset limits to allow a larger proportion of low-income working people to access payments.</li> <li>Review and increase grant limits so they cover current costs, including for emergency dental treatment.</li> <li>Make a larger proportion of payments non-recoverable (for example, those for the costs of school uniforms).</li> <li>Review the Temporary Additional Support formula, including the accommodation loading and maximum amount, so it adequately covers costs.</li> </ul>
<b>Income definition</b>	<ul style="list-style-type: none"> <li>Align definitions of income and assets with those established by Inland Revenue, unless there are clear and robust reasons for a different definition.</li> <li>Treat earnings-related compensation from ACC the same as other income from work in the benefit system.</li> <li>Review how income is measured and allocated to people, including assessment periods – especially in the treatment of lump-sum payments, retrospective payments, joint investments and annual business income.</li> </ul>

## Assistance related to children and families

Theme	Detail
<b>Family Tax Credit</b>	<ul style="list-style-type: none"> <li>Align shared care rules for the Family Tax Credit with child support – 35% of care.</li> <li>Extend the 4 weeks 'terminal payment' to the Family Tax Credit.</li> <li>Consider how increases in the Family Tax Credit should impact on the rates of Unsupported Child's Benefit and Orphan's Benefit.</li> </ul>
<b>Best Start Tax Credit</b>	<ul style="list-style-type: none"> <li>Consider changing the interaction between Best Start and Paid Parental Leave to avoid overpayments.</li> </ul>
<b>Child Tax Credit</b>	<ul style="list-style-type: none"> <li>Repeal the Child Tax Credit.</li> </ul>
<b>Childcare Assistance</b>	<ul style="list-style-type: none"> <li>Change the definition of income to remove other non-taxable transfer payments (for example, Accommodation Supplement, Disability Allowance and Temporary Additional Support).</li> <li>Improve take-up by promoting greater awareness to working families, alongside Inland Revenue (given its role in administering Working for Families).</li> <li>Review subsidy rates (and their interaction with minimum session times in childcare and Out of School Care and Recreation (OSCAR) services), to determine if they are adequately subsidising costs, and increase the rates if they are inadequate.</li> <li>Consider increasing income thresholds to provide greater subsidisation of childcare costs for low- and middle-income working families, so that effective marginal tax rates for these families are not too high.</li> </ul>
<b>Child support</b>	<ul style="list-style-type: none"> <li>Treat child support received as income for benefit abatement (already income for the Family Tax Credit).</li> <li>Treat child support paid as a reduction in income for benefit abatement (already a reduction in income for the Family Tax Credit).</li> <li>Remove compulsory application for child support (except for recipients of Unsupported Child's Benefit).</li> <li>Shorten the application form and make more application options available (for example, online).</li> <li>Review the expenditure table to reflect changes in Family Tax Credit payments.</li> </ul>
<b>Shared care</b>	<ul style="list-style-type: none"> <li>Align shared and split care rules for main and supplementary payments with the Family Tax Credit and child support.</li> </ul>

## Clarifying eligibility and relationship status

Theme	Detail
<b>Ensuring benefit settings have less impact on partnering decisions</b>	<ul style="list-style-type: none"> <li>Allow a 6-month period (rather than the current 6 weeks) after people move in together as a couple before a relationship is deemed to exist for the purposes of determining benefit eligibility.</li> <li>Do not deem two people who do not live together as being in a relationship for the purposes of welfare support.</li> <li>Investigate other moves towards greater neutrality in respect of relationship status, including increased individualisation of benefit entitlement, bringing the couple rate of benefit closer to two times the single rate, and improving alignment between the approach taken by MSD and in other legislation.</li> <li>Consider introducing a short-term entitlement (for example, 6 months) to a main benefit for partnered people who lose their jobs or incomes (due to redundancy, a health condition or disability, or a health condition or disability of a dependent child) through an earnings disregard of their partner's income (up to a cap of around \$48,000 a year) for this period.</li> </ul>



## 08 Alleviating the housing conundrum

Housing policy and affordability both impact on the welfare system and are critical to it. If people do not have secure homes, they cannot be realistically expected to move off benefits, engage with the labour market and enjoy good health. Likewise, if the cost of renting takes half a beneficiary's or a low-paid worker's income, then families are left in poverty and insecurity and/or may crowd into homes, resulting in stress and ill health. Growing up in such an environment is particularly detrimental to children.

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*At present New Zealand housing costs are a huge burden on household budgets that is eroding the health, security and welfare of beneficiaries and many other households.”*

PAST WELFARE RECIPIENT

Unfortunately, housing in New Zealand has become unaffordable for many people, and there are not enough houses. The Government has recognised there is a systemic housing crisis and has begun to address it. House price inflation in the past 5 years was double that of incomes.

The current welfare system is inadequate to meet households' reasonable financial needs, hence our recommendations to raise benefit rates to a more adequate level. However, there is a danger this solution could increase housing inflation and substantially reduce the effectiveness of the benefit increases in improving wellbeing, if the systemic housing problems are not addressed. The housing crisis is also contributing to the growth in inequality in New Zealand by denying low-income families the only chance most have of acquiring an asset base. This has many implications, not the least of which is the danger of future widespread poverty for older citizens as younger cohorts age with low levels of home ownership and a long-term dependency on the rental market for housing. Vulnerable people need secure, affordable, tenure options including renting, owning and shared equity across the life cycle (WEAG, 2019d; 2019i).

## Housing is a critical component of good welfare policy

The Accommodation Supplement and other housing subsidies will be required as long as low-paid workers and benefit recipients receive inadequate incomes and are unable to access affordable, secure housing. It follows that the welfare system has an abiding interest in ensuring good housing outcomes. A demand-driven payment like the Accommodation Supplement will continue to grow exponentially unless the housing crisis is resolved.

However, the welfare system cannot be expected to implement all or even most of the changes required in housing policy. The welfare system needs to be contributing to the direction of the systemic changes required, because many of the individuals and families most affected by the housing failure are recipients of welfare. The way housing is planned, funded and implemented profoundly impacts on welfare recipients.

A good welfare policy:

- will recognise that a successful welfare system depends to a considerable extent on the fundamental security families experience from shelter and place
- will work to ensure everyone has access to affordable and secure housing for their healthy growth and development
- will recognise that housing tenure has a profound effect on people's sense of motivation and self-determination, provide low-income households with a choice of tenure, including renting, shared equity and home ownership
- could consider the housing assessment and allocation process for public housing so there is an appropriate balance between placing locals waiting to be housed and high-needs households from outside the region
- could consider evidence-based approaches to reducing homelessness.

## Boosting housing supply is critical

The critical aspects of the systemic housing problem in New Zealand are a lack of supply, a crisis of affordability and substandard houses (cold, damp and mouldy). While housing is critical to wellbeing and plays a central role in the social security system, our scope and terms of reference were necessarily limited. Nevertheless, we are compelled to make the following observations.

First and foremost, there is a critical shortage of affordable housing for low-income New Zealanders, especially for those currently on public housing waiting lists. Disabled people are also particularly disadvantaged in securing affordable housing. Given the volume of affordable housing needed, the state has a central role to play in the building of such housing. The state is the only entity that has the necessary scale and resources to make the urgent and immediately needed inroads into building a sufficient quantity of affordable houses. The state must urgently expand and accelerate its efforts to build more affordable housing on an industrial scale, to meet the known need for such housing.

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*Housing support should be integrated as far as possible with the social welfare system, to ensure that social and housing support is provided in a wraparound fashion to provide adequate support around children and families.”*

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Nevertheless, the role of the 'third sector' community housing and innovative solutions should not be overlooked. Many other countries have developed a third sector of community not-for-profit housing providers as well as local authority providers. Furthermore, these providers and the state could allow for tenure choice, such as assisted home ownership and renting options for low-income households.

Innovation could include:

- further developing a third sector of non-profit community housing providers able to deliver secure rental and home-ownership options for low-income families
- realistic options for Housing New Zealand to develop affordable homes for renting, shared equity and ownership
- culturally appropriate development options for Māori and Pacific households reflecting household size and function, and including papakāinga options
- improving public and private rental housing with laws and regulations that support healthy homes and housing security, decent standards of housing quality, affordability and accessibility
- enabling low-income families to develop an asset base, if they so choose, through options such as secure low-interest loans, rent-to-buy schemes, shared equity and other forms of microfinancing
- a realistic definition of housing affordability that is proportional (25–30%) to household incomes in the lower half of the household income range
- asset tests and abatement rates that do not disincentivise home ownership or employment
- affordable, healthy, well-insulated housing developments with universal designs that greatly improve life for many disabled people and work well for the rest of the population.

As the supply-side measures increase and affordability improves, it will be important to review the roles of MSD, Housing New Zealand and the Ministry of Housing and Urban Development, to consider whether an integrated, single-agency approach to housing might be preferable. Housing services could be more efficient if they were dealing with building, maintenance, social support and finance and facilitating home ownership together, as occurred previously. Reinstating their former role of having a clear responsibility to house people unable to afford it in the market and provide pastoral support for those who need it could prevent many of the systemic problems that have grown over the past three decades.

## **Current housing support is expensive**

Housing support is a significant component of income support provided by the welfare system.

Currently, not including New Zealand Superannuation, the largest single benefit cost in the welfare system is Accommodation Supplement. When Accommodation Supplement, Temporary Additional Support (which is used primarily to meet heightened ongoing housing costs) and the Income Related Rent Subsidy are added together, they are projected to total \$2.7 billion in 2018/19 and represent 3.1% of total Crown baseline expenditure. This is despite not everyone claiming their full entitlement because take-up of Accommodation Supplement among low-income working families is less than it could be (WEAG, 2019d; 2019e).

The subsidies provided through the welfare system are demand-side supplements that continue to increase in a housing market that is overpriced and undersupplied and where these factors are worsening. These subsidies simply increase with rent inflation and, some make the case that in all probability, contribute to higher housing costs. However, these subsidies could not be removed, given the current housing market, without increasing poverty and homelessness.

A redesign of all housing support, including Accommodation Supplement, would be ideal but such a significant redesign may require significant 'grandparenting' so current recipients are no worse off. However, a significant increase in the levels of main benefit payments towards income adequacy should reduce the need for such large expenditures on housing-related support.

At the end of this chapter, we set out, in the detailed recommendations, areas for improvement within housing support that should be pursued or considered further. Further analysis would be required on the impact of change on low-income families that we could not do in our timeframe.

An important aspect is to ensure levels of housing support reflect the principles for income support design discussed above, particularly maintaining the relative value of the payments over time, encouraging people to move into and remain in paid work and ensuring they receive their full entitlement.

To improve the impact of housing subsidies on low-income families, the Welfare Expert Advisory Group recommends:

- extending the period before income-related rent for public housing is increased following a move into paid work
- reducing the co-payment rate for Accommodation Supplement
- moving towards providing the same support to renters and homeowners (by changing the entry threshold to Accommodation Supplement)
- addressing gaps in housing support for students.

Another significant issue is the levels of cash assets a person is allowed before losing their Accommodation Supplement. These levels were set decades ago and have not been adjusted. It means any attempt to save for a home results in a loss of housing support, which makes it even harder to save for a home. The Welfare Expert Advisory Group recommends cash asset levels must be immediately increased to at least \$42,700 (the cash asset level for public housing) and further increased to allow people to be able to save for a mortgage deposit on a median-priced home. The cash asset abatement test should be removed, with housing support abated solely on income.

In all, the combination of changes to income support, housing support and abatement rates should make low and low-middle income households substantially better off.

## Recommendations – key and detailed

### Key recommendations

**Recommendation 29:** Urgently expand and accelerate Government efforts to substantially increase public housing on an industrial scale and continue urgent efforts to end homelessness.

**Recommendation 30:** Increase the range of home ownership and tenure options for people on low and low–middle incomes.

**Recommendation 31:** Increase the capacity of third-sector community-based housing providers.

**Recommendation 32:** Develop and enact laws and regulations to ensure healthy homes and housing security, decent standards of housing quality, universal design, and accessibility

**Recommendation 33:** Subsidise housing costs for people on low incomes (in addition to raising main benefit rates to provide an adequate income) and ensure the combination of changes to housing support and abatement rates make households better off.

**Recommendation 34:** Improve access to affordable, suitable housing support for people on low and low–middle incomes, including a range of affordable home-ownership products and papakāinga housing.

## Detailed recommendations

Theme	Detail
<b>Subsidising housing costs for those on low incomes</b>	<p>Housing subsidies could be improved by:</p> <ul style="list-style-type: none"> <li>extending the period from 2 months to 6 months before income-related rent for public housing is increased after the tenant moves into employment</li> <li>changing the way Accommodation Supplement payments are calculated, so indexing maintains relativity with housing costs, and removing differences between renters and homeowners.</li> </ul> <p>Specifically in relation to Accommodation Supplement:</p> <ul style="list-style-type: none"> <li>increasing the maxima to the median regional rental rates (for the latest year available)</li> <li>reviewing the maxima and the area locations annually to maintain the value of the payments with changes in median rental rates in different parts of the country over time</li> <li>decreasing the co-payment rate from 30% to 25% (that is, increase the Government contribution from 70% to 75%)</li> <li>decreasing the entry threshold for homeowners from 30% to 25% to align with renters</li> <li>allowing people who are studying (and meet the criteria for Student Allowance) but who do not receive Student Allowance, to apply for Accommodation Supplement.</li> </ul> <p>Increase the cash asset limit on Accommodation Supplement to \$42,700, to align with the cash asset limit for social housing:</p> <ul style="list-style-type: none"> <li>index the cash asset limit to maintain relativity over time</li> <li>remove the cash asset abatement test for Accommodation Supplement</li> <li>amend the definition of cash asset to exclude the proceeds from the sale of a house, for a reasonable period, to allow the person to re-enter the housing market, taking account of any special requirements or modifications the person or their family may require to a house.</li> </ul> <p>Improve the take-up rate of Accommodation Supplement and Temporary Additional Support for non-benefit recipients through greater cooperation with Inland Revenue, better use of its information, and increased publicity and proactive activity.</p> <p>Increase the flexibility in the requirement to review and renew Temporary Additional Support when assessments relate to housing costs, with reviews between 3 and 12 months tailored to individual circumstances, and accordingly rename, such as 'Tailored Additional Support'.</p> <p>Ensure the combination of changes to housing support and abatement rates, alongside other income support, make low- and low-middle income households substantially better off.</p>

Theme	Detail
<b>Government to undertake further work</b>	<p>Determine the impact on low-income households of maintaining levels of Accommodation Supplement for a reasonable period for beneficiaries who move into full-time work, so they are well supported to remain in work and able to clear debts and build savings, similar to the recommendation on income-related rent subsidy.</p> <p>Change the way Accommodation Supplement payments are calculated to move away from family size to being based on the number of bedrooms, including allowing bedroom space for a disability support person and for children in shared custody, and determine the impact of this change on low-income households.</p> <p>Review the level of the cash asset limit for the income-related rent subsidy and Accommodation Supplement, to maintain the principle that it allows people to save for a mortgage deposit for a median-priced house.</p> <p>Review, as the supply-side measures increase and affordability improves, the roles of MSD, Housing New Zealand and the Ministry of Housing and Urban Development to consider whether an integrated, single-agency approach to housing might be preferable.</p> <p>Review the housing assessment and allocation process so there is an appropriate balance between placing locals waiting to be housed and high-needs households from outside the region.</p>
<b>Home ownership and tenure options and ending homelessness</b>	<p>Consider the following approaches:</p> <ul style="list-style-type: none"> <li>• facilitate innovative thinking and action to increase home ownership through rent-to-buy schemes, shared equity schemes, low-interest rate loans or fixed mortgages, microfinancing and similar</li> <li>• request Housing New Zealand to develop affordable options for tenants to purchase their state house.</li> </ul> <p>These approaches must be based on achieving equity in housing outcomes, including ownership, for Māori and Pacific People. This should result in culturally appropriate rental and ownership housing, including household size and function, and include papakāinga options.</p>



## 09 Improving access to employment and labour market support

Work is an important part of life for most New Zealanders. For nearly all of us, paid work – our own, our parents', our partner's – is our main source of income. Work is also one of the main ways people participate in society.

Good employment can transform lives, especially for families where welfare receipt and poverty are entrenched. It is also fundamental to better economic outcomes and contributes to improved living standards for all New Zealanders. Suitable, 'good work'<sup>45</sup> is work that supports wellbeing. It is work that is well rewarded and safe, and where workers have some reasonable control over how they complete their work. It is work where workers have some confidence in the amount of work and, therefore, the income they will receive. This is not the case for many New Zealanders (OECD, 2018b).

Skills are increasingly important to labour market participation and productivity in New Zealand, as in other OECD countries. A significant proportion of those on working-age benefits have obtained no or few educational qualifications. Skilled workers adopt innovations earlier and are associated with greater firm investment in knowledge-based assets, but New Zealand has a high incidence of skills mismatch and, consistent with this, among the lowest returns to education in the OECD (Conway, 2018).

While paid work remains as central as it ever was, *how* we work has changed dramatically since the Social Security Act 1964 and continues to change. The welfare system needs to be updated to fit the changes that have already occurred, the flexibility to cope with future change, and to support productivity and wage growth. In this chapter, we discuss what those changes should be.

**Good employment can transform lives, especially for families where welfare receipt and poverty are entrenched.**

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45 We use the term 'good work' in this section that picks up on aspects of 'decent work' as per documents from the International Labour Organization, 'meaningful' as per the *He Ara Oranga* mental health inquiry report and other descriptors such as 'appropriate' and 'suitable'.

## Paid work and the social security system

The welfare system has three critical roles in relation to paid work and the labour market. First, and most fundamentally, it provides income security when people do not have an income from work. Second, a well-designed welfare system provides financial incentives for working. Current problems include poverty traps that mean some people have little or nothing to gain financially from seeking to increase their income through additional paid work. These two roles are discussed in chapter 7 (page 94). Third, alongside income support, an effective welfare system provides employment support, for example, active labour market programmes (ALMPs) and other assistance that help people get into work, stay in work, and increase or adapt their skills to meet labour market opportunities. This aspect of the welfare system has been badly neglected in recent years. The current approach has focused too narrowly on reducing the number of people on benefits and short-term fiscal costs with insufficient regard for the suitability of the jobs people go to, of people's and their family's wellbeing, or for the support required to find or remain in work. Changes to address these issues are discussed below.

### Delivering effective employment support

Delivering effective employment services is a challenging task. The assistance provided must be tailored to the needs of the person, their family circumstances and the labour market opportunities in the area where they live. Some people only need adequate income support short-term to allow them time to find a good match for their next job. Others face multiple disadvantages, such as health conditions and disabilities, or lack of qualifications, functional illiteracy (including digital and technological literacy), experience and skills. The system must recognise these disadvantages and provide the appropriate types of employment supports. The long-term returns, both economic and social, will far exceed the short-term costs of investing in people in this way (WEAG, 2019j).

We note the especially poor employment outcomes for Māori, Pacific People, young people and people with health conditions and disabilities. These are inequalities that ought not to exist and, while not all of the problem is due to the system, a sustained and substantial increase in investment in education, training and effective ALMPs would better reflect a whakamana tāngata approach.

We are similarly concerned about other groups of workers. In particular, too many people are 'churning' on and off benefit, without moving onto a pathway into good and sustainable work. This group needs more ALMP support, including post-placement support, to help them stay in work. Further, assistance for people displaced from their jobs (for example, through redundancy) is limited, and wider labour

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*There is a lack of understanding shown by staff and policies as to what actually constitutes 'suitable work' for different people and their circumstances and situations."*

PAST WELFARE RECIPIENT

market protections for displaced workers are lacking. Most people experiencing redundancy generally reattach to the labour market, but they appear to pay a permanent penalty, having poorer long-term outcomes and lower earnings than comparable workers who do not lose their jobs (Dixon & Maré, 2013; Hyslop & Townsend, 2017). This is exacerbated by the stand-down provisions that apply before a person is eligible for a benefit, which we recommend are eliminated (see detailed recommendation table in chapter 7 on Main benefits, page 116). Even in the present strong labour market, this is a gap; in weaker economic conditions or if (when) the rate of redundancy rises due to technological change, it has the potential to become a crisis for those affected.

## Social security must be prepared for an uncertain future of work

The nature of work is changing. The welfare system needs to respond to employment changes brought on by the growing use of robotics in manufacturing and digital technologies (the ‘fourth Industrial Revolution’), the gig-economy, and New Zealand’s transition to a low-carbon economy. The magnitude of these changes cannot be predicted with confidence, but major job losses and considerable structural change in the labour market are virtually certain. Technological advances represent a huge economic opportunity but will also be highly disruptive for many workers. As a nation, we must be prepared to reinvest some of the gains from the new economy in ensuring the disruptive negative side of these changes is not borne unfairly by those whose skills and job opportunities are in decline. This requires an active response by governments as well as employers.

The Government has significant initiatives under way to respond to the future of work, including the broad work programme of the Future of Work Tripartite Forum, and has established the Just Transitions Unit in the Ministry of Business, Innovation and Employment (MBIE). It is important this work continues and the outcomes and findings inform the ongoing development of the welfare system.

The future of work raises major questions around the mechanisms that deliver income to the population of a nation. The current social security system is based on paid employment as the primary mechanism for providing income, augmented by income from the state through the welfare system when required. The issue of a citizen’s wage or universal basic income was raised in consultation hui and submissions made to us.

Views differ about universal basic income systems. Some argue that, in the future, traditional paid employment may not be sustainable as the major income source for people, so other mechanisms, including and beyond tax transfers, will need to be developed (Standing, 2009).

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*Better job seeker support than there is currently – as in actual support to find a job, not just saying ‘oh yeah have you tried looking on Trade Me jobs? Or Seek?’”*

WELFARE RECIPIENT

Others question whether a universal basic income could deliver enough income to those in the most need, especially under the current tax system (Fletcher, 2011; Stephens, 2019). This important, and ongoing debate requires a clear understanding of what an adequate income is and the future role of work. The Welfare Expert Advisory Group recommends a mechanism for establishing what an adequate income level is (see recommendation 25 in chapter 7, key recommendations, page 115).

To be prepared for an uncertain future of work, the welfare system needs to provide employment services that are effective in enabling transitions. Displaced workers (or 'at-risk' workers) need dedicated support, including retraining and skill-enhancement opportunities and other ALMPs, as well as easy access to income assistance that supports them through the transition. We see these supports as desirable even without the drivers of a changing nature of work.

## Early intervention is preferable

To minimise human and social costs and to have a better chance of success, early intervention is preferable, before people enter the welfare system. Early intervention includes ensuring people stay in good and appropriate work or in worthwhile education or training. As the OECD's Jobs Strategy notes, the best way of promoting an inclusive labour market is by addressing problems before they arise (OECD, 2018a).

Early intervention reduces the loss of income, disruption, the loss of productivity and worsening of health conditions that can result from long periods on benefit. Early intervention is also more likely to be effective, since the longer a person is out of education, training or employment, the more difficult it is to support them back to these pathways.

The best opportunities for preventative interventions lie outside the formal welfare system. These interventions include effective education (so young people leave school with skills and a plan), early health support for emerging conditions (regardless of cause), and prompt support for workers at risk of displacement. This is why we recommend a wider active labour market approach, with MSD as a key stakeholder in the labour market 'ecosystem'. MSD is not, and cannot be, responsible for all the interventions that influence labour market outcomes. Many of those interventions – especially education and training, and health care – are led by other agencies. But MSD needs to partner closely with those agencies to reduce the flow of people into the benefit system and to ensure high-quality and sustainable outcomes for people leaving the system.

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*I love their [MSD's] in work support line. Been there since 2016 and it could really have helped me when I unfortunately had to go back on a benefit. I didn't know about it till a month ago. It has been invaluable and makes me feel worthwhile and not a bludger."*

WELFARE RECIPIENT

Access to affordable and suitable housing – while not a labour market intervention in itself – is a critical precondition for a person to find and remain in work. Affordable transport between home and work is also crucial.

For working-age parents, especially sole parents, access to affordable, good quality childcare is also a prerequisite for participation in education, training or work. The welfare system provides some financial assistance to those on lower incomes to access childcare, but cost and lack of services are still barriers to many mothers' participation in education, training or work (Ministry for Women, 2018). Overseas estimates indicate that childcare subsidies and expanded early childhood education supply increase maternal employment by 7–14% (Mitchell et al, 2008). Effects are larger for low-income groups and those disadvantaged in the labour market (OECD, 2011).

The education and training system is a particularly critical interface for welfare. Education and training provide people with the skills to be more attractive to employers and to participate effectively in the labour market. Poor school outcomes and gaps in the support to transition often lead to young people not connecting with employment or tertiary education and increase the likelihood of their entering the welfare system. Increasing functional literacy (including digital and technological literacy) would create many advantages for not just the individual and their family but the employer and the economy.

The government provides a broad range of free or highly subsidised education and training services, especially for young people, and, *overall*, New Zealand has a good-quality state education system. However, compared with other OECD countries, New Zealand also has a large proportion of young people who leave school early and who do not achieve basic secondary school-level qualifications (Agasisti et al, 2018). Those with no school qualifications are likely to spend considerably more time on benefit than those who achieve at least National Certificate of Educational Achievement (NCEA) Level 3. For example, work-ready job seekers in the benefit system who have not attained NCEA Level 1 at school are estimated to have more than twice the expected future years on main benefits than those with NCEA Level 3 or Level 4 – half of this impact is directly attributable to education (Taylor Fry, 2017). This highlights the importance of improving secondary education outcomes and having better school-to-work transition programmes. We are encouraged in this regard by many of the recommendations of Tomorrow's Schools Independent Taskforce (2018), especially its focus on achieving better outcomes for those students currently being failed by the school system (Tomorrow's Schools Independent Taskforce, 2018).

Given the young age structure of the Māori and Pacific populations, there are significant demographic dividends to be gained for the nation, as well as individuals, from improving outcomes for young Māori and Pacific People. A much greater commitment to long-term, high value education and training programmes for people on benefit is required. Again, this is an example of expenditure that is not only beneficial for the individuals directly concerned but is also important economically as part of moving New Zealand to a high-wage, high-skill and highly productive economy.

We recognise the, appropriately, major emphasis across government and within MSD on young people, especially those Not in Employment, Education or Training (NEETs). However, youth employment initiatives are uncoordinated, scattered across many agencies and patchy throughout the country. Although major resources are allocated to this area, we heard numerous examples of initiatives not achieving desired results. Over 11% of young people (15–24 years) are NEET, and this figure has remained more or less constant for many years (Statistics New Zealand, 2018). We heard mixed views on MSD's Youth Service and supports provided to recipients of Youth Payment and Young Parent Payment. The contracted service providers should become advocates and support people for Youth Service clients and not have conflicting 'gate-keeper' and sanctioning aspects

in their role. Youth Service clients should have direct access to MSD for income support, just like any other person on benefit. We are also persuaded by the recent review of compulsory income management in the Youth Service system that this aspect of it serves no useful purpose and should be discontinued (Humpage, 2018).

### **Rebuilding a core employment service**

Achieving better employment outcomes will not be easy, especially for those people facing many disadvantages. The thrust of our recommendations is to rebuild the core employment service functions and ALMPs within MSD that have been allowed to weaken over many years and to place greater emphasis on early intervention, provision of specialist employment support, and ongoing pastoral and mentoring support where needed.

From our consultation, especially with those who have been working for some time in the welfare system, we found that a weakening of labour market policy and delivery occurred following the 1998 merger of the Employment Service of the Department of Labour with the Income Support Service of the Department of Social Welfare to form the one-stop Work and Income New Zealand (WINZ) and, subsequently, the Ministry of Social Development. We have been told that, over time, the public employment service function became the poor cousin of the income support role. MSD no longer has a specialist employment support profession, and the existing work-broker role has become too 'employer-facing', providing recruitment services for employers rather than the best quality placement for jobseekers. Case managers perform both employment and income support roles. These are very different activities that call for different skills and knowledge. The merging of functions is also reflected in MSD's leadership arrangements, in that no senior leader is solely responsible for employment outcomes. Instead, responsibility for the entire service delivery function (including MSD's other services apart from Work and Income) lies with the Deputy Chief Executive for Service Delivery. We do not wish to lose the advantages of the 'one-stop-shop' model, but we do want to see a specialist employment case management service, with strong leadership restored within MSD.

In reality, the income support function has crowded out the employment function.

In reality, the income support function has crowded out the employment function. This is due to the understandable priority of ensuring income and housing support, in an environment of stretched departmental resources and a lack of government-level commitment to public employment services and programmes. MSD's analysis shows that, while staff numbers have been falling, demand for income support services (such as Hardship Grants) has risen rapidly (reflecting inadequate payment levels). Administration of Hardship Grants and Supplementary Assistance now comprises over 40% of total case management time, making it the single greatest demand on case

managers' time. The result is a substantial decrease in the amount of time able to be devoted to employment support. In June 2014, employment-focused case managers engaged proactively with 50% of their clients every month to support them into employment. This has fallen to an all-time low of 19%, and, over the past year, has continued to drop by an average of one percentage point per month.

During consultation, we heard that accessing financial assistance to support the transition into work (Transition to Work Grant) was difficult. There was no ability to complete this online. To access the assistance, those who have moved off benefit into work are required to attend a face-to-face meeting with a case manager, usually requiring time off work. Such assistance needs to be more accessible, to support sustaining work in the early days.

Other aspects of the current system are not working for either employers or potential workers (being benefit recipients from within the benefit system). Employers complain that MSD often offers them a large number of unsuitable candidates for positions and note that they would much rather have workers who are genuinely interested in their positions. MSD clients complain that their employment aspirations are often ignored, and, in recent years, there has been too little focus on efficient job matching. MSD staff and their union (the Public Service Association) told us that MSD key performance indicators emphasise moving a client off the benefit rather than ensuring a skilled and motivated client is placed into a good job. This is also leading to poor employment outcomes and people returning to welfare support.

Furthermore, New Zealand's spending on ALMPs is far below the level needed to provide the bridge between benefit and paid work that many people need. ALMPs comprise:

- services that improve the matching of people to jobs (that is, job brokering)
- training, skill development and work readiness programmes
- job subsidy and job creation programmes.

ALMPs need to be carefully evaluated because some are more effective than others, and some are more appropriate for different labour market conditions or different groups.

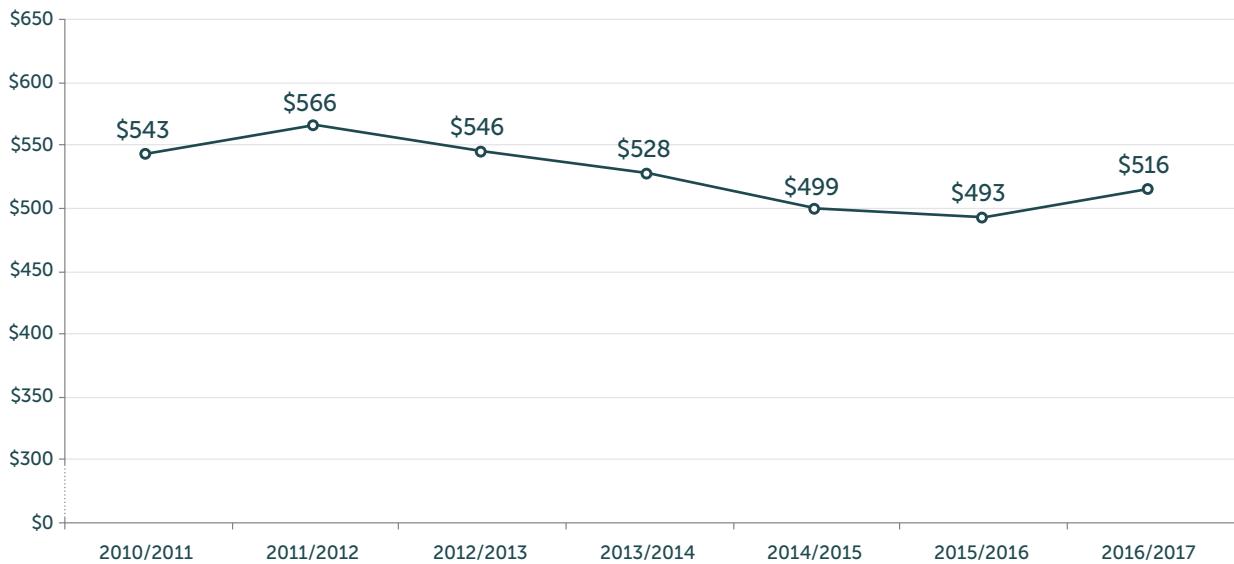
New Zealand is among the countries with the lowest spending on ALMPs in the OECD, and this spending has been falling for a long time. Figure 5 shows the fall in employment assistance spending administered by MSD. Employment assistance is a broader category than ALMPs.

Figure 6, produced by the OECD, shows a steady decline in New Zealand's active labour market spending over 25 years, reflecting a lack of commitment to investment in support for using ALMPs to provide better pathways out of unemployment (OECD, 2018b).

**MSD clients complain that their employment aspirations are often ignored, and, in recent years, there has been too little focus on efficient job matching.**

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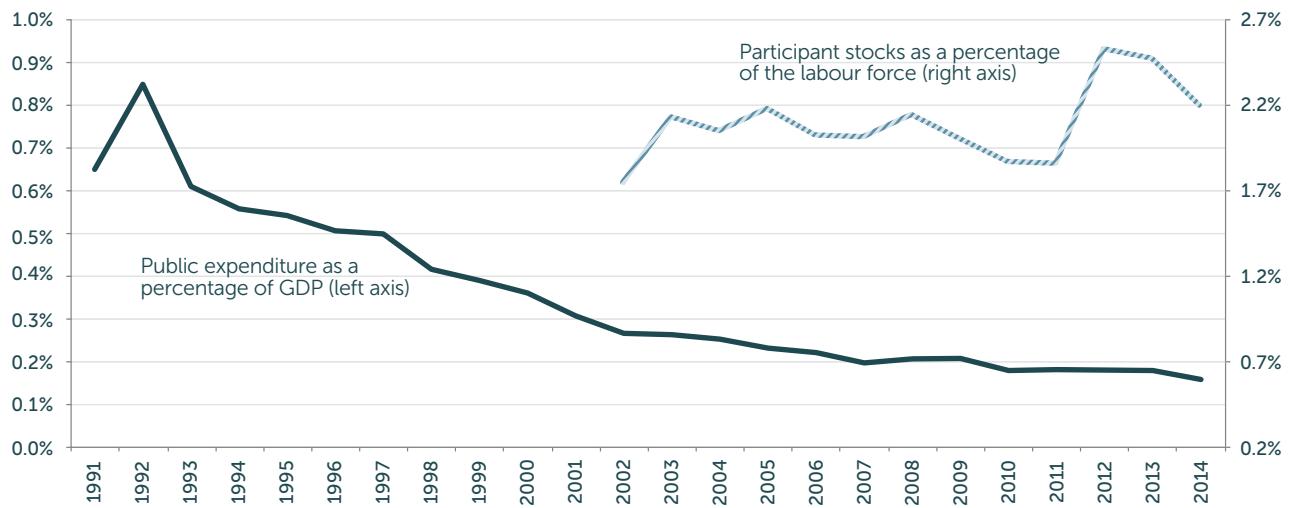
**Figure 5: Total expenditure on discrete employment assistance interventions (millions), 2010/11 – 2016/17 financial years**



Values are in millions of dollars, expressed as nominal values (not CPI adjusted).

**Source:** (de Boer & Ku, 2019).

**Figure 6: Active labour market spending in New Zealand, 1991–2014**



**Source:** OECD/Eurostat Labour Market Programme Database (<http://dx.doi.org/10.1787/data-00312-en>)

**Note:** GDP = Gross domestic product. Data covers categories 2 to 7 of active labour market measures and does not include data on public employment services and administration.

ALMPs should support people at risk of poor labour market outcomes such as unemployment, recurrent periods on welfare support or being trapped in low-paid work. They should also support the growing number of people likely to lose their jobs due to rapid technological change and climate change. People in these circumstances will often, but not always, be receiving income support from the welfare system. Both the OECD and International Labour Organization stress the importance of effective ALMPs to support disadvantaged workers (Avila, 2018; OECD, 2018b).

Support for displaced workers is particularly weak. Compared with OECD best practice, New Zealand has an inadequate system of dealing with job loss, redundancies and labour market shocks (OECD, 2017). Redundancy pay is not required by law, the stand-down provisions between work and benefit entitlement see many workers and families plunged into poverty. In addition, eligibility for income support is based on family income, and workers may be ineligible for income support following job loss and redundancy if they have employed partners. This means a household can find itself losing more than half its income due to one partner losing their job but having no income support available through the benefit system. For many low-wage families, two incomes are required to get by and cover rent and other living costs. To alleviate this problem, the Welfare Expert Advisory Group recommends that workers made redundant or who lose their jobs should be entitled to welfare support for 6 months without regard to their partner's income (up to some cap, so that, for example, the first \$48,000 of a partner's income is disregarded).<sup>46</sup> This would help families affected by redundancy where they have no (or too little) redundancy entitlement.

The OECD and others highlight the need for active labour market programmes at the time of redundancy or job loss to ensure the smoothest possible transition to new employment (OECD, 2017). This can be achieved through better income support and ALMPs such as retraining. Some of the best practice ALMPs come from countries that operate a social insurance model of unemployment support with strong and entrenched social partnership employment relations. Although we do not recommend changing our social welfare system to a social insurance model, New Zealand can learn much from the ALMP component of such models.

We are also struck by the poor coherence across government active labour market, labour market, employment and training policies. There is little joining up of the work of MSD, MBIE, Tertiary Education Commission, Careers New Zealand, polytechnics and industry training organisations, and regional development and local government strategies. The responsibility for labour market policy and analysis is

Support for displaced workers is particularly weak. Compared with OECD best practice, New Zealand has an inadequate system of dealing with job loss, redundancies and labour market shocks (OECD, 2017).

<sup>46</sup> Refer to the detailed eligibility recommendations in chapter 7, Achieving security requires adequate income.



with MBIE, which also runs a handful of small ALMPs, but there is little alignment between the ALMPs of MBIE and MSD. This must be rectified as a first step.

The point was made to us in many consultations that labour markets are regional (or even local), but the statistics, analysis and development of programmes are mostly undertaken nationally. Many labour market statistics are produced nationally; their usefulness at a local level was often questioned. Greater flexibility in the system would enable ALMPs to respond to regional or local needs.

Relatedly, the current 'remote location policy' that restricts people from moving to, or being granted a benefit if they live in, rural locations considered to have limited employment opportunities needs review. We heard it limits the opportunities for regional economic growth and development because a pool of labour is not available in these areas to enable businesses to establish, expand and grow. This policy also affects people being able to return to their communities of origin at times when they need support, and it can fragment families and rural communities.

Finally, the current lack of government or community job creation programmes was mentioned in some consultations. Participants pointed to the old Project Employment Programme as being a major contributor to personal wellbeing at the time, as well as teaching skills, keeping a work ethic intact, undertaking socially useful work and being a pathway to a permanent job in the labour market. Participants commented on the pride they still feel in having rebuilt a wharenui or constructed a Department of Conservation track.

Some forms of government and community sector employment programmes need to be restored and modernised. Internationally, use is growing of 'social enterprises' that bring together business, social, employment, cultural and environmental goals (Blundell, 2017). We note that the Department of Internal Affairs<sup>47</sup> provides some support for social enterprise. This needs to become part of the overall active labour market ecosystem.

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47 Refer to <https://www.dia.govt.nz/Social-Enterprise-Sector-Development-Programme>.

While we are critical of the lack of a coherent active labour market policy, we are heartened by changes we saw during our review, including:

- the He Poutama Rangatahi<sup>48</sup> and Mana in Mahi<sup>49</sup> programmes, with emphasis on young Māori and combining work, training, mentoring and pastoral care
- work being developed in MSD, including the new ALMP focus of the Auckland region of MSD and new ALMP strategies being developed in the Industry Partnership section of MSD
- city, district and regional councils undertaking their own labour market analysis and developing labour market strategies, many in combination with their regional growth strategies
- the work of Auckland Council's Southern Initiative using council procurement policies to ensure positive labour market outcomes.

### An effective employment service

Our view of what an effective employment service would look like is fundamentally different from the current approach that focuses principally on the 'on-benefit' phase, seeks to deter entry on to benefit and to encourage exits irrespective of the outcome. Our approach starts before that and continues after it. The welfare system employment support needs to include:

- partnering with other stakeholders, to support people who have been displaced from work or who are at risk of becoming unemployed or entering the welfare system
- supporting people in the welfare system to enter good jobs using a variety of retraining and other ALMPs
- supporting people through mentoring and coaching after they have moved into work, to help them maintain employment.

This model is illustrated in figure 7.

**Figure 7: Effective employment service support model**

At risk →	On a main benefit →	In work, education or training →
Welfare system partners with other government agencies, employers, unions and other stakeholders to support people at risk of entering the benefit system to remain in work.	Welfare system supports people into suitable employment, education and training.	Welfare system provides ongoing post-placement and training support in conjunction with the employer.

48 Refer to <https://www.growregions.govt.nz/about-us/he-poutama-rangatahi/>.

49 Refer to <https://www.workandincome.govt.nz/products/a-z-benefits/mana-in-mahi.html>.

Within this framework, we consider a more effective employment service would:

- be proactive (for example, early engagement with active, agile and timely services) with a focus on those most at risk of poor employment outcomes
- focus on long-term employment outcomes (good and appropriate work matched to a person's aptitudes and interests) with pastoral and mentoring support where needed
- be led by a dedicated deputy chief executive at MSD
- be client-focused and personalised (for example, work expectations linked to wellbeing and family needs)
- involve expert employment case management
- increase substantially expenditure on a portfolio of evidence-based ALMPs and services informed by all relevant outcomes data
- be driven by local labour market conditions and informed by local labour market data
- be well placed for a future labour market in which more people might transition more often in and out of work and the need is greater to support workers to re-skill or up-skill (for example, due to displacement or to move out of casual work)
- be embedded in a coordinated government-business-union social partner approach to active labour market policy that aims to keep people in employment or in relevant and effective education and training
- involve local government, iwi, and employer and union social partners, as well as central government, in the design and implementation of ALMPs to ensure they relate to local and regional labour market conditions
- be attractive – a service that all New Zealanders needing employment support feel welcomed by and are happy to engage with.

The focus of the service should be on supporting people into good and sustainable work that matches their aptitudes and interests.

“

*There is a need for increased focus by MSD and Work and Income on employment assistance, training, and the acquisition of new skills to respond to the changing world of work.”*

**NEW ZEALAND COUNCIL  
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## Recommendations – key and detailed

Achieving better employment outcomes will not be easy. The welfare system provides employment support to some of the most disadvantaged New Zealanders. Our recommendations seek to improve their chances of being employed in good and appropriate work.

Our principal recommendation is to rebuild core employment service functions that have been allowed to weaken over many years and to embed these in a wider active labour market system.

The Welfare Expert Advisory Group recommends an enhanced emphasis on early intervention (with partners), provision of specialist employment support, and ongoing pastoral support where needed. This is an approach to effective employment services and active labour markets that is more aligned with the OECD's Jobs Strategy (OECD, 2018a).

### Key recommendations

#### Employment support

**Recommendation 35:** Establish an effective employment service of the Ministry of Social Development so it is better able to assist people to obtain and keep good, sustainable work.

**Recommendation 36:** Revamp active labour market, labour market, employment and training policies across government to make them more coherent and effective.

**Recommendation 37:** Strengthen the Ministry of Social Development's redundancy support policies to better support displaced workers.

#### Supporting youth to engage in education, training or paid work

**Recommendation 38:** Abolish, in the Youth Service, compulsory money management, and separate case management from youth mentoring so it is consistent with and has a positive youth development focus.

**Recommendation 39:** Use evidence-based approaches that support young people to be learning, earning and, where young people are parents, caring. These approaches need to build on the strengths of young people and provide a basis for their long-term engagement with the changing world of work.

## Detailed recommendations

Theme	Detail
<b>An effective employment service</b>	<p>Institute a new operating model that provides people at risk of poor labour market outcomes (including Māori, Pacific People, people with health conditions or disabilities, and people whose jobs have been made redundant) with proactive and sustained support to obtain good, sustainable work.</p> <p>Increase significantly investment (with appropriate monitoring and reporting) in active labour market programmes.</p> <p>Establish a dedicated deputy Chief Executive for employment in MSD.</p> <p>Provide sufficient numbers of well-trained, well-resourced, regional labour market managers and specialist employment case managers in MSD.</p> <p>Provide public employment services to people at risk of becoming unemployed.</p>
<b>Revamp of Active Labour Market Programmes, labour market and training policies</b>	<p>Review a whole-of-government approach to labour market, training and vocational education (with MSD as an integral partner) with MBIE, Te Puni Kōkiri, Ministry of Pacific Peoples, Tertiary Education Commission, Careers New Zealand, polytechnics, industry training organisations, and regional and local government.</p> <p>Establish national and regional advisory groups of the social partners (government-business-union), iwi and regional and local government to implement employment and active labour market policies at a national and regional level.</p> <p>Resource and develop a portfolio of labour market programmes that is driven by local labour market conditions, evidence based, and informed by all relevant national and local labour market data.</p> <p>Access the best international data and programmes so New Zealand is well placed for a future labour market in which more people might more frequently transition in and out of work and where there is a greater need to support workers to re-skill or up-skill due to displacement or moving in or out of casual work.</p> <p>Make labour market programmes and work far more accessible for disabled people.</p>

Theme	Detail
<b>Loss of employment</b>	<p>Establish a short-term (for example, 6 months) benefit for partnered people who lose their jobs or incomes (for example, due to redundancy) through an earnings disregard of their partner's income (up to a cap) for this period (see the detailed recommendations table in chapter 7).</p> <p>Adequately fund redundancy support programmes, which include a suite of free or subsidised training and education courses, for workers who experience redundancy.</p> <p>Ensure people can resume benefits readily (to allow for unpredictable changes in income and to provide people with confidence to take up employment), including removal of income stand-down periods.</p>
<b>Young people supported to be earning, learning and, where they are parents, caring</b>	<p>Increase investment in well coordinated and youth development-focused programmes to help young people into education, training, alternative employment opportunities or volunteering.</p> <p>Tailor youth initiatives to their communities.</p> <p>Take an evidence-based approach, informed by the voices of young people and building on the strengths of young people, and provide a basis for their long-term engagement with the changing world of work.</p> <p>Provide assistance with a specific focus on the needs of rangatahi Māori, Pacific youth and young people with health conditions or disabilities, to provide more equitable outcomes and success for these groups of young people.</p>



## **10 Creating a fairer deal for people with health conditions or disabilities and carers**

## Improving wellbeing

No consensus exists on a definition of wellbeing, but it is usually defined as a multidimensional concept encompassing physical, mental and social domains.

People need sufficient income from the state and/or work for meaningful participation in their community and to live a life with dignity. Health shocks (such as major illness or major injury) to oneself or an immediate family member can happen to anyone and can have a devastating impact on someone's income and ability to work, as well as being highly stressful. Health shocks have a greater impact on low-income families (Islam & Parasnis, 2017).

Social assistance benefits play a significant role in supporting individuals who are unable to work or whose capacity to work is limited (Immervoll et al, 2015). The primary purpose of health and disability benefits is to support people in a difficult position to survive financially. There are large financial short-falls for people with work-limiting health conditions or disabilities from birth or childhood as well as those developed as an adult. If payments are set too high, they can act as a disincentive to enter work; but if they are set too low, the risk of poverty increases for those individuals and families who are not working (Make Work Pay Interdepartmental Group, 2017).

## The system response needs to improve in several areas

In New Zealand, the system could improve its response to people with health conditions or disabilities in several areas. These are discussed below.

### **Inequities exist in the provision of financial assistance for people with health conditions and disabilities and carers across the social sector**

The Ministry of Social Development (MSD), Ministry of Health<sup>50</sup> and Accident Compensation Corporation (ACC) all work across the health and disability sector, delivering support and services to a sometimes shared client base. The three agencies have very different incentives and purposes, which has led to disparate and inequitable outcomes for disabled people both accident and medically diagnosed (WEAG, 2019k).

Levels of income support and integrated services for people with similar disabilities vary, depending on whether people are eligible for ACC income-replacement payments<sup>51</sup> or much less generous, means-tested payments through the welfare system (Fletcher 2018b; OECD, 2018b; WEAG, 2019k). As table 3 indicates, the amount of financial assistance people may receive from ACC is usually higher than that provided by MSD for the same level of incapacity.<sup>52</sup> This difference was also highlighted in the recent review of mental health and work in New Zealand (OECD, 2018b).

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50 The Ministry of Health funds health services and has broad health and social priorities that do not include employment.

51 ACC operates a levy-based income protection scheme for personal injury, which provides compensation for lost earnings in return for the loss of the right to sue. ACC provides income support and rehabilitation to its clients. Eligibility is not affected if the client has an earning spouse. People in employment at the time of their accident receive up to 80% of their pre-injury income. ACC has no obligation to pay loss of income support (weekly compensation) to someone not in paid employment at the time of a disabling accident.

52 MSD provides means-tested financial and other support as appropriate to help people to support themselves and their dependants while not in paid employment, including where this is because they have a health condition or disability. Decisions about eligibility for both Jobseeker – Health Condition or Disability (JS-HCD) and Supported Living Payment (SLP) are underpinned by a medical assessment and their relationship status.

**Table 3: Income assistance for a person with a health condition, disability or injury**

Scenario	Health condition, disability or injury not covered by ACC	Personal injury covered by ACC <sup>53</sup>
<b>Scenario 1</b> <i>A person over 25 years old, with no dependants, working 40 hours a week at the minimum wage, develops a health condition that temporarily affects their ability to work</i>	<p><b>MSD main benefit</b> JS-HCD <b>\$215.34</b> net in hand a week<sup>54</sup></p> <p><b>MSD supplementary assistance</b> AS <b>\$105</b> net in hand a week (maximum AS rate) DA <b>\$23</b> net in hand a week (average DA rate)</p> <p><b>Total: \$343.34</b> net in hand a week</p>	<p><b>ACC earnings-related weekly compensation</b> 80% of the recipient's average weekly income: <b>\$447.11</b> net in hand a week<sup>55</sup></p> <p><b>MSD supplementary assistance</b> AS <b>\$70</b> net in hand a week<sup>56</sup> (maximum AS rate after calculating income reduction) DA <b>\$23</b> net in hand a week (average DA rate)</p> <p><b>Total: \$540.11</b> net in hand a week</p>
<b>Scenario 2</b> <i>A couple, both over 25 years old, with no dependants, both working 40 hours a week at the minimum wage, where one person develops a health condition that temporarily affects their ability to work</i>	<p><b>MSD main benefit</b> Not eligible for main benefit (benefit is fully abated due to income test for a couple)</p> <p><b>MSD supplementary assistance</b> AS <b>\$154<sup>57</sup></b> net in hand a week (maximum AS rate for a couple after income reduction) DA <b>\$23</b> net in hand a week (average DA rate)</p> <p><b>Total: \$177</b> net in hand a week</p>	<p><b>ACC earnings-related weekly compensation</b> 80% of the recipient's average weekly income: <b>\$447.11</b> net in hand a week</p> <p><b>MSD supplementary assistance</b> AS <b>\$7</b> net in hand a week (maximum AS rate for a couple after income reduction) DA Not eligible (above maximum income limit for couple)</p> <p><b>Total: up to \$454.11</b> net in hand a week</p>

53 Any health condition, disability or injury that is 'covered' as a 'personal injury' under ACC's statutory eligibility criteria. Note that a person who is covered by ACC for personal injury may also qualify for MSD supplementary assistance. However, most of their personal injury costs are likely to be fully funded by ACC, meaning they are less likely to receive the average DA rate.

54 The recipient would be eligible for Jobseeker Support on the grounds of a health condition or disability (JS-HCD) that temporarily affects their ability to work. A stand-down period may apply.

55 The first week is usually paid by the employer if the injury occurs at the place of work. ACC weekly compensation, based on 80% of the adult minimum wage of \$660 for a 40-hour week, is approximately \$447.11 net (excluding KiwiSaver and Student Loan deductions).

56 This assumes that the person will take up AS. However, take-up rates for AS are considered low among non-beneficiaries.

57 The maximum payable for a couple with no dependants in Area 2 is \$155 per week. However, based on the partner's income level this is reduced by \$1 a week.

Scenario	Health condition, disability or injury not covered by ACC	Personal injury covered by ACC <sup>53</sup>
<b>Scenario 3</b> <i>A person over 25 years old, with no dependants, where the person develops a health condition or an injury that permanently and severely affects their ability to work</i>	<p><b>MSD main benefit</b> SLP <b>\$269.15</b> net in hand a week</p> <p><b>MSD supplementary assistance</b> AS <b>\$105</b> net in hand a week (maximum AS rate)</p> <p>DA <b>\$23</b> net in hand a week (average DA rate)</p> <p><b>Total: \$397.15</b> net in hand a week</p>	<p><b>ACC earnings-related weekly compensation</b> 80% of the recipient's average weekly income: <b>\$447.11</b> net in hand a week</p> <p><b>MSD supplementary assistance</b> AS <b>\$70</b> net in hand a week (maximum AS rate for this recipient after income reduction)</p> <p>DA <b>\$23</b> net in hand a week (average DA rate)</p> <p><b>Total: \$540.11</b> net in hand a week</p> <p><b>ACC compensation for permanent impairment</b> Lump sum payment within a range from \$3,455.24 to \$138,209.55, depending on the level of impairment<sup>58</sup> or Independence allowance assessed weekly but paid quarterly, with rates ranging from \$197.73 to \$1,186.64.<sup>59</sup></p>

**Notes:** ACC = Accident Compensation Corporation; AS = Accommodation Supplement; DA = Disability Allowance; JS-HCD = Jobseeker Support – Health Condition or Disability; MSD = Ministry of Social Development; SLP = Supported Living Payment.

All scenarios are based on the following assumptions:

- The recipient/couple lives in Area 2 (<https://www.workandincome.govt.nz/map/deskfile/extrahelp-information/accommodation-supplement-tables/definitions-of-areas.html#Area23>) and receives the maximum AS, which factors in an income reduction where applicable.
- The recipient/couple has no cash assets and the only source of chargeable income is their wage earnings or earnings-related weekly compensation.
- The recipient/couple does not receive Temporary Additional Support or the Winter Energy Payment.
- DA received is the average amount of \$23 per week, based on data as at the end of March 2018. Note however, that 36% of all recipients receive \$10 or less a week, and over half of these receive \$5 or less a week.
- Any available Ministry of Health funding has not been included in the scenarios.

<sup>58</sup> Claims for injuries that occurred on or after 1 April 2002 are eligible to be considered for this lump sum. Earlier claims are eligible to be considered for an independence allowance. The lump sum payment for impairment is not treated as income for MSD benefit purposes and is not subject to the ACC direct deduction. It is also excluded as a cash asset for AS, Residential Care Subsidy and hardship benefits for the first 12 months.

<sup>59</sup> Claimants can elect to receive a one-off payment covering five years, in lieu of quarterly payments. The allowance is not income and not a direct deduction. It is excluded as a cash asset for AS or Residential Care Subsidy and hardship benefits for the first 12 months.

Some people with health conditions or disabilities miss out on income support from ACC and MSD. Some people with health conditions or disabilities do not qualify for accident compensation<sup>60</sup> and miss out on financial support from the welfare system because of the couples-based eligibility rules for financial assistance (WEAG, 2019k). Most families in New Zealand need two incomes to cover housing and other living costs.

When the accident compensation scheme was established, the intent was to eventually extend equivalent coverage to people with a health condition or disability not arising from an accident. "The community had a responsibility to protect all citizens from the burden of sudden individual losses, when their ability to contribute to the general welfare by their work was interrupted by physical incapacity" (Palmer, 2018: 4). The Welfare Expert Advisory Group suggests that the Government might consider how best to extend the advantages of an ACC approach for those with disability and illness, particularly long term, not caused by an accident, to reduce the current inequity.

### **Single people receiving a benefit are particularly disadvantaged, and most recipients of health and disability benefits are single**

A single person on benefit is at significant risk of having an inadequate income (WEAG, 2019k). As mentioned in chapter 2, most of those in receipt of health and disability benefits are single and receive little income from other sources. While many people in receipt of a benefit because they have a health condition or disability have some work capacity, maintaining an adequate income from paid work is a challenge. Those with health conditions or disabilities are disadvantaged in the labour market and more likely to receive income support from the state (WEAG, 2019k). Rates of engagement in part-time work while on benefit are low for recipients of both Jobseeker Support – Health Condition or Disability (JS-HCD) and Supported Living Payment (SLP) recipients. Many who leave a benefit for work later return (Judd & Sung, 2018).

For people with health conditions and disabilities and carers who are supported by the welfare system, current income is often inadequate to support basic needs, for meaningful community participation and to live a life with dignity.<sup>61</sup>

“

*Everyone should have enough support to lead a good life, especially those with illnesses and disabilities where circumstances are unlikely to change.”*

**PAST WELFARE RECIPIENT**

60 People who develop a health condition or a disability not related to an accident are not eligible for ACC support.

61 Evidence is considerable that having a health condition or disability imposes additional costs on individuals and families. Families with a disabled child or a child with significant health conditions have lower income, living standards and higher levels of social exclusion (Melnychuk et al, 2018; Wynd, 2015).

## Being poor and receiving a health and disability benefit can worsen health

Time on income support can impact negatively on health, especially mental health. This appears to be linked to welfare stigma or other adverse life events coinciding with welfare receipt for those receiving unemployment or disability payments (Butterworth et al, 2006; Kiely & Butterworth, 2013; Davis, 2018; Kvalsvig, 2018). This likely further undermines an individual's employment and earning prospects.

## Some Supported Living Payment recipients are likely to receive a benefit for life

A portion of SLP recipients are unlikely to ever obtain paid employment. The actual number is unclear, but the group eligible for SLP simplified access and whose SLP entitlement is never to be reassessed is a useful proxy. Some people with a specific diagnosis can access SLP without having a detailed assessment of their capacity to work. This quicker process was intended for those with permanent and severe health conditions or disabilities.<sup>62</sup> People who are granted SLP through simplified access will never have their capacity to work reassessed. This equates to about a third of SLP recipients. Such people need an adequate income to support meaningful participation in their community and to live a life with dignity. The current rate of SLP does not provide this (WEAG, 2019c).

## Significant cost is associated with having a health condition or disability, but the system response is inadequate and complex

Extra costs are associated with having a health condition or a disability (Kirby et al, 2013; Mitra et al, 2017). While there is no agreed way of calculating a cost of disability in New Zealand or elsewhere, many on low incomes cannot cover that cost (Callander et al, 2017; Murray, 2018; Sum et al, 2018).<sup>63</sup> For those with one or more long-term health conditions and disabilities, the costs may be very high (for example, the time and cost of accessing an array of separate health and care professionals, medication costs, and equipment costs). People who rely long term on a main benefit often have few additional resources to draw on to cover such costs. Moreover, in New Zealand, various agencies provide financial assistance to compensate for the additional cost of having a disability.<sup>64</sup> The system is complex for people with health conditions and disabilities and carers to navigate and is not user centred (OECD, 2018b; WEAG, 2019k, 2019l).

The stress of coping with ill health, disability or caring responsibilities on a low income is often exacerbated by dealing with an overly bureaucratic income support system and trying to navigate the supports and treatments they need to access through other systems, primarily the health system. This is especially the case for people who have complex needs requiring frequent interaction with

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62 This includes people who are totally blind, terminally ill, have a severe intellectual or cognitive impairment, or have a disorder that has reached a stage of deterioration to the extent that the condition severely affects their ability to function and is unlikely to improve.

63 Internationally and in New Zealand, indications are that people skip medication and do not go to the doctor because of cost (RANZCP, 2015). The New Zealand Health Survey found unmet general practitioner need and unfilled prescriptions due to cost (Ministry of Health, 2017).

64 Within the welfare system, income support for disabled people may come from JS-HCD and SLP. In addition to these first-tier benefits, financial assistance can be given through supplementary benefits most of which are means tested. These include Disability Allowance, Temporary Additional Support for those with excess disability cost, and Child Disability Allowance (not means tested). ACC provides income support and compensation for people who have disabilities resulting from an injury and/or an accident. Disability-related support services are provided by several agencies, including MSD, Ministry of Health, Ministry of Education, ACC, district health boards, and the New Zealand Transport Agency (WEAG, 2019k, 2019l – listed in Appendix E).

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*When it comes to people on an Invalid's Benefit there should be much more help. I've been house bound and bed bound for three years unable to clean my home and only recently a friend told me there's a possibility of home help. Yet NEVER did [an MSD] staff member tell me this. I had to repair my own mobility scooter because I couldn't afford to take it to the service centre, but because I'm so sick it took several weeks to fix what a healthy person could fix in half a day."*

**WELFARE RECIPIENT**

different parts of the health system (for example, those with chronic conditions and/or multiple conditions).<sup>65</sup> It is often not clear to people with health conditions or disabilities which agency is responsible for delivering which supports and services, meaning people may miss out on what is available to them. Moreover, agencies do not necessarily know or advise people of assistance they may be able to get from elsewhere. People with communication difficulties have additional challenges interacting with the welfare and health systems.

People in receipt of a benefit, along with others on low incomes, have considerable difficulty accessing the health supports and services they need to maintain and improve physical and mental wellbeing (Expert Advisory Group on Solutions to Child Poverty, 2012a; Potter et al, 2017; Sural & Beaglehole, 2018).<sup>66</sup> Improving access to primary care, dental care, alcohol and other drug services, mental health care, secondary health care, vision services and glasses, hearing services and hearing aids, and healthy housing is particularly important for those on low incomes, and the needs for people with health conditions and disabilities may be greater in all these areas (WEAG, 2019k).

We recommend a number of changes, to ensure that financial assistance better reflects the actual costs of having a health condition or a disability and is equitable across the social sector. We also recommend the health system consider how cost and other barriers can be reduced so people on low incomes can access the support and services they need.

### **Differences in how people with health conditions or disabilities are treated are carried through to carer support arrangements of different government agencies**

New Zealand relies heavily on family carers to care for people with health conditions and disabilities (Grimmond, 2014). As in other OECD countries, demand for such carers is expected to rise as the population ages and more people live longer with chronic and disabling health conditions (Colombo et al, 2011). Placing people in need of care in residential care is expensive and may not be desirable from the perspective of supporting people with significant health conditions or disabilities to live an ordinary life in the community. However, family carers, especially women, can become trapped in a role where they receive a very low income. Economically disadvantaged families are more likely to be family carers, because they are less likely to be able

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65 The Ministry of Health does not generally fund disability support services for people with health conditions such as diabetes or asthma or with mental health and addiction conditions such as schizophrenia, severe depression or long-term addiction to alcohol or other drugs.

66 The New Zealand Health Survey found unmet general practitioner need and unfilled prescriptions due to cost (Ministry of Health, 2017).

to afford formal care. These families are also more likely to struggle to meet the additional costs associated with caring. This means the impact of caring and the costs associated with caring are felt more intensely by those who are already disadvantaged (Colombo et al, 2011).

Carers of people with health conditions or disabilities face a number of challenges including an inadequate income and a complex, fragmented system of support. The differences in how people with health conditions or disabilities are treated are carried through into the carer support arrangements of different government agencies (for example, ACC paid family care, Individualised Funding and Funded Family Care from the Ministry of Health, and SLP Carer benefit from MSD). Some carers are eligible for support from MSD, the Ministry of Health or ACC, but there is inequity in the levels of income and other support provided. Carers of people with health conditions or disabilities within the welfare system receive the least generous payments than carers supported by other agencies. Carers in the welfare system are eligible for a means-tested benefit (SLP Carer) if they care for someone who would otherwise need hospital, rest home or residential care but who is not their partner (WEAG, 2019l).

Within the welfare system, people may be eligible for supplementary assistance aimed at helping to address the cost of having a health condition or disability but not the care itself, which remains unpaid. Indications are that take-up of such assistance is less than ideal and that it does not cover the costs many families face. High-intensity caring is associated with negative impacts on income, physical and mental health, family functioning and social networks, and these are experienced more intensely by those who are already disadvantaged (WEAG, 2019l).

More can be done to support carers. The range of supports and services provided should be considered in the context of the increasing demand for care due to demographic change and changes in policy settings. We recommend de-coupling SLP Carers from SLP so that carers are better recognised in the welfare system. We also recommend introducing an annual carers payment to recognise the cost associated with caring for someone with a health condition or a disability.

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*I am needed at home to care for our eldest son (now 11) who is severely autistic. If we were not caring for him, he would have to be in fulltime residential care. This would medically qualify us for the Supported Living Payment - Carer. However, I am not eligible for any assistance like the Supported Living Payment for this work, because my husband has a paid job.”*

**A PARENT OR CAREGIVER TO DEPENDENT CHILDREN**

## **More could be done to support people with health conditions and disabilities and carers into paid employment**

### **Good, suitable work is positive for wellbeing**

Suitable work is generally good for health and wellbeing (Curnock et al, 2016; OECD, 2018b; Rea, Anastaasiadis et al., 2018). This is because:

- employment is generally the most important means of obtaining adequate economic resources, which are essential for material wellbeing and full participation in today's society
- work meets important psychosocial needs in societies where employment is the norm
- work is central to individual identity, social roles and social status
- employment and socioeconomic status are the main drivers of disparities in physical and mental health and mortality.

While some people with health conditions or disabilities leave a benefit for work, many return. Long-term receipt of benefit is common, especially among SLP recipients. Few people receiving income support for health conditions or disabilities get any income from part-time work. A similar pattern exists for people receiving SLP Carer (WEAG, 2019).

The OECD (2017: 15) argues that: "the standard approach taken in most countries' unemployment systems today is to exempt jobseekers with health problems from their participation and job-seeking requirements, and to hope that, and wait until, they return treated and cured". The OECD argues that this is not the right approach, because many people on health and disability benefits have chronic conditions (for example, some mental health and musculoskeletal conditions) that cannot be cured.

There is no single solution to supporting people with work-limiting health conditions or disabilities into employment. Health and disability benefit recipients are a heterogeneous group. Outcomes for any individual will depend on a variety of factors, including whether the work accommodates their individual capacity or caring responsibilities, the quality of the work, and the financial gains from working. To improve outcomes for people with work-limiting health conditions and disabilities, the OECD recommends implementing a coherent combination of policies that work on changing the behaviour of individual recipients of health and disability benefits, employment agencies, health practitioners and employers (Böheim & Leoni, 2018; OECD, 2010; 2018b).

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*Employment is a key part to helping people with mental health and addiction issues to maintain wellbeing.”*

WORKWISE

### Early intervention with the right support is important

In New Zealand, most people on health and disability benefits either have deferred or no work obligations – only 13% have work obligations (part-time obligations). People receive a benefit, but little return-to-work management takes place. In the welfare system, they also have poor access to timely evidence-based health care or return-to-work support from the welfare or health system to help them enter and maintain work. As a consequence, many never return to work or are disengaged from work for long periods (WEAG, 2019k). For many people with health conditions or disabilities intervening early in the right way is crucial in supporting a return to work and improving earnings (OECD, 2010; 2015; 2018b).

Compared with other OECD countries, New Zealand spends less on active labour market programmes and very little on evidence-based supported employment and vocational rehabilitation for people with health conditions and disabilities. There is no early intervention in the welfare system to support a return to work and then to stay in work. Specific interventions at scale to help people with health conditions and disabilities into work are lacking, and coordination between employment and health services to support a return to work is poor. Integrated health and employment services to facilitate a return to work are available to injured earners through ACC but not elsewhere at any scale. Condition management is limited for people with long-term chronic conditions in the welfare system to support a return to work (OECD, 2018b; WEAG, 2019k). Thus, there is a welfare policy – not an employment strategy – for people with health conditions and disabilities.

ACC claimants who were earning at the time of their injury receive individual entitlement to significantly higher levels of financial support and have access to timelier, tailored rehabilitation and return-to-work support (OECD, 2018b). This approach achieves better outcomes for those who receive it (McAllister et al, 2013; Paul et al, 2013). This approach needs to be embedded within social security. A recent review of mental health and work in New Zealand reached a similar conclusion (OECD, 2018b).

Some people may require considerable time and support to move into work, while others may be closer to the labour market and require less time and support. Hence, a more nuanced, individual approach is required. Difficulties in returning to work usually increase over time. Most people temporarily unable to work due to a health condition or disability return to work within a short period (for example, less than 4 weeks) and require little in the way of interventions. However, over time, the impact of psychosocial factors becomes more important, new issues may emerge, and people find it increasingly difficult to return to work. They require additional and more intensive input to help them return to work. The level of input provided should be guided by the person's response to the interventions and not by diagnosis alone (WEAG, 2019k).

Some people may need a graded return to work, increasing their hours as their health condition or disability allows. Internationally, there is increasing evidence that graded return-to-work is an effective tool for the rehabilitation of people on benefit due to ill health or disability (Kools & Koning, 2018). It is important to note that many people receiving JS-HCD have long-term chronic conditions (for example, mental health and musculoskeletal conditions). While many are still able to work in suitable employment with the right support, the range of jobs available to them may be more limited. Some may only be able to work intermittently and/or part time (WEAG, 2019k).

We suggest the welfare system should do more to support part-time work for people with health conditions and disabilities. For those on JS-HCD, part-time work under 20 hours a week is not recognised as such under the Social Security Act 2018. Stats NZ defines employment as having



worked one or more hours a week when surveying people about their labour force status.<sup>67</sup> For SLP recipients, there is a disincentive to earn more than \$200 or work more than 15 hours a week. SLP abates at a rate of 70 cents to the dollar after a beneficiary earns more than \$200 per week, and recipients working more than 15 hours per week lose their entitlement to SLP – except for people who are blind. The SLP never abates for recipients who are considered totally blind or severely disabled because their personal earnings are not counted under the Social Security Act 2018.

Through their caring, SLP Carers have developed specialised skills that could be valuable in future work. However, those receiving SLP Carer receive little assistance to engage in paid work or consider employment once their caring responsibilities end or when their caring responsibilities would allow this. We recommend better support to carers to engage in employment when their circumstances allow.

## Recommendations – key and detailed

### Key recommendations

**Recommendation 40:** Improve the health and wellbeing of people with health conditions and disabilities, along with carers of people with health conditions and disabilities who interact with the welfare system by:

- providing financial support that is adequate to live a life with dignity and is equitable across the social sector
- implementing evidence-based approaches to support engagement in good, suitable work and the community where this is possible
- implementing strategies to prevent work-limiting health conditions and disabilities.

**Recommendation 41:** Include in the scope of the New Zealand Health and Disability System Review the relationship between the health and disability system and the accident compensation scheme and how the relationship between these and the welfare system could be changed to improve outcomes for people with health conditions and disabilities and carers.

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<sup>67</sup> Labour force categories used in the Household Labour Force Survey [http://archive.stats.govt.nz/browse\\_for\\_stats/income-and-work/employment\\_and\\_unemployment/Labour-force-categories-in-HLFS.aspx](http://archive.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/Labour-force-categories-in-HLFS.aspx)

## Detailed recommendations

Theme	Detail
<b>Improving income support for people in the welfare system with health conditions or disabilities and carers of people with health conditions or disabilities</b>	<p><b>Main benefits</b></p> <p>Consider increasing financial support for people affected by health conditions and disabilities not due to an accident to be equivalent to that provided by the accident compensation scheme. Treat people with similar levels of disability – whether caused by illness or injury – similarly. Link this support to relevant employment support where work is a possibility.</p> <p>Introduce time-limited individual entitlement for income and employment support for low-income families suffering from health shocks (see the eligibility section of the detailed income support recommendations, page 118).</p> <p>Consider transferring to New Zealand Superannuation people on Supported Living Payment who are so unwell or disabled that there is no foreseeable chance they will come off the benefit during their life.</p> <p>Align the abatement rate of non-blind disabled people receiving Supported Living Payment with that of the blind, to address the current inequity.</p>
	<p><b>Assistance for the cost of having a health condition or disability</b></p> <p>Redesign supplementary assistance for people with health conditions or disabilities, so it is easier to access and more accurately covers the costs of having the health condition or disability.</p> <p>Increase the level of income support provided by Disability Allowance with three rates (low, medium and high) related to the degree of burden of disability or care needed.</p> <p>Increase the level of income support provided by Child Disability Allowance, and introduce three rates (low, medium and high) related to the degree of burden of disability or care needed.</p> <p>Direct the Ministry of Social Development and Ministry of Health to clarify where responsibility for covering the cost to individuals of health conditions and disabilities should lie and make this transparent, known to the public, and accessible.</p> <p>Include in the New Zealand Health and Disability System Review how cost and other barriers can be reduced so people on low incomes can access primary care, dental care, alcohol and other drug services, mental health care, secondary care, and vision and hearing services.</p> <p><b>Carers</b></p> <p>De-couple Supported Living Payment Carer from Supported Living Payment, and create a carers benefit that continues to be paid at the same rate as Supported Living Payment. This allows more flexibility in the provision of non-financial support.</p> <p>Introduce an annual carers payment to help meet the additional costs associated with care.</p>

Theme	Detail
<b>Implementing in the welfare system a comprehensive approach to support the suitable employment of people with health conditions and disabilities and carers of people with health conditions and disabilities</b>	<p>Implement within the welfare system a comprehensive approach to support the suitable employment of people with health conditions and disabilities and carers that includes:</p> <ul style="list-style-type: none"> <li>• early intervention with the right level of support</li> <li>• support for part-time work</li> <li>• evidence-based integrated employment and health supports and services</li> <li>• improved access to health supports and services to support return to work, with particular support for people with mental health problems or chronic conditions</li> <li>• easy re-entry to a benefit if employment ends</li> <li>• support for employers to take on or retain people with health conditions and disabilities and carers (for example, wage subsidies and workplace accommodations).</li> </ul> <p>Support the recommendations of the Government Inquiry into Mental Health and Addiction and the 2018 OECD report <i>Mental Health and Work: New Zealand</i>, because of the large proportion of people receiving health and disability benefits whose primary barrier to work is a mental health condition.</p>
<b>Meaningful community participation to promote wellbeing</b>	<p>Work with the Ministry of Health to ensure those who are unlikely to ever engage in paid work are supported to participate meaningfully in their communities.</p>
<b>Prevention and harm reduction</b>	<p>Work to eliminate people's negative experiences with MSD, which worsen mental distress, by changing the way MSD interacts with people in line with our proposed purpose, principles and values.</p> <p>Government to prioritise the prevention of ill health and disability by:</p> <ul style="list-style-type: none"> <li>• overseeing and coordinating cross-government responses to improving social wellbeing, including tackling the social determinants of poor health and disability</li> <li>• enhancing cross-government investment in prevention and resilience-building activities for young people and people in workplaces.</li> </ul>



## 11 Strengthening community organisations and volunteering

The act of volunteering, contributing and making a difference for others builds a sense of ownership and engagement in community wellbeing. Our terms of reference explicitly identify volunteering in the Government's vision of the welfare system as "part of an integrated Government approach that enables people to be earning, learning, caring or volunteering and ensures a dignified life for those for whom these options are not possible". The Government also places a high value on meaningful participation in communities.

We consider volunteering could enable people in receipt of a benefit to:

- participate meaningfully in their communities
- develop knowledge, skills and work habits that contribute to work readiness
- support the community infrastructure that enables people with a health condition or disability or with caring responsibilities to meaningfully participate in communities.

Within the 'mutual expectations framework' that forms a significant component of our recommendations, volunteering is a valuable tool that MSD should encourage to help people develop useful labour market skills and habits while also participating in their communities.

Through volunteering, people are intrinsically rewarded by contributing to the communities they value, developing habits of reliability and teamwork and building skills and knowledge that may later be of value to them in employment (Kameräde & Paine 2014; Paine et al., 2013; Spera et al., 2015). For those for whom employment may not be possible, the reward of contributing and being meaningfully engaged contributes to a greater sense of wellbeing (Jenkinson et al, 2013).

Many mechanisms for enabling volunteering can be structured and timetabled, but not all volunteering occurs like this. For people involved in Māori communities, volunteering may revolve around the demands of the marae, and in Pacific communities, it may be through weddings, funerals and other critical cultural events. The work of supporting the cultural imperatives of hui, wānanga and tangihanga cannot always be planned and scheduled. A critical need in these situations is for a highly skilled and capable volunteer workforce. Where people actively contribute in a regular way to the life of their marae, they should be recognised as making a valuable contribution that should be encouraged.

For those for whom employment may not be possible, the reward of contributing and being meaningfully engaged contributes to a greater sense of wellbeing.

(JENKINSON ET AL, 2013)

Our view is that volunteering should not replace the expectation that people who are in a position to work should look for, and take, suitable paid work. However, MSD should recognise volunteering as a valuable activity. Case managers should schedule appointments around people's volunteering commitments. In seeking the best possible job match, they should seek to build on the skills, knowledge and interests a person has gained through volunteering or caring. Where people are not in a position to be in paid work, education or training, MSD should encourage and support voluntary work.

As recognition of, and support for, volunteering expands, care will be needed that a voluntary workforce does not displace paid employees and does not become a 'work for the dole' model. By concentrating on building the capacity and capability of community organisations, including marae, community trusts, incorporated societies, schools and environmental groups, the likelihood of worker displacement should be mitigated.

**Our view is that volunteering should not replace the expectation that people who are in a position to work should look for, and take, suitable paid work. However, MSD should recognise volunteering as a valuable activity.**

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## Enabling community organisations to prosper

The development of a wide range of volunteering opportunities requires community organisations to have appropriate infrastructure and volunteer management capabilities. MSD does not currently have a role in the development of a wide-ranging and capable set of community organisations with sufficient capacity to properly use volunteers and to support those who cannot earn, learn, care or volunteer to meaningfully engage in their communities. We consider that building capacity and capability within MSD to properly engage with, fund and promote community organisations is an important component of implementing the new social security system. Engagement should include governance training, volunteer management training, practical support to meet health and safety requirements and financial support to provide meaningful volunteer experiences.

MSD has limited ability to actively promote the development of wide-ranging and capable community organisations. The emergence of Oranga Tamariki–Ministry for Children as a principal funder of social services organisations saw the transfer from MSD to Oranga Tamariki of much of the expertise and funding used to support community organisations. The main purpose of Oranga Tamariki is to address the needs of children in the care of the state, or children close to being in this care. MSD's Community Partnerships and Programmes (CPP) service, the current remit of which is to engage with communities, focuses on organisations that support people affected by family violence and on service providers contracted to deliver Youth Services and Young Parent Payment support. The relatively small E Tū Whānau

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*The complexity of commissioning, contracting and duplicate auditing is taking hundreds of hours of frontline service time... Precious time and resources are spent on multiple audits rather than on delivering frontline services to people in need... We have estimated that each year we spend 30 per cent of senior management time involved in either contract negotiations or audits.”*

WISE GROUP

programme,<sup>68</sup> while focused on family violence, works on kaupapa Māori principles to build whānau and community resilience. The work of both Oranga Tamariki and CPP is crucial. However, this focused approach leaves little room to support the wider work of community organisations and the development and funding of the many volunteering and community support roles needed for people to build skills, knowledge and positive work habits.

The Department of Internal Affairs also has a role in supporting community organisations but this is limited to distributing Lotto funds, maintaining infrastructure for Community Organisation Grants Scheme distributions and developing regionally based capability.

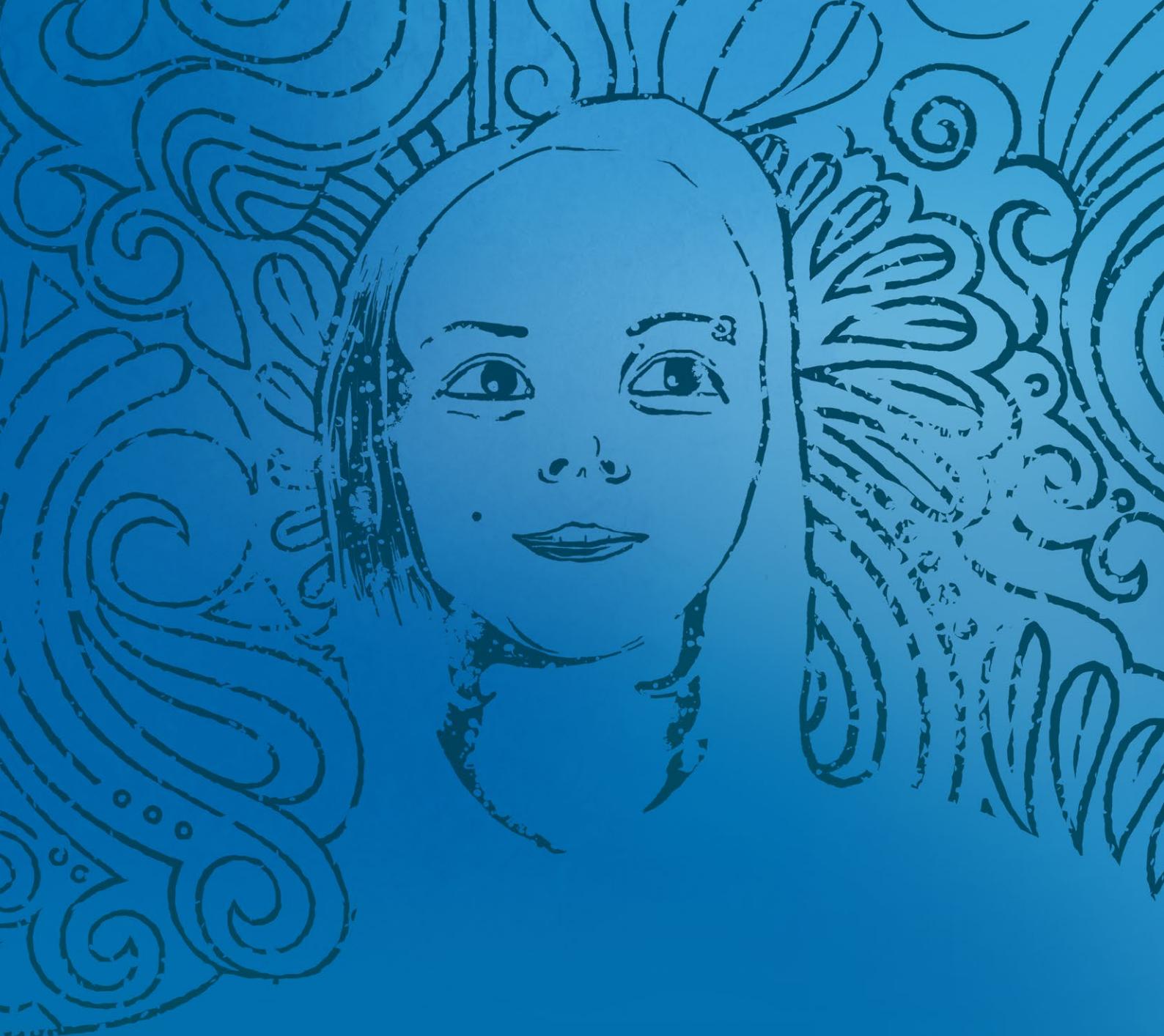
Through our consultation, many community organisations reported their desire to be part of the response to the multitude of issues that have emerged over the past 30 years of inadequate benefit payments. These organisations also reported inadequate funding of their services and high levels of demand for support and identified the complex lives of those they serve. Infrastructure of community organisations is run down and needs investment if these organisations are to actively support meaningful engagement in communities and opportunities to volunteer.

## Recommendation – key

**Recommendation 42:** Direct the Ministry of Social Development to develop the capacity and capability to engage with, promote and fund community organisations to provide wide-ranging opportunities for volunteers and people receiving benefits to be meaningfully engaged in their communities.

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68 Refer to <http://etuwhanau.org.nz/about/programme-of-action/>.



## **12 Improving outcomes requires a cross-government response**

Improving outcomes for people on low incomes or in some way receiving support from the welfare system requires a cross-government response – it is not enough to change the welfare system alone.

Currently, being on a benefit or in poverty (or both) often has a detrimental long-term impact on the wellbeing of adults and children. People often come to need welfare support after common life shocks such as relationship breakdowns, major illness, closure of industry and natural disasters. These shocks are often multifaceted, involving a complex interplay of factors (for example, intergenerational trauma, poor mental and/or physical health, addictions, disability, relationship breakdowns, unemployment, justice sector involvement, educational barriers, and insecure and unsuitable housing). These factors cannot be prevented or mitigated by the welfare system alone.

What occurs in other parts of the social sector influences who comes into the welfare system and the outcomes for individuals and families supported by the welfare system. Improving outcomes for those receiving support from the welfare system by implementing evidence-informed investments now can benefit individuals and families and lower costs to government and individuals in the longer term.

A significant group of individuals and families experience multiple and long-term disadvantage and need to interact with several government systems. This group requires a responsive, person-centred, joined up system of support if their outcomes are to improve.

A lack of coordination between government services was a common theme from our consultation. People reported that being engaged with multiple agencies meant having to navigate conflicting demands from different arms of government (for example, Oranga Tamariki–Ministry for Children, the Ministry of Social Development, Inland Revenue, the Department of Corrections, the Ministry of Health and the Accident Compensation Corporation).

A lack of coordination between government services was a common theme from our consultation.

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*Combine Citizens Advice Bureau with Work and Income offices, so clients don't have to go looking for JPs across the city/town to verify docs. One stop shop for welfare assistance!"*

**PAST WELFARE RECIPIENT**

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*Want a single integrated service – enough of silos."*

**LOWER HUTT COMMUNITY FORUM**

“

*How come we need to provide our birth certificate again and again? If we've given it to WINZ why do we have to prove our identity to others like health?"*

**GREYMOUTH COMMUNITY FORUM**

People were also frustrated by the need to provide the same information to various agencies, and couldn't understand why certain actions had to be repeated over and over again.

Several bodies, reviews and other changes are under way or are about to start that could usefully consider how circumstances could be improved for people on low incomes or receiving support from the welfare system including the:

- Education Funding System Review
- Future of Work Ministerial Group
- Fair Pay Agreement Working Group
- Review of New Zealand Health and Disability System
- Just Transitions Unit in the Ministry of Business, Innovation and Employment
- Ministry of Housing and Urban Development
- Tax Working Group
- Te Uepū Hāpai i te Ora (the Safe and Effective Justice Advisory Group)
- Reform of Vocational Education.

Our review contributes to a myriad of evidence about the need for fundamental change to effect a whakamana tāngata approach to social security and give people hope for their future.

**Kia kaha, kia manawaanui,  
kia pikī ake te mana tangata.**

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# Glossary

**Accommodation Supplement:** The Accommodation Supplement is an income and asset-tested payment to help with the cost of housing. It is available to both people receiving a main benefit and those working on low and middle incomes.

**AHC:** After housing costs.

**Away from Home Allowance:** The Away from Home Allowance is a weekly payment to help carers with the living costs for 16 or 17 year olds who are living away from home while on a tertiary or training course. The allowance is paid to the carer of the young person.

**Benefit Advance Payments:** Benefit Advance Payments are recoverable one-off payments available to people on main benefits to meet a particular immediate need for an essential item or emergency costs. They are often paid directly to the provider of the goods and services required.

**Best Start:** The Best Start Tax Credit is a universal payment to support families with children in the first year of a child's life. For the second and third years of a child's life the payment is targeted to low and middle-income families.

**BHC:** Before housing costs.

**Business Training and Advice Grant:** The Business Training and Advice Grant is financial assistance for people starting their own business with developing a business plan, training in business skills, advice and project reports.

**Child Disability Allowance:** The Child Disability Allowance is paid to the main caregiver of a dependent child with a serious disability who needs constant care and attention, and who is likely to need care either permanently or for more than 12 months.

**Child Support:** Child Support is financial support paid by parents who either don't live with their children, or who share care of their children with another person.

**Childcare Assistance:** Childcare Assistance includes income-tested payments to help families to meet the costs of childcare. The two payments available are Childcare subsidy and Out of School Care and Recreation (OSCAR) subsidy.

**Childcare subsidy:** Childcare subsidy is a payment to help families with the cost of pre-school childcare.

**Disability Allowance:** The Disability Allowance is an income-tested payment to meet the on-going costs of a health condition or disability. It is an individual-based (rather than family-based) entitlement. Payment is based on actual costs, and requires verification of these costs.

**Disability Assistance:** There are two main forms of income support for costs associated with health conditions and disability in the welfare system. They are the Disability Allowance, and the Child Disability Allowance. These are separate from any payments made as part of the Health system.

**Effective marginal tax rates:** The effective marginal tax rate is the effective tax rate that you pay on an additional \$1 of income, combining the impact of any taxes and the reduction in any income support payments. Effective marginal tax rates influence peoples' decisions about whether to increase the amount they work or earn, as they determine how much "cash in the hand" a person receives from additional work or pay.

**Emergency Benefit:** The Emergency Benefit is available to people in hardship and who are unable to earn enough income for themselves and their family and cannot receive another benefit. Emergency Benefit is income and asset tested.

Reasons for hardship may include:

- A health condition, injury or disability
- Their domestic circumstances
- Their age (e.g. 16 or 17 years), or
- Any other reason (e.g. residence status).

**Emergency Maintenance Allowance:** The Emergency Maintenance Allowance is assistance for sole parents who do not qualify for any other payments.

**Family Tax Credit:** The Family Tax Credit is an income-tested payment that goes to families with children, including those receiving a main benefit. People receiving main benefits can choose to receive their FTC through MSD (along with their benefit and any other payments) or from Inland Revenue.

**Gig economy:** The gig economy is a labour market of predominantly temporary employment (short-term contracts and freelance work) rather than permanent employment.

**Hardship Assistance:** Hardship Assistance is available to help people with immediate needs and essential costs that cannot be met from any other income or assets. Hardship Assistance includes Temporary Additional Support, Special Needs Grants, Benefit Advance Payments and Recoverable Assistance Payments.

**Income-Related Rent Subsidy:** The Income-Related Rent Subsidy is an income and asset-tested subsidy available to people in public housing (which includes properties provided by both Housing NZ and Community Housing Providers). This subsidy (paid to the housing provider) means that these tenants pay an Income-Related Rent which limits the amount of rent they pay to generally be no more than 25% of their net (after tax) income.

**Jobseeker Support:** Jobseeker Support was previously (pre-2013) known as the Unemployment Benefit and the Sickness Benefit. People are entitled to this benefit if they are unemployed, seeking employment or unable to work temporarily due to a health condition or disability.

**Main benefits:** The different main benefits reflect the different circumstances of people needing income support. MSD administers main benefits. There are five main benefit types – these are:

- Jobseeker Support (JS)
- Sole Parent Support (SPS)
- Supported Living Payment (SLP)
- Youth Payment (YP), and Young Parent Payment (YPP)
- Emergency Benefit (EB), and
- Other.

Main benefits are all income tested, but are not asset tested. Main benefits are taxed and are paid on a net basis.

**Minimum Family Tax Credit:** The Minimum Family Tax Credit is an income and work-tested payment for families with children who do not receive a main benefit and who work a minimum number of hours a week (20 hours for sole parents and 30 hours for couples). It 'tops up' the income of low-income families to ensure that they are better off in work than on a benefit.

**MyMSD:** MyMSD is an online service provided by the MSD and allows people to apply for a benefit or payment online, access a variety of information including payment and debt details, make declarations, update details and book or cancel appointments.

**Non-beneficiaries:** Non-beneficiaries are people who do not receive a main benefit, but who receive other payments such as supplementary assistance or hardship assistance.

**Obligations:** General obligations apply to all people receiving a main benefit. There are also particular obligations for different benefit types as well as supplementary and hardship assistance.

**Obligation failure:** When someone receiving a benefit hasn't completed an activity they were required to do as part of their obligations then MSD can initiate an obligation failure. Once an obligation failure has been initiated and a letter sent, there are five working days to dispute or re-comply before a sanction is imposed.

**Orphan's Benefit:** The Orphan's Benefit provides income support to the caregiver of a child whose parents can't support them.

**Out of School Care and Recreation (OSCAR) subsidy:** OSCAR is a payment which helps families with the costs of before and after school care for up to 20 hours a week, and school holiday programmes for up to 50 hours a week. For families with children aged 5-13.

**Papakāinga housing:** Whānau-based communal living on ancestral Māori land which may include broader support.

**Parental Tax Credit:** The Parental Tax Credit was an income-tested payment for 10 weeks after a newborn arrives, for families not receiving a main benefit or paid parental leave. It ceased to exist for children born on or after 1 July 2018 as it was replaced by the Best Start Tax Credit as part of the Families Package.

**Recoverable Assistance Payments:** Recoverable Assistance Payments provide interest-free recoverable payments to help non-beneficiaries meet essential immediate needs for specific items.

**Replacement rates:** The replacement rate measures the extent to which out-of-work income support payments 'replace' a person's in-work income. Replacement rates influence peoples' decisions about whether to work at all.

**Social obligations:** Social obligations apply to people on a main benefit with children.

**Sole Parent Support:** Sole Parent Support was previously (pre-2013) known as the Domestic Purposes Benefit. People are entitled to this benefit if they do not have a partner and have at least one dependent child aged under 14 years. In the case of shared custody, only the parent with the greater parenting responsibilities can be paid Sole Parent Support.

**Special Needs Grants:** Special Needs Grants provide one-off recoverable or non-recoverable payments to people to meet immediate needs. They are available for people on a main benefit and for non-beneficiaries on very low incomes. Special Needs Grants are often paid directly to the provider of the goods and services required.

**Stand-down periods:** Most main benefits have an initial stand-down period (or 'non-entitlement period') where people cannot receive any main benefit payment – usually for one or two weeks depending on the person's average weekly income in the 6 or 12 months before they applied, and the number of dependent children they have.

**Steps to Freedom Grant:** The Steps to Freedom Grant helps people released from prison with the costs to establish themselves in the community.

**Supplementary Assistance:** Supplementary assistance is designed to help low-income people to meet particular costs. The main supplementary assistance payments administered by MSD are:

- Accommodation Supplement
- Income-Related Rent Subsidy
- Childcare Subsidy
- Out of School Care and Recreation Subsidy
- Winter Energy Payment
- Disability Allowance
- Child Disability Allowance

**Supported Living Payment:** Supported Living Payment was previously (pre-2013) known as the Invalid's Benefit. People are entitled to this benefit if they are both permanently and severely restricted in their capacity for work because of a health condition, injury or disability, or are totally blind. Permanent is defined as 'expected to continue for at least two years'. Severely is defined as 'not being able to regularly work for 15 hours or more per week in open employment'.

People can also be eligible for Supported Living Payment if they are caring for a person who requires full-time care and attention (other than their partner or spouse)<sup>69</sup>. This can include caring for a dependent child who has a significant disability.

**Temporary Additional Support:** Temporary Additional Support is a payment of last resort to help people with regular essential living costs that cannot be met from their income or assets.

**Unsupported Child's Benefit:** Unsupported Child's Benefit helps carers supporting a child or young person whose parents can't care for them because of a family breakdown.

**Winter Energy Payment:** The Winter Energy Payment is a payment to help superannuitants, and those receiving a main benefit, to heat their homes over winter.

**Work Ability Assessment:** Recipients of Jobseeker Support may be required to attend and participate in a work ability assessment. This helps to determine what work a person is capable of doing and what MSD can do to help a client find and stay in work.

**Working for Families:** Working for Families is a suite of payments provided to support families with the costs of children. Inland Revenue administers Working for Families, though MSD administers some of the payments, on Inland Revenue's behalf, for people receiving main benefits. The payments available are:

- Family Tax Credit
- In-Work Tax Credit
- Minimum Family Tax Credit and
- Parental Tax Credit and Best Start Tax Credit.

**Youth Payment:** The Youth Payment is a benefit for people aged from 16-17 years who are not supported by their parents. All Youth Payment recipients are part of the Youth Service.

**Young Parent Payment:** The Young Parent Payment provides support for 16-19 year olds with dependent children. Young Parent Payment recipients are part of the Youth Service.

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<sup>69</sup> While the carer is not entitled to Supported Living Payment in their own right, if their partner is entitled to Supported Living Payment the couple will be paid the couple rate of Supported Living Payment (and receive half the payment each).

# Appendix A: Members of the Welfare Expert Advisory Group



## Cindy Kiro (Chair)

Professor Cynthia (Cindy) Kiro (Ngāpuhi, Ngāti Hine) is a well-known New Zealand academic.

Cindy has focused on education for the past several years, having previously worked in public health and children's advocacy for many years. She has extensive experience working in roles to improve outcomes for the New Zealand population. Cindy has held many senior roles in the health sector, academia and community organisations with a career straddling social work, public health and education.

Cindy is the Pro Vice-Chancellor (Māori) at the University of Auckland. She has worked at the University of Auckland for three years as Director of the Tai Tokerau campus, the Atlantic Fellowship for Social Equity, the Starpath Project and Te Tumu, the latter role being responsible for Māori and indigenous education in the Faculty of Education. She is a trustee of the National Hauora Coalition and member of the Expert Advisory Group for the Regional Climate Action Plan for Auckland City.

As New Zealand's fourth Children's Commissioner, Cindy advocated for the Taskforce for Action on Family Violence, the largest-ever response to family violence. She has worked to address child poverty in New Zealand, promote health and wellbeing among families and communities and promoted positive educational experiences as a key pathway to good life outcomes.



## Innes Asher ONZM

Professor Innes Asher is a paediatrician, with wide experience of children and families interacting with the welfare system and the broader determinants of wellbeing of children and families.

Innes has nearly three decades of global experience in health and wellbeing as the Chair of the Global Asthma Network and the International Study of Asthma and Allergies in Childhood.

Innes is Professor of Paediatrics at the University of Auckland and a committee member and health spokesperson for the Child Poverty Action Group.



## Kay Brereton

Kay Brereton is an experienced advocate for people within the welfare system.

She is a senior advocate with the Beneficiaries and Unwaged Workers Trust. Kay is also co-convenor of the National Beneficiary Advocates Consultative Group, which is a group of experts on welfare issues that regularly consults with the Ministry of Social Development.

Kay has extensive experience working directly with Ministry of Social Development clients, assisting them to access their full and correct benefit entitlements and to access their statutory review and appeal rights.



## Huhana Hickey MNZM

Dr Huhana Hickey (Ngāti Tahinga, Tainui) has a long-standing interest in the human rights of people from marginal backgrounds and the consequences of discrimination and social oppression.

Huhana is a scholar of disabilities research and legal theory and is noted for the breadth of her published cross-disciplinary research.

She sits on the New Zealand Human Rights Review Tribunal and, in 2018, was appointed as a director on the Housing New Zealand board. Huhana also manages her consulting company Pukenga Consultancy.

As the recipient of a main benefit, Huhana brings lived experience of the welfare system.



## Trevor McGlinchey

Trevor McGlinchey (Ngāi Tahu) is Executive Officer for the New Zealand Council of Christian Social Services.

In 1986, Trevor started Te Mahi o Waitaki Trust in Oamaru, a kaupapa Māori trust that developed and operated numerous social enterprises and community initiatives.

In his community roles, Trevor chairs Moeraki Ltd, a marae-based charitable company, and is the most recent past chair of Te Ana Whakairo Ltd, a social enterprise based on Māori tourism. He is also a trustee of Ngā Tangata Microfinance Trust.



## Tracey McIntosh MNZM

Professor Tracey McIntosh (Tūhoe) is Professor of Indigenous Studies and Co-Head of Te Wānanga o Waipapa (School of Māori Studies and Pacific Studies) at the University of Auckland.

Tracey was the former co-director of Ngā Pae o te Māramatanga, New Zealand's Māori Centre of Research Excellence. Her recent research focused on incarceration (particularly of Māori and indigenous peoples), gang whānau issues, and issues pertaining to poverty, inequality and social justice.

In 2012, she served as the co-chair of the Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty.



## Ganesh Nana

Dr Ganesh Nana is Chief Economist at Business and Economic Research Limited (BERL), having joined the company in 1998 as a senior economist.

Ganesh has over 30 years of experience in the field of economics across business consulting, conference presentations, research, tutoring and lecturing in New Zealand and the United Kingdom.

His work is often related to the Māori economy, regional New Zealand and its economic development, and education and workforce training plans and programmes.



## Phil O'Reilly ONZM

Phil O'Reilly has high-level experience working at the interface of government, business and communities. Phil developed long-term working relationships at all levels in the business community as a previous chief executive of BusinessNZ.

He is uniquely placed as a New Zealander at the leading edge of the global debate on issues such as the future of work, inequality and productivity.

In New Zealand, Phil chaired the Green Growth Advisory Group. His membership of public and private advisory boards and committees spans academia, research and development, business, labour and social development, and manufacturing and trade.

Phil is Managing Director at Iron Duke Partners.



## Robert Reid

Robert Reid has over 40 years of experience in trade unions and community employment development. He is currently President of FIRST Union having served as General Secretary for 9 years until the end of 2017. He has also worked for several other unions and as a regional coordinator for the Council of Trade Unions.

Robert was co-ordinator of the Employment Network from 1984 to 1987, which included the coordination of the community stream of the Government's 1985 Employment Promotion Conference. He was a member of a Regional Employment and Access Council and contracted to the Social Impact Unit of the State Services Commission during the period of state sector restructuring in the mid-1980s. He chaired the Association of NGOs of Aotearoa (ANGOA) and the Commonwealth NGO Council in the 1990s.

Robert completed a Graduate Diploma in Economic Development in 2007.



## Latayvia Tualasea Tautai

Latayvia Tualasea Tautai is a young Pacific leader from Auckland.

In 2016, Latayvia was head girl at Saint Dominic's College in Henderson and won the National Council of Women's speech competition for year 13 schoolgirls.

She is a second-year university student, studying on a University of Auckland Pacific Excellence scholarship towards conjoint law and arts degrees, majoring in Pacific studies and political studies.

Latayvia has lived experience of the welfare system, growing up in a household with a parent receiving main benefits.

She is an active volunteer in the Auckland region, including with St Vincent De Paul, Mt Eden Prison, Auckland City Mission and James Liston Hostel. She is the youth leader on the PACIFICA Inc West Auckland Executive, a recipient of the 2018 New Zealand Youth Award for Leadership, and on the Whau Youth Board.



## Charles Waldegrave QSO

Charles Waldegrave leads the Family Centre Social Policy Research Unit. Charles is a joint leader of the New Zealand Poverty Measurement Project, the New Zealand Longitudinal Study of Ageing, Research and Measurement for the New Zealand Living Wage, and two National Science Challenge projects (Ageing Well and Building Better Homes, Towns and Cities).

He is an international member of the European research collaboration ROSEnet (Reducing Old-age Social Exclusion).

Charles publishes extensively in New Zealand and internationally. In 2009, he was made a Companion of the Queen's Service Order for services to social policy.



## Michael Fletcher (special advisor)

Dr Michael Fletcher is an economist with extensive experience as a researcher, an academic and a policy advisor, specialising in welfare and social assistance policy, employment and employment relations, child poverty, child support and the financial consequences of marital separation. He has published numerous articles on these topics in New Zealand and internationally. (Michael is a special advisor to, not a member of, the Welfare Expert Advisory Group.)

Michael has worked as a policy advisor for the Ministry of Social Development, the Department of Labour (now part of the Ministry of Business, Innovation and Employment) and the Families Commission and as a consultant to The Treasury, Te Puni Kōkiri and other departments.

He is employed as Senior Research Fellow at the Institute for Governance and Policy Studies, Victoria University of Wellington. Michael is the New Zealand Correspondent for the Munich-based Max Planck Institute for Social Law and Social Policy.

# Appendix B: Terms of Reference for the Welfare Expert Advisory Group

These terms of reference (TOR) describe:

- Part A: Welfare Expert Advisory Group – proposed objectives and scope
- Part B: Welfare Expert Advisory Group – detailed function and operations

## General matters

1. This document is a Terms of Reference approved by Cabinet following Ministerial consultation, and consultation with the Chair of the Welfare Expert Advisory Group (WEAG).
2. The Terms of Reference will remain in effect until 28 February 2019.
3. Decisions on any continuation of the WEAG beyond 28 February 2019 will be made by Cabinet in March 2019, following consideration of the WEAG advice.
4. The Minister will consult with Cabinet on any substantive proposed change to the Terms of Reference, and these Terms of Reference may be reviewed and amended by Cabinet at any time.

## Part A: Welfare Expert Advisory Group – proposed objectives and scope

### Introduction

1. Many of the main planks of the welfare system have been in place since the current Social Security Act was enacted in 1964. Since then, there have been significant social and economic shifts that have shaped New Zealand's social welfare landscape. Today, we experience pervasive and persistent inequities across a number of areas, and a growing concern for the marginalisation of different groups of New Zealanders. There is growing homelessness and complex housing demands alongside rates of poverty that are too high. It is timely at this critical juncture to evaluate whether our social welfare system remains fit for purpose in contemporary New Zealand.
2. The Government's vision is for a welfare system that ensures people have an adequate income and standard of living, are treated with and can live in dignity and are able to participate meaningfully in their communities.
3. The welfare system is part of an integrated Government approach that enables people to be earning, learning, caring or volunteering and ensures a dignified life for those for whom these options are not possible.
4. This Government acknowledges that an improved social welfare system is also an important lever to achieve one of its main priorities of improving the wellbeing of children, especially those who are economically disadvantaged, and to reduce the rates of children experiencing poverty. The emphasis of our social welfare system is on delivering compassionate, timely and appropriate support for those in need.

### Objective

5. The Welfare Expert Advisory Group (the WEAG) is being established to provide advice to the Government on options that could best give effect to its vision for the future direction of the social welfare system.

## **Scope**

6. The WEAG will advise the Government on:
  - amendments to the legislative purpose and principles of the Social Security Act that give effect to the vision and direction of the Government
  - how any amendments to the purpose and principles in the Act could be implemented system-wide
  - advice on other changes needed to ensure the system achieves the Government's vision for the Welfare System
  - changes to obligations and associated sanctions applied to beneficiaries to ensure alignment with the Government's vision
  - high level recommendations for improvements to Working for Families
  - recommendations for areas where the interface between the welfare system and other systems need to be improved either because they are not functioning well or in light of the Group's work on giving effect to the future vision for the welfare system – for instance:
    - ACC, education and training, housing, health and justice
7. The WEAG will also engage with and provide insights and recommendations about the work underway within MSD on achieving meaningful and lasting change within Work and Income to ensure that beneficiaries are treated with dignity and respect in all their interactions with the system.
8. The Minister for Social Development may also seek the WEAG's advice and views on specific Government proposals for reform in the context of Budget 2019.

## **Approach**

9. In considering how to give effect to the Government's vision the WEAG should give due consideration to:
  - the evolving nature of contemporary New Zealand – changes to family structures, social needs and the changing labour market, and how these significant shifts might impact the future direction for the Social Welfare System.
  - ensuring simplicity in the social welfare system so that it is easy to understand, and people know about and are able to receive the assistance they are entitled to
  - economic and technological changes
  - ensuring good transitions to meaningful and sustainable employment as well as other positive outcomes are also recognised and valued (such as participation in the community and voluntary work)
  - improving outcomes for groups of people disproportionately impacted by negative social outcomes such as Māori, Pacific Peoples, youth, disabled people and people with health conditions.
  - how child wellbeing might be improved by the recommendations
  - the fiscal sustainability of their recommendations

## **Interactions with other Government work programmes**

10. The WEAG should give due consideration to interactions between the welfare overhaul and related Government work programmes such as the Tax Working Group, Child Wellbeing Strategy (including the Child Poverty Strategy), and the Housing Strategy.

### **Out of scope**

11. The following are outside the WEAG's scope:

- New Zealand Superannuation (NZS)
- Veteran's Pension and War Pensions
- Student Support System

12. While the above areas are excluded from scope, the WEAG may require flexibility to consider some matters relating to those systems. This may include areas relating to issues created as a result of interfaces between the systems, or areas where clients may experience the same issues or complaints across the systems.

### **Engagement**

13. The WEAG must take a participatory and independent approach that prioritises the experience of people interacting with the welfare system.

14. The WEAG will be required to undertake appropriate consultation with key stakeholder groups, including but not limited to iwi and Māori, Pacific Peoples, and disabled people.

## **Part B: Welfare Expert Advisory Group – detailed function and operations**

### **Purpose**

1. The Welfare Expert Advisory Group (the WEAG) is being established to provide advice to the Government on options that could best give effect to its vision for the future direction of the social welfare system

### **Deliverables**

2. The WEAG will deliver its final advice to Ministers by February 2019 in a written report.  
3. A decision on any continuation of the group will be made by Cabinet in March 2019, following consideration of the WEAG's advice.

### **Accountability**

4. The WEAG is accountable to the Minister for Social Development for the quality and timeliness of its advice and reports.  
5. A Senior Officials Group will be accountable to the Minister for Social Development for:

- the provision of an appropriately resourced Secretariat, and
- supporting the Secretariat to deliver timely, good quality advice to the WEAG.

### **Membership**

6. The WEAG shall consist of no more than 11 members, including the chair.  
7. The WEAG and members of the group are appointed by the Minister for Social Development following consideration by Cabinet.  
8. Members shall be appointed for a period determined by the Minister for Social Development.  
9. The Minister for Social Development may remove a member of the WEAG from that office by issuing a written notice stating the date from which the removal of the member is effective. The Minister may, at her discretion, consult with the Chair before removing a member of the WEAG.  
10. The Chair may be removed from the WEAG by the Minister for Social Development issuing a written notice stating the date from which the removal of the Chair is effective.

11. Any member of the WEAG may tender their resignation at any time by way of letter addressed to the Minister for Social Development.
12. Members are expected to act in good faith, with integrity and with reasonable care in performing their duties on behalf of the WEAG.

#### **Fees**

13. Fees are determined under the Cabinet Fees Framework set out in Cabinet Office Circular CO (12) 06.

#### **Conduct of Business**

14. The Chair of the WEAG will agree an approach with the Minister for Social Development on how it will carry out its work programme. The WEAG will operate with the Minister on a no surprises basis.
15. The WEAG must actively recognise and address Treaty of Waitangi interests throughout their work.
16. The Chair may, in consultation with the WEAG and Minister for Social Development as required and consistent with these Terms of Reference, issue policies and protocols to inform the day to day working of the WEAG and expectations of members (for example, protocols for storage of confidential information).

#### **Acting Arrangements**

17. If the Chair is unavailable to attend a meeting, they must nominate a member to act in their place.
18. Members may not delegate attendance at meetings.

#### **Quorum for meetings**

19. A meeting quorum will be no less than six members of the WEAG, including the Chair.

#### **Advisors**

20. With agreement from the Chair, the Minister may approve a Special Advisor to the WEAG to provide ongoing specialist knowledge to complement the skills and experience of the WEAG and assist with deliberations.
21. The Special Advisor is not an appointed member of the WEAG.
22. The WEAG has the ability, and will be funded, to access independent advisors to assist with its work (for example, to commission specific research or analysis).

#### **Advice from officials**

23. In order that the WEAG can fully execute its functions, the Ministry of Social Development, the Treasury and Inland Revenue will support the WEAG by providing timely advice and information to the WEAG and Secretariat.

#### **Information Requests**

24. All advice or information produced by the WEAG or provided by government agencies will be subject to the provisions of the Official Information Act 1982. All advice provided by government agencies to Ministers and/or Chief Executives will be subject to the provisions of the Official Information Act 1982.
25. Decisions on the release of information will be determined after consultation with any party whom the WEAG has determined as an interested party to the proposed information that may be released.

#### **Public communications**

26. The WEAG will conduct planned engagements with stakeholders. The WEAG Chair will approve all such engagements.

27. Members of the WEAG will seek agreement from the Chair before communicating any aspects of the WEAG's work in public fora. This includes, but is not limited to, blogging, media engagement, and academic work.

### **Authority of the Chair**

28. Where there is any uncertainty regarding the conduct of WEAG members in accordance with these Terms of Reference, or matters of concern, these are to be referred to the Chair for direction.

## **Secretariat**

### **Function and role**

29. The WEAG will be supported by a Secretariat, made up of seconded officials from the Ministry of Social Development, the Treasury and Inland Revenue. The Ministry of Business, Innovation and Employment may choose to second a staff member, depending on the Secretariat's requirements.

30. The Secretariat will assist the WEAG to complete its work by responding to requests from the WEAG, seeking information and advice from agencies, leading the process to brief WEAG members on issues and options within the welfare system, and drafting the WEAG's final report.

31. The WEAG may request advice and analysis from the Secretariat on any matter within the scope of its Terms of Reference.

32. The WEAG may request that the Secretariat develops advice that is independent from agency perspectives.

33. The Secretariat will be led by a Director who will have overarching responsibility for the efficient functioning of the Secretariat in meeting the needs of the WEAG.

34. Decisions on appointments to the Secretariat will be made by respective government agencies. The Chair will have an opportunity to provide feedback on proposed candidates, but has no decision-making rights.

### **Relationship between the Secretariat and WEAG**

35. The Director of the Secretariat will be accountable to the Chair of the WEAG.

## **Senior Officials Group**

36. A Senior Officials Group will be established to support the successful delivery of the WEAG's work programme, by providing coordinated leadership and supporting the work of the Secretariat.

37. The WEAG Chair may request opportunities to meet with the Senior Officials Group to discuss matters relating to the welfare overhaul work programme (for example, the operations of the Secretariat or to request advice).

## **Conflicts of interest**

38. Members should avoid situations that might compromise their integrity or otherwise lead to conflicts of interest.

39. The WEAG will put in place appropriate procedures, including a register of interests, to ensure that any potential conflicts of interest are identified and managed effectively.

## **Authority**

40. The WEAG is an advisory group and has no authority to direct any government department or agency, employ staff, enter into contracts, or make commitments or undertakings on behalf of any Minister or Chief Executive.

## **Confidentiality**

41. The WEAG should engage as much as possible with individuals and organisations to inform the review of the welfare system. The Chair should determine whether information is for sharing by the group, or is to be kept private or confidential, subject to the provision that all information provided by Government can be shared unless indicated otherwise.
42. Members of the WEAG may be presented with a range of private or confidential information, including on aspects of government agencies' business as well as commercially sensitive information. The expectation is that all Members will act professionally, respecting each other's and the Government's interests.
43. The work of the WEAG may also involve personal information. All Members will ensure that the collection, use, disclosure, and storage of personal information in connection with the WEAG is consistent with the Privacy Act 1993. These obligations continue, as appropriate, beyond membership in the WEAG.

## **Intellectual Property**

44. Any report or work product developed by the WEAG will be the property of the Crown.
45. Government agencies, at their discretion, may use reports or other work products supplied or developed by the WEAG.
46. Nothing will affect the rights of a member or their employer in the intellectual property owned by that member or their employer prior to entering this engagement or developed by the Member other than in the performance of this engagement.

# Appendix C: Treasury modelling of tax and welfare changes

The Welfare Expert Advisory Group asked Treasury to estimate the impacts of the recommended changes to income support using their tax and welfare analysis (TAWA) model. This appendix summarises the limitations and caveats associated with TAWA modelling.

## Description of the Treasury tax and welfare analysis model

Results are pooled estimates using the Household Economic Survey (HES) for tax years 2014/15, 2015/16 and 2016/17 (HES15, HES16, HES17), augmented with using Inland Revenue and Ministry of Social Development (MSD) data linked in the Integrated Data Infrastructure (IDI).

Status quo results correspond to the tax and welfare system as legislated at 1 April 2018 (that is, the Families Package).

Results provided for tax year 2020/21 are based on the Half-Year Economic and Fiscal update (HYEFU) 2018 forecasts of inflation and other economic and fiscal variables.

## Risk and reliability assessment

The Treasury considers the poverty projections to have low reliability and medium risk.

The Treasury considers the fiscal costs to have medium reliability and medium risk.

The TAWA model cannot extend eligibility for core benefits, so individuals who may become newly eligible, due to rate and abatement changes, are not included in these results. However, estimates of the costs of new benefit recipients have been provided by MSD and are included in the estimates of fiscal cost.

Projections of low-income poverty are subject to large sampling errors, so should be considered indicative only.

The low-income poverty projections are based on the modified OECD equivalence scale to be consistent with the Government Statistician's definitions in the Child Poverty Reduction Bill.

Accommodation Supplement is modelled using a sampling method.

## General caveats

This analysis was carried out using Treasury's microsimulation TAWA model. All calculations should be considered estimations.

Access to HES data was provided by Stats NZ under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented here are the work of the Treasury, not Stats NZ.

## IDI Disclaimer

The results in this report are not official statistics. They have been created for research purposes from the IDI, managed by Stats NZ.

The results of the TAWA model presented in this report are the work of the Treasury, not Stats NZ.

Access to the anonymised data used in this study was provided by Stats NZ under the security and confidentiality provisions of the Statistics Act 1975. Only people authorised by the Statistics Act 1975 are allowed to see data about a particular person, household, business, or organisation, and the results in this report have been confidentialised to protect these groups from identification and to keep their data safe.

Careful consideration has been given to the privacy, security, and confidentiality issues associated with using administrative and survey data in the IDI. Further detail can be found in the privacy impact assessment for the IDI available from [www.stats.govt.nz](http://www.stats.govt.nz).

## Inland Revenue Disclaimer

The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994. This tax data must be used only for statistical purposes, and no individual information may be published or disclosed in any other form, or provided to Inland Revenue for administrative or regulatory purposes.

Any person who has had access to the unit record data has certified that they have been shown, have read, and have understood section 81 of the Tax Administration Act 1994, which relates to secrecy. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data's ability to support Inland Revenue's core operational requirements.

# Appendix D: Full list of recommendations

## Purpose, values and principles

**Recommendation 1:** Amend the Social Security Act 2018 to state that anyone exercising power under the Act have regard to the following purpose and values.

The purpose of the welfare system is to whakamana tāngata and ensure a dignified life by:

- providing financial security and social security sufficient for an adequate standard of living
- supporting people to achieve their potential for learning, caring or volunteering, and earning through good and appropriate work

The welfare system is underpinned by Kia Piki Ake Te Mana Tangata, including kaupapa Māori values of:

- manaakitanga – caring with dignity and respect
- ūhanga – economics
- whanaungatanga – treasuring kinship ties and relationships
- kotahitanga – unity
- takatūtanga – preparedness
- kaitiakitanga – guardianship.

**Recommendation 2:** Use the following principles to guide the design and operation of the welfare system.

- Be person-centred and wellbeing focused.
- Keep children paramount.
- Value whānau and families.
- Treat people with dignity, respect and compassion.
- Provide an income sufficient for an adequate standard of living.
- Provide full and correct entitlements.
- Deliver support that is easy to access, timely and appropriate.
- Provide an employment service that supports people into good and appropriate work.
- Support the provision of housing that is affordable, secure, of good quality and appropriate for the person (and their family or whānau).
- Promote mutual expectations.
- Aim for equitable outcomes.
- Build and maintain effective links with other parts of government.
- Be sustainable.

**Recommendation 3:** Establish a cross-ministerial approach to implement and monitor the effectiveness of the implementation and impact on outcomes of the Welfare Expert Advisory Group's recommendations (across welfare, health, housing, justice, education and employment) that is cognisant of responsibilities under Te Tiriti o Waitangi (the Treaty of Waitangi) and involves users of the welfare system.

**Recommendation 4:** Direct the Chief Executive of the Ministry of Social Development to design and implement a welfare system that will fulfil the new purpose and principles of the amended Social Security Act, is cognisant of responsibilities under Te Tiriti o Waitangi and involves users of the system.

**Recommendation 5:** Direct the Ministry of Social Development and Inland Revenue to publish yearly, whether as part of their Annual Reports or Statement of Intent, or as a standalone report, information on key outcomes for those interacting with the welfare system, including information about full and correct entitlements, take-up rates of payments, employment outcomes, the impact of employment supports and services, and after-tax and abatement earnings.

Measures should include:

- full and correct entitlement for all who are eligible by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years)
- take-up rates of payments by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years)
- employment outcomes by benefit type, ethnicity, gender, location, health conditions and disabilities, age, and duration off benefit (3, 6 and 12 months)
- impact of employment supports and services on outcomes by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years)
- after-tax and abatement earnings for those receiving financial support from Inland Revenue or the Ministry of Social Development by ethnicity, gender, location, health conditions and disabilities, and number and age of dependent children (0–17 years).

**Recommendation 6:** Embed the competencies required to achieve greater equity for Māori in the job descriptions, key performance indicators and performance reviews of the Ministry of Social Development's management and staff.

**Recommendation 7:** Include in the amended Social Security Act specific requirements for the Chief Executive of the Ministry of Social Development to be accountable to iwi (as recognised collectives) and to Māori (as individuals, whānau and communities) for achieving equitable wellbeing outcomes for Māori from the welfare system.

**Recommendation 8:** Direct the Ministry of Social Development to commit to building its cultural responsiveness to Pacific People, to achieve equitable outcomes for Pacific People engaging with the welfare system. Cultural responsiveness includes having an awareness of cultural obligations experienced by Pacific People around contributions for weddings, funerals and other critical cultural events and taking account of the nuances within diverse Pacific communities.

## Improving outcomes for Māori

**Recommendation 9:** The Welfare Expert Advisory Group recommends, in addition to the recommendations elsewhere that will improve outcomes for Māori, the Government:

- supports the Ministry of Social Development to continue to shift towards whakamana tāngata – to build the mana of others and uplift them in a way that honours their dignity
- supports the Ministry of Social Development to continue to review and evaluate, with Māori, the services the Ministry delivers to ensure they are effective in improving outcomes for Māori
- works with Māori to consider other effective ways of delivering welfare services and funding that are informed by Te Ao Māori, including longer-term, whānau-centred, strengths-based initiatives.

## Rebalancing the social contract – improving the operation of the welfare system

Detailed recommendations for this section are listed on page 91.

### Restoring trust

**Recommendation 10:** Develop a mutual expectations framework to govern interactions between the Ministry of Social Development and those who interact with the welfare system.

**Recommendation 11:** Remove some obligations and sanctions (for example, pre-benefit activities, warrants to arrest sanctions, social obligations, drug-testing sanctions, 52-week reapplication requirements, sanctions for not naming the other parent, the subsequent child work obligation, and the mandatory work ability assessment for people with health conditions or disabilities).

**Recommendation 12:** Improve outcomes by ensuring the public-facing, frontline service is consistent with the new purpose and principles through sufficient resourcing (for example, staffing, support and services), an appropriate performance framework, and complaints and disputes processes.

**Recommendation 13:** Assist recipients of Sole Parent Support to return to part-time work when their youngest child is 6 years old (subject to supports being available, such as good quality childcare) instead of the current 3 years. Support but not require all sole parents to return to work when their youngest child is under 6 years old.

### Reducing the generation of debt

**Recommendation 14:** Continue to prioritise a reduction in outstanding benefit debt through sustainable repayments, and minimise the creation of overpayments, including reviewing recoverable hardship assistance and current practice, to be more consistent with whakamana tāngata.

**Recommendation 15:** Align the regulations and practice around benefit debt so that it is treated in substantially the same way as Inland Revenue treats taxpayer debt.

**Recommendation 16:** Instigate a cross-government approach to managing debt to government agencies.

### Minimising the small amount of fraud

**Recommendation 17:** Endorse the Ministry of Social Development's three-tiered approach to responding to fraud allegation: intervene, facilitate and, as a last resort, investigate. Apply the principles of natural justice in all steps, and, if the outcome is disputed, permit a review independent of the Ministry of Social Development.

### Interface with the justice sector

**Recommendation 18:** Enhance and improve the support for people exiting prisons, including increasing the Steps to Freedom grant, and ensuring that any person who leaves prison has appropriate identification and is engaged with specialised care and supportive housing initiatives. Move practices around prisoner integration out of the 'pilot' stage and draw on evaluation data to embed integrated support for these individuals.

## Detailed recommendations

Theme	Detail
<b>Mutual expectations framework</b>	<p>Reform the obligations and sanctions regime into a system of mutual expectations and responsibilities, apply these according to the circumstances of the individual and in a way that is consistent with the proposed purpose, principles and values. Strong checks to mitigate potential negative impacts on individuals and their families will be required. This new approach is strongly connected to improving wellbeing and supporting the increased skills and labour market capacity of the individual and family or whānau.</p>
<b>Obligations and sanctions removal</b>	<p>Remove:</p> <ul style="list-style-type: none"> <li>the requirement to complete specific activities before a benefit is granted (pre-benefit activities)</li> <li>the sanction where benefit payments stop if people have a warrant out for their arrest, and continue data matching with the Ministry of Justice and take a proactive supportive approach to contacting these people</li> <li>social obligations that require people receiving a benefit to take all reasonable steps to have their children enrolled with a medical practice, be up to date with their Wellchild/Tamariki Ora checks and be attending early childhood education or school</li> <li>pre-employment drug testing and provide specialised support for people with substance use disorders</li> <li>the mandatory work ability assessment for people with health conditions or a disability and link workability assessments to return to work plans</li> <li>the requirement to reapply for a benefit every 52 weeks – MSD is expected to provide full and correct entitlements through regular reviews (at least annually)</li> <li>work obligations when an additional child is included in a benefit (the subsequent child rule)</li> <li>the sanction on not naming another parent (was section 70A in the Social Security Act 1964 and is now section 192 of the Social Security Act 2018).</li> </ul>

Theme	Detail
<b>Resourcing and other processes of the public-facing, frontline service are consistent with the new purpose and principles</b>	<p>Resource frontline services to the level required to achieve outcomes as a priority.</p> <p>Implement an ongoing, comprehensive, active and agile staff training strategy.</p> <p>Adopt an improved and accessible complaints process that is measured by a satisfactory restoration of the relationship between the parties.</p> <p>Make the review process simpler, speedier and more accessible, and ensure the principle of natural justice is observed.</p> <p>Make a further hearing at the Social Security Appeal Authority available to those who take an unsuccessful claim to the Medical Appeals Board.</p> <p>Assign people likely to be in long-term receipt of a benefit or with complex needs a dedicated case manager, and give such case managers small caseloads so they can adequately address the wellbeing of the person in need and their family or whānau.</p> <p>Resource the workforce adequately, and streamline systems in consultation with the frontline workforce to improve work flow and recipient service experience.</p> <p>Put people at the centre of decision making, seek feedback from staff about how system changes affect their roles, and empower staff to work proactively to enhance the mana of benefit recipients.</p> <p>Provide multiple channels for service so applicants can access assistance through whichever channel they are most comfortable using.</p> <p>Take a Whānau Ora-type approach where the complexity of a person's situation means multiple agencies are involved and skilled navigators support the person's interactions with the agencies and community organisations.</p>

## Reducing the generation of debt

Theme	Detail
<b>Ways to minimise the creation of overpayments and reduce overall indebtedness</b>	<p>Review all hardship payments and ensure eligibility is in line with the new purpose and principles of the Social Security Act.</p> <p>Give MSD the mandate to improve, simplify and redesign practice around income declarations.</p> <p>Increase funding for community initiatives that promote financial literacy and for debt reduction, such as no interest, no fee and debt consolidation loans.</p> <p>Introduce a scheme of incentivising benefit debt repayment, such as a Matched Debt Reduction Scheme, to reduce outstanding benefit debt.</p> <p>Review internal performance measures relating to debt, to bring them in line with the new purpose and principles.</p>

## Minimising fraud

Theme	Detail
<b>Minimising the small amount of fraud</b>	Endorse MSD's three-tiered approach towards alleged fraud. Introduce independent review proceedings prior to a Benefit Review Committee for prosecution investigations. Explore and align prosecution practice with Inland Revenue's approach to prosecution.

## Improving the interface with the justice sector

Theme	Detail
<b>Improving the service provided to people released from prison</b>	Scale up the Supporting Offenders into Employment intervention and MSD's reintegration efforts, in conjunction with the Department of Corrections. Pastoral care for people released from prison should be increased. Review and increase the current value of the Steps to Freedom grant, to ensure it is adequate for basic living costs, including housing. Monitor and ensure prisoners have the appropriate documentation to obtain income support or work on release (for example, an official form of identification, a driver's licence, bank account, contact details). Consider continuing housing cost assistance for people entering prison for a short period, on remand or in custody.

## Income adequacy

### Benefits, Working for Families and supplementary assistance

The following recommended changes need to provide people on low incomes with significantly more than they currently receive (without disadvantaging others on low incomes). Recommendations 19 to 23 should be implemented urgently.

**Recommendation 19:** Adopt the following 10 principles to redesign the income support system.

- Income support is adequate for meaningful participation in the community, and this support is maintained over time.
- Income support ensures people are always better off in paid work and high effective marginal tax rates are avoided as much as possible.
- Main benefits cover a larger proportion of people's living costs than they do currently (reducing reliance on other assistance).
- Child-related payments follow the child and can be apportioned with shared care.
- Payments for specific costs provide support that is adequate, appropriately designed and easy to access.
- Changes to income support reduce disincentives to form relationships.
- The income support system proactively supports people to access their full and correct entitlements and promotes these entitlements to the broader population.
- The income support system is easy to access and provides timely support, including to people transitioning in and out of the system.

- The income support system is as simple as possible balanced against the need to provide adequate support for people in a variety of circumstances at a reasonable cost to government.
- People are treated with dignity and respect when accessing this support.

**Recommendation 20:** Reform main benefits by:

- increasing main benefits by between 12% and 47% as set out in table 2, page 99
- increasing the abatement thresholds for:
  - Jobseeker Support to \$150 a week
  - Sole Parent Support and Supported Living Payment to \$150 a week and \$250 a week.

**Recommendation 21:** Fully index all income support payments and thresholds annually to movements in average wages or prices, whichever is the greater. Index Accommodation Supplement rates to movements in housing costs.

**Recommendation 22:** Consider introducing a Living Alone Payment that contributes to the additional costs of adults living alone (without another adult) on a low income.

**Recommendation 23:** Reform Working for Families and other tax credits by:

- increasing the Family Tax Credit to \$170 a week for the eldest child and to \$120 a week for subsequent children
- increasing the abatement threshold for the Family Tax Credit and changing the abatement rate to:
  - 10% on family annual incomes between \$48,000 and \$65,000
  - 15% on family annual incomes between \$65,000 and \$160,000
  - 50% on family annual incomes in excess of \$160,000
- replacing the In-Work Tax Credit, Minimum Family Tax Credit and Independent Earner Tax Credit with a new Earned Income Tax Credit
- introducing an Earned Income Tax Credit of up to \$50 a week for people with and without children and with a couple-based income test
- making the Best Start Tax Credit universal for all children aged under 3 years.

**Recommendation 24:** Reform supplementary assistance and hardship assistance so they are adequate, appropriately designed and easy to access.

**Recommendation 25:** Require the Ministry of Social Development to, within 2 years, complete work, including commissioning independent research and focus groups, to establish a minimum income standard for New Zealand (with 5-year reviews).

**Recommendation 26:** Increase, as soon as possible, overall income support to levels adequate for meaningful participation in the community, as defined by the minimum income standard (which reflects different family circumstances, for example, children, disabilities and regional area) and maintain this level of support through appropriate indexation.

### Passing on child support

**Recommendation 27:** Pass on all child support collected to receiving carers, including for recipients of Unsupported Child's Benefit.

### Clarifying eligibility and relationship status

**Recommendation 28:** Move income support settings over time to be more neutral on the impact of being in a relationship in the nature of marriage.

## Detailed recommendations

### Benefits and supplementary assistance

Theme	Detail
<b>Main benefits</b>	<ul style="list-style-type: none"> <li>Remove youth rates of main benefits. Increase Jobseeker Support for under 24 years living away from home (and the rate of Youth Payment) to match the rate for people 25 and older, and increase Supported Living Payment for 16–17 year-olds to the rate for people aged 18 and over.</li> <li>Remove initial income stand-down periods.</li> <li>Remove the 13-week non-entitlement period for voluntary unemployment.</li> <li>Remove the 30-hour rule.</li> <li>Introduce individual entitlement to Jobseeker Support while retaining a couple-based income test.</li> <li>Keep sole parents on Sole Parent Support until their youngest child turns 18 (rather than switching them to Jobseeker Support once their youngest child turns 14).</li> <li>Consider changing the name of Jobseeker Support – Health Condition or Disability to better reflect people's needs (for example, Health Support).</li> </ul>
<b>Hardship assistance</b>	<ul style="list-style-type: none"> <li>Increase income and asset limits to allow a larger proportion of low-income working people to access payments.</li> <li>Review and increase grant limits so they cover current costs, including for emergency dental treatment.</li> <li>Make a larger proportion of payments non-recoverable (for example, those for the costs of school uniforms).</li> <li>Review the Temporary Additional Support formula, including the accommodation loading and maximum amount, so it adequately covers costs.</li> </ul>
<b>Income definition</b>	<ul style="list-style-type: none"> <li>Align definitions of income and assets with those established by Inland Revenue, unless there are clear and robust reasons for a different definition.</li> <li>Treat earnings-related compensation from ACC the same as other income from work in the benefit system.</li> <li>Review how income is measured and allocated to people, including assessment periods – especially in the treatment of lump-sum payments, retrospective payments, joint investments and annual business income.</li> </ul>

### Assistance related to children and families

Theme	Detail
<b>Family Tax Credit</b>	<ul style="list-style-type: none"> <li>Align shared care rules for the Family Tax Credit with child support – 35% of care.</li> <li>Extend the 4 weeks ‘terminal payment’ to the Family Tax Credit.</li> <li>Consider how increases in the Family Tax Credit should impact on the rates of Unsupported Child’s Benefit and Orphan’s Benefit.</li> </ul>
<b>Best Start Tax Credit</b>	<ul style="list-style-type: none"> <li>Consider changing the interaction between Best Start and Paid Parental Leave to avoid overpayments.</li> </ul>
<b>Child Tax Credit</b>	<ul style="list-style-type: none"> <li>Repeal the Child Tax Credit.</li> </ul>
<b>Childcare Assistance</b>	<ul style="list-style-type: none"> <li>Change the definition of income to remove other non-taxable transfer payments (for example, Accommodation Supplement, Disability Allowance and Temporary Additional Support).</li> <li>Improve take-up by promoting greater awareness to working families, alongside Inland Revenue (given its role in administering Working for Families).</li> <li>Review subsidy rates (and their interaction with minimum session times in childcare and Out of School Care and Recreation (OSCAR) services), to determine if they are adequately subsidising costs, and increase the rates if they are inadequate.</li> <li>Consider increasing income thresholds to provide greater subsidisation of childcare costs for low- and middle-income working families, so that effective marginal tax rates for these families are not too high.</li> </ul>
<b>Child support</b>	<ul style="list-style-type: none"> <li>Treat child support received as income for benefit abatement (already income for the Family Tax Credit).</li> <li>Treat child support paid as a reduction in income for benefit abatement (already a reduction in income for the Family Tax Credit).</li> <li>Remove compulsory application for child support (except for recipients of Unsupported Child’s Benefit).</li> <li>Shorten the application form and make more application options available (for example, online).</li> <li>Review the expenditure table to reflect changes in Family Tax Credit payments.</li> </ul>
<b>Shared care</b>	<ul style="list-style-type: none"> <li>Align shared and split care rules for main and supplementary payments with the Family Tax Credit and child support.</li> </ul>

## Eligibility

Theme	Detail
<b>Ensuring benefit settings have less impact on partnering decisions</b>	<ul style="list-style-type: none"><li>Allow a 6-month period (rather than the current 6 weeks) after people move in together as a couple before a relationship is deemed to exist for the purposes of determining benefit eligibility.</li><li>Do not deem two people who do not live together as being in a relationship for the purposes of welfare support.</li><li>Investigate other moves towards greater neutrality in respect of relationship status, including increased individualisation of benefit entitlement, bringing the couple rate of benefit closer to two times the single rate, and improving alignment between the approach taken by MSD and in other legislation.</li><li>Consider introducing a short-term entitlement (for example, 6 months) to a main benefit for partnered people who lose their jobs or incomes (due to redundancy, a health condition or disability, or a health condition or disability of a dependent child) through an earnings disregard of their partner's income (up to a cap of around \$48,000 a year) for this period.</li></ul>

## Alleviating the housing conundrum

**Recommendation 29:** Urgently expand and accelerate Government efforts to substantially increase public housing on an industrial scale and continue urgent efforts to end homelessness.

**Recommendation 30:** Increase the range of home ownership and tenure options for people on low and low-middle incomes.

**Recommendation 31:** Increase the capacity of third-sector community-based housing providers.

**Recommendation 32:** Develop and enact laws and regulations to ensure healthy homes and housing security, decent standards of housing quality, universal design, and accessibility

**Recommendation 33:** Subsidise housing costs for people on low incomes (in addition to raising main benefit rates to provide an adequate income) and ensure the combination of changes to housing support and abatement rates make households better off.

**Recommendation 34:** Improve access to affordable, suitable housing support for people on low and low-middle incomes, including a range of affordable home-ownership products and papakāinga housing.

## Detailed recommendations

Theme	Detail
<b>Subsidising housing costs for those on low incomes</b>	<p>Housing subsidies could be improved by:</p> <ul style="list-style-type: none"> <li>extending the period from 2 months to 6 months before income-related rent for public housing is increased after the tenant moves into employment</li> <li>changing the way Accommodation Supplement payments are calculated, so indexing maintains relativity with housing costs, and removing differences between renters and homeowners.</li> </ul> <p>Specifically in relation to Accommodation Supplement:</p> <ul style="list-style-type: none"> <li>increasing the maxima to the median regional rental rates (for the latest year available)</li> <li>reviewing the maxima and the area locations annually to maintain the value of the payments with changes in median rental rates in different parts of the country over time</li> <li>decreasing the co-payment rate from 30% to 25% (that is, increase the Government contribution from 70% to 75%)</li> <li>decreasing the entry threshold for homeowners from 30% to 25% to align with renters</li> <li>allowing people who are studying (and meet the criteria for Student Allowance) but who do not receive Student Allowance, to apply for Accommodation Supplement.</li> </ul> <p>Increase the cash asset limit on Accommodation Supplement to \$42,700, to align with the cash asset limit for social housing:</p> <ul style="list-style-type: none"> <li>index the cash asset limit to maintain relativity over time</li> <li>remove the cash asset abatement test for Accommodation Supplement</li> <li>amend the definition of cash asset to exclude the proceeds from the sale of a house, for a reasonable period, to allow the person to re-enter the housing market, taking account of any special requirements or modifications the person or their family may require to a house.</li> </ul> <p>Improve the take-up rate of Accommodation Supplement and Temporary Additional Support for non-benefit recipients through greater cooperation with Inland Revenue, better use of its information, and increased publicity and proactive activity.</p> <p>Increase the flexibility in the requirement to review and renew Temporary Additional Support when assessments relate to housing costs, with reviews between 3 and 12 months tailored to individual circumstances, and accordingly rename, such as 'Tailored Additional Support'.</p> <p>Ensure the combination of changes to housing support and abatement rates, alongside other income support, make low- and low-middle income households substantially better off.</p>

Theme	Detail
<b>Government to undertake further work</b>	<p>Determine the impact on low-income households of maintaining levels of Accommodation Supplement for a reasonable period for beneficiaries who move into full-time work, so they are well supported to remain in work and able to clear debts and build savings, similar to the recommendation on income-related rent subsidy.</p> <p>Change the way Accommodation Supplement payments are calculated to move away from family size to being based on the number of bedrooms, including allowing bedroom space for a disability support person and for children in shared custody, and determine the impact of this change on low-income households.</p> <p>Review the level of the cash asset limit for the income-related rent subsidy and Accommodation Supplement, to maintain the principle that it allows people to save for a mortgage deposit for a median-priced house.</p> <p>Review, as the supply-side measures increase and affordability improves, the roles of MSD, Housing New Zealand and the Ministry of Housing and Urban Development to consider whether an integrated, single-agency approach to housing might be preferable.</p> <p>Review the housing assessment and allocation process so there is an appropriate balance between placing locals waiting to be housed and high-needs households from outside the region.</p>
<b>Home ownership and tenure options and ending homelessness</b>	<p>Consider the following approaches:</p> <ul style="list-style-type: none"> <li>• facilitate innovative thinking and action to increase home ownership through rent-to-buy schemes, shared equity schemes, low-interest rate loans or fixed mortgages, microfinancing and similar</li> <li>• request Housing New Zealand to develop affordable options for tenants to purchase their state house.</li> </ul> <p>These approaches must be based on achieving equity in housing outcomes, including ownership, for Māori and Pacific People. This should result in culturally appropriate rental and ownership housing, including household size and function, and include papakāinga options.</p>

## Improving access to employment supports and work

### Supporting working-age adults

**Recommendation 35:** Establish an effective employment service of the Ministry of Social Development so it is better able to assist people to obtain and keep good, sustainable work.

**Recommendation 36:** Revamp active labour market, labour market, employment and training policies across government to make them more coherent and effective.

**Recommendation 37:** Strengthen the Ministry of Social Development's redundancy support policies to better support displaced workers.

### Supporting youth to engage in education, training or paid work

**Recommendation 38:** Abolish, in the Youth Service, compulsory money management, and separate case management from youth mentoring so it is consistent with and has a positive youth development focus.

**Recommendation 39:** Use evidence-based approaches that support young people to be learning, earning and, where young people are parents, caring. These approaches need to build on the strengths of young people and provide a basis for their long-term engagement with the changing world of work.

## Detailed recommendations

Theme	Detail
<b>An effective employment service</b>	<p>Institute a new operating model that provides people at risk of poor labour market outcomes (including Māori, Pacific People, people with health conditions or disabilities, and people whose jobs have been made redundant) with proactive and sustained support to obtain good, sustainable work.</p> <p>Increase significantly investment (with appropriate monitoring and reporting) in active labour market programmes.</p> <p>Establish a dedicated deputy Chief Executive for employment in MSD.</p> <p>Provide sufficient numbers of well-trained, well-resourced, regional labour market managers and specialist employment case managers in MSD.</p> <p>Provide public employment services to people at risk of becoming unemployed.</p>
<b>Revamp of Active Labour Market Programmes, labour market and training policies</b>	<p>Review a whole-of-government approach to labour market, training and vocational education (with MSD as an integral partner) with MBIE, Te Puni Kōkiri, Ministry of Pacific Peoples, Tertiary Education Commission, Careers New Zealand, polytechnics, industry training organisations, and regional and local government.</p> <p>Establish national and regional advisory groups of the social partners (government-business-union), iwi and regional and local government to implement employment and active labour market policies at a national and regional level.</p> <p>Resource and develop a portfolio of labour market programmes that is driven by local labour market conditions, evidence based, and informed by all relevant national and local labour market data.</p> <p>Access the best international data and programmes so New Zealand is well placed for a future labour market in which more people might more frequently transition in and out of work and where there is a greater need to support workers to re-skill or up-skill due to displacement or moving in or out of casual work.</p> <p>Make labour market programmes and work far more accessible for disabled people.</p>
<b>Loss of employment</b>	<p>Establish a short-term (for example, 6 months) benefit for partnered people who lose their jobs or incomes (for example, due to redundancy) through an earnings disregard of their partner's income (up to a cap) for this period (see the detailed recommendations table in chapter 7).</p> <p>Adequately fund redundancy support programmes, which include a suite of free or subsidised training and education courses, for workers who experience redundancy.</p> <p>Ensure people can resume benefits readily (to allow for unpredictable changes in income and to provide people with confidence to take up employment), including removal of income stand-down periods.</p>

Theme	Detail
<b>Young people supported to be earning, learning and, where they are parents, caring</b>	<p>Increase investment in well coordinated and youth development-focused programmes to help young people into education, training, alternative employment opportunities or volunteering.</p> <p>Tailor youth initiatives to their communities.</p> <p>Take an evidence-based approach, informed by the voices of young people and building on the strengths of young people, and provide a basis for their long-term engagement with the changing world of work.</p> <p>Provide assistance with a specific focus on the needs of rangatahi Māori, Pacific youth and young people with health conditions or disabilities, to provide more equitable outcomes and success for these groups of young people.</p>

## People with health conditions and disabilities and carers

**Recommendation 40:** Improve the health and wellbeing of people with health conditions and disabilities, along with carers of people with health conditions and disabilities who interact with the welfare system by:

- providing financial support that is adequate to live a life with dignity and is equitable across the social sector
- implementing evidence-based approaches to support engagement in good, suitable work and the community where this is possible
- implementing strategies to prevent work-limiting health conditions and disabilities.

**Recommendation 41:** Include in the scope of the New Zealand Health and Disability System Review the relationship between the health and disability system and the accident compensation scheme and how the relationship between these and the welfare system could be changed to improve outcomes for people with health conditions and disabilities and carers.

## Detailed recommendations

Theme	Detail
<b>Improving income support for people in the welfare system with health conditions or disabilities and carers of people with health conditions or disabilities</b>	<p><b>Main benefits</b></p> <p>Consider increasing financial support for people affected by health conditions and disabilities not due to an accident to be equivalent to that provided by the accident compensation scheme. Treat people with similar levels of disability – whether caused by illness or injury – similarly. Link this support to relevant employment support where work is a possibility.</p> <p>Introduce time-limited individual entitlement for income and employment support for low-income families suffering from health shocks (see the eligibility section of the detailed income support recommendations, page 118).</p> <p>Consider transferring to New Zealand Superannuation people on Supported Living Payment who are so unwell or disabled that there is no foreseeable chance they will come off the benefit during their life.</p> <p>Align the abatement rate of non-blind disabled people receiving Supported Living Payment with that of the blind, to address the current inequity.</p>
	<p><b>Assistance for the cost of having a health condition or disability</b></p> <p>Redesign supplementary assistance for people with health conditions or disabilities, so it is easier to access and more accurately covers the costs of having the health condition or disability.</p> <p>Increase the level of income support provided by Disability Allowance with three rates (low, medium and high) related to the degree of burden of disability or care needed.</p> <p>Increase the level of income support provided by Child Disability Allowance, and introduce three rates (low, medium and high) related to the degree of burden of disability or care needed.</p> <p>Direct the Ministry of Social Development and Ministry of Health to clarify where responsibility for covering the cost to individuals of health conditions and disabilities should lie and make this transparent, known to the public, and accessible.</p> <p>Include in the New Zealand Health and Disability System Review how cost and other barriers can be reduced so people on low incomes can access primary care, dental care, alcohol and other drug services, mental health care, secondary care, and vision and hearing services.</p>
	<p><b>Carers</b></p> <p>De-couple Supported Living Payment Carer from Supported Living Payment, and create a carers benefit that continues to be paid at the same rate as Supported Living Payment. This allows more flexibility in the provision of non-financial support.</p> <p>Introduce an annual carers payment to help meet the additional costs associated with care.</p>

Theme	Detail
<b>Implementing in the welfare system a comprehensive approach to support the suitable employment of people with health conditions and disabilities and carers of people with health conditions and disabilities</b>	<p>Implement within the welfare system a comprehensive approach to support the suitable employment of people with health conditions and disabilities and carers that includes:</p> <ul style="list-style-type: none"> <li>• early intervention with the right level of support</li> <li>• support for part-time work</li> <li>• evidence-based integrated employment and health supports and services</li> <li>• improved access to health supports and services to support return to work, with particular support for people with mental health problems or chronic conditions</li> <li>• easy re-entry to a benefit if employment ends</li> <li>• support for employers to take on or retain people with health conditions and disabilities and carers (for example, wage subsidies and workplace accommodations).</li> </ul> <p>Support the recommendations of the Government Inquiry into Mental Health and Addiction and the 2018 OECD report <i>Mental Health and Work: New Zealand</i>, because of the large proportion of people receiving health and disability benefits whose primary barrier to work is a mental health condition.</p>
<b>Meaningful community participation to promote wellbeing</b>	<p>Work with the Ministry of Health to ensure those who are unlikely to ever engage in paid work are supported to participate meaningfully in their communities.</p>
<b>Prevention and harm reduction</b>	<p>Work to eliminate people's negative experiences with MSD, which worsen mental distress, by changing the way MSD interacts with people in line with our proposed purpose, principles and values.</p> <p>Government to prioritise the prevention of ill health and disability by:</p> <ul style="list-style-type: none"> <li>• overseeing and coordinating cross-government responses to improving social wellbeing, including tackling the social determinants of poor health and disability</li> <li>• enhancing cross-government investment in prevention and resilience-building activities for young people and people in workplaces.</li> </ul>

## Community

**Recommendation 42:** Direct the Ministry of Social Development to develop the capacity and capability to engage with, promote and fund community organisations to provide wide-ranging opportunities for volunteers and people receiving benefits to be meaningfully engaged in their communities.

# Appendix E: Technical information and background papers

## WEAG papers prepared for this report

WEAG 2019. *Views on New Zealand's welfare system*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

WEAG 2019. *Understanding benefit debt*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

WEAG 2019. *Example families and budgets: Investigating the adequacy of incomes*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

WEAG 2019. *Welfare and housing interface: Context and background on housing assistance*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

WEAG 2019. *The take-up of income support: Analysis and options*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

WEAG 2019. *Income support system*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

WEAG 2019. *A brief history of family support payments in New Zealand*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

WEAG 2019. *Child support: Objectives and key rules for benefit*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

WEAG 2019. *Welfare and housing interface: Evidence and policy options*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

WEAG 2019. *Labour market*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

WEAG 2019. *Current state: The welfare system for people with health conditions and disabilities*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

WEAG 2019. *Current state: Carers of people with health conditions or disabilities*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington

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MSD. 2019. *Obligations and Sanctions Rapid Evidence Review Paper 2: Work-related Sanctions*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington: Ministry of Social Development.

MSD. 2019. *Obligations and Sanctions Rapid Evidence Review Paper 3: Usage of Work-related Sanctions Since 2001*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington: Ministry of Social Development.

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MSD. 2019. *Obligations and Sanctions Rapid Evidence Review Paper 5: The 52-Week Reapplication for Sole Parent Support and Benefit Cancellations*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington: Ministry of Social Development.

MSD. 2019. *Obligations and Sanctions Rapid Evidence Review Paper 6: Voluntary Intensive Case Management*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington: Ministry of Social Development.

MSD. 2019. *Obligations and Sanctions Rapid Evidence Review Paper 7: Social Obligations*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington: Ministry of Social Development.

MSD. 2019. *Obligations and Sanctions Rapid Evidence Review Paper 8: Work Obligations for Sole Parents and Outcomes for Children*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington: Ministry of Social Development.

MSD. 2019. *Rapid Evidence Review: The impact of poverty on life course outcomes for children, and the likely effect of increasing the adequacy of welfare benefits*. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington: Ministry of Social Development.

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BANKWEST CURTIN ECONOMICS CENTRE

# THE PRICE IS RIGHT?

an Examination of the Cost  
of Living in Western Australia

Focus on Western Australia Report Series, No.10  
December 2017

# About the Centre

The Bankwest Curtin Economics Centre is an independent economic and social research organisation located within the Curtin Business School at Curtin University. The Centre was established in 2012 through the generous support of Bankwest, a division of the Commonwealth Bank of Australia. The Centre's core mission is to deliver high quality, accessible research that enhances our understanding of key economic and social issues that contribute to the wellbeing of West Australian families, businesses and communities.

The Bankwest Curtin Economics Centre is the first research organisation of its kind in Western Australia, and draws great strength and credibility from its partnership with Bankwest, Curtin University and the Western Australian government.

The Centre brings a unique philosophy to research on the major economic issues facing the state. By bringing together experts from the research, policy and business communities at all stages of the process – from framing and conceptualising research questions, through the conduct of research, to the communication and implementation of research findings – we ensure that our research is relevant, fit for purpose, and makes a genuine difference to the lives of Australians, both in WA and nationally.

The Centre is able to capitalise on Curtin University's reputation for excellence in economic modelling, forecasting, public policy research, trade and industrial economics and spatial sciences. Centre researchers have specific expertise in economic forecasting, quantitative modelling, micro-data analysis and economic and social policy evaluation. The Centre also derives great value from its close association with experts from the corporate, business, public and not-for-profit sectors.

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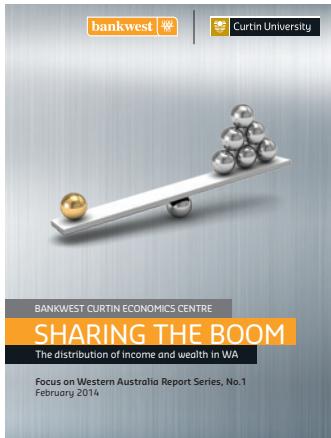
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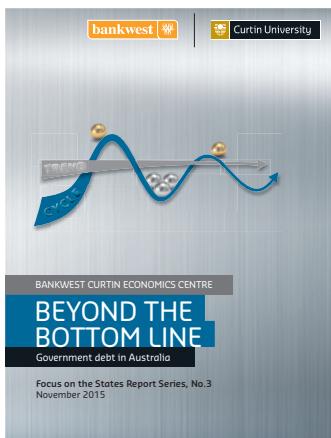
# BCEC report series



## Focus on Western Australia

This series presents a West Australia centric approach at analysing global events and domestic policy issues.

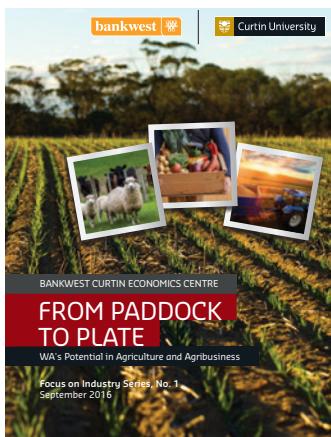
First release 2014



## Focus on the States

This series presents a critical comparison of topical issues between the states and territories of Australia.

First release 2014



## Focus on Industry

This series examines trends in important industries and sectors within the context of the West Australian economy.

First release 2016

# Foreword



The Western Australian economy has experienced something of a roller-coaster ride over the last decade, with unprecedented economic growth over the course of the resources boom followed by a post-boom period during which activity has cooled. Despite a reduction in demand in a number of industry sectors, there is a prevailing notion that West Australians remain exposed to high cost of living pressures. Yet several worldwide cost of living indicators suggest that Perth has actually become increasingly affordable relative to other cities. So how can we reconcile these differences?

This tenth report in BCEC's *Focus on Western Australia* series examines the important issue of costs of living in WA, and how real household living costs have changed in recent years. It begins by tracking the prices of broad categories of goods and services in Perth over time relative to other capital cities. This is followed by a detailed analysis of the expenditure pattern of WA households across the State's regions, and an examination of the extent to which wages have lagged behind price growth for different population subgroups in WA. The report sheds light on numerous policy issues that affect the economic wellbeing of West Australian households, including the impact of cost of living pressures on income inequality and poverty in the State.

The report looks at various indicators of cost of living, and highlights the limits in using CPI and inflation rate measures to draw inferences about the real living cost pressures faced by households or individuals in vulnerable circumstances.

The report seeks to gain a better understanding of how much households need to spend on goods and services to maintain a baseline standard of living. A detailed analysis of expenditure patterns and incomes of WA households, drawn from the latest Census and Household Expenditure Survey data, reveals what types of households are hardest hit and which WA regions are doing it tough.

I hope you will find this report thought-provoking and informative.

A handwritten signature in black ink, appearing to read 'Alan Duncan'.

**Professor Alan Duncan**  
Director, Bankwest Curtin Economics Centre  
Curtin Business School, Curtin University

# Executive summary

In a recent report by The Economist Intelligence Unit, Perth is ranked 49th in the world in their global cost of living survey. Five years prior, in the very same survey, Perth was the 10th most expensive city in which to live. To take this on face value, over five years there has been a five-fold reduction in the relative ranking of the cost of living in Perth. There are aspects of this that make perfect sense, given that Western Australia is coming off the peaks of an unprecedented mining boom, with a significant reduction in resources-sector workforce and falling wages. There are, however, other indicators that point to the remnants of persistence or inertia in high prices. This report dwells deeper into prices, expenditure and income of West Australian households with an aim to further understand the costs of living in WA.

At the outset it should be emphasised that whilst economists consider the theoretical concept of the cost of living uncontentious, there are many interpretations of it in mainstream media. Among these are the consumer price index, prices in specific goods, assets or services such as housing, and consumer-based surveys.

For Australia, a concern is that selected cost of living indicators for Age Pension holders, Pensioner and beneficiary households, and other government transfer recipient households have all recently grown faster than general inflation, and have done so for several quarters in succession. We find that price inflation has generally grown at a slower pace in Perth than the rest of Australia. Indeed, CPI figures show that Perth has the slowest growing prices among the Australian capital cities. The exceptions are that transport costs, and insurance and financial services in Perth have grown at faster rates than for Australia. Housing and utilities remain the largest component of household expenditure.

In terms of regional Western Australia, though prices are continuing to fall relative to Perth, the Kimberley has overtaken the Pilbara as the most expensive place in which to reside.

In seeking to move beyond indices and percentage growth charts we examine the weekly expenses and income of hypothetical households in Western Australia. As one would expect, we find that unemployed single West Australians and single parents are comparatively worse off given typical spending patterns. This is amplified in certain regions within the State.

This report has found that whilst there is unambiguously less price pressures on the State, there remains segments of the population that are vulnerable.

# Key findings

## Cost of living indicators

- According to the Economist Intelligence Unit, Sydney is the most expensive capital city in Australia in 2017. Perth is fifth.
- Price growth for Furnishings, household equipment and services, Transport, and Communication are similar for Perth and Australia.
- By contrast, groups such Housing and Education see Perth with larger fluctuations in price growth than for Australia.
- Perth has a housing affordability median multiple rating of 6.1.
- The cost of living index growth for government transfer recipients, and the broad category of pensioner and beneficiary holders, both currently exceed CPI inflation.

## Consumer price index and components

- In the most recent quarters, Perth's prices for Food and non-alcoholic beverages, Alcohol and tobacco, Housing, Furnishings, household equipment and services, Health, Transport, Communication, and Education have grown slower than for Australia.
- By contrast, Clothing and footwear, Recreation and culture, and Insurance and financial services in Perth have experienced faster price growth than for Australia more generally.

## Prices of commonly consumed goods and services

- Price data for five capital cities in Australia from the Economist Intelligence Unit show, in general, that Perth prices for clothing, housing and personal care are less expensive than for other capital cities while prices for selected housing supply items and recreation are relatively more expensive.

- The cost of a control basket of commonly purchased supermarket items is highest in Brisbane, at \$246, and lowest in Adelaide (\$217) among five Australian capital cities. For Perth the cost of the basket is \$237, or third in terms of rank.
- The same basket purchased at mid-priced stores is, on average, 20% higher.

## Prices in regional Western Australia

- The Department of Primary Industries and Regional Development Price Index shows the Kimberley as having the highest aggregate price level among WA's regions, having overtaken the Pilbara since 2015.
- A 2017 Demographia report found that, with the exception of Mandurah, which has the lowest median annual household income among the regional centres, all the other centres are more affordable than Perth.

## Have wages kept up with prices in Western Australia?

- Average wages have risen at a steeper rate than prices in WA between 2002 and 2017. Between 2002 and 2017, the WPI rose by over 60% while the CPI rose by over 40%.
- The growth rate of wages and prices in WA appear to rise and fall in line with economic booms and downturns in the State.

## How do real wage movements in WA compare to Australia as a whole?

- The real WPI in WA has climbed at a steeper rate than Australia as a whole between 2002 and 2017. The gap between the real WPI of WA and Australia widened from zero to four points between 2008 and 2016.
- The private sector's real WPI in WA began surpassing Australia back in 2007. By 2013, the public sector's real WPI in WA had also begun surpassing the public sector real WPI in Australia.

## Wages and price growth: State and territory comparisons

- WA has experienced the highest real WPI growth rate among the states and territories over the period 2002-2017 at 0.26% per quarter while Queensland ranks the lowest at 0.17%.
- Like WA, Queensland and New South Wales had relatively high CPI growth rates during 2002-2017. However, their nominal WPI growth rates of 0.83% and 0.8% respectively were not as high as WA's 0.88%.
- Between 2002-2007 and 2007-2012, the real WPI in WA more than doubled from 0.22% to 0.42%. During the post-resources boom period of 2012-2017, WA's real WPI growth rate was just 0.14% per quarter.

## Have incomes in WA regions kept paced with price growth?

- Regional income movements have been more volatile than regional price movements relative to Perth over the period 2006-07 to 2016-17.
- In most regions, incomes relative to Perth have failed to keep up with price relative to Perth. The Pilbara is a

clear exception, where income relative to Perth strongly outstripped price relative to Perth during 2006-07 to 2016-17.

## Have real incomes grown at the same pace across different population subgroups in WA?

- During 2003-09, low-income households' real income growth lagged behind high-income households, with the poorest 20% experiencing only an 11% increase in real income, while the richest 20% in WA reaped income gains of nearly 60%.
- All quintiles experienced a smaller real income growth in 2009-15 than back in 2003-09. However, the richest 20% of households experienced the greatest reduction in real income of 8%.
- During 2009-15, households with more volatile main sources of income (business and other income) suffered from a reduction in real income as economic conditions became more uncertain.
- Lone parents and single person households suffered the largest reduction in real income among all household types during 2009-15, of 7% and 8% respectively.

## Household income in Western Australia

- The Pilbara has the highest level of household income in Western Australia with a median of \$2,422 a week.

## How different are household expenditure patterns in WA compared to the rest of Australia?

- WA households' average weekly expenditure lies at around \$1,500, which is similar to the average weekly expenditure of Australia as a whole.
- In WA and Queensland, real household expenditure increased by 25% compared to 16% for Australia during 2003-09. Expenditure values continued to increase in 2009-15 but at a lower pace than the rest of Australia.
- Expenditure shares in WA are comparable to the rest of Australia. However, expenditure shares are slightly higher for housing, food, recreation and health, but smaller for transportation and domestic fuel and power, in WA than the rest of Australia.

## Are there variations in household expenditure patterns between Perth and the rest of WA?

- The economic slowdown during 2009-15 appears to have hit regional areas harder as they experienced an 8% decline in median expenditure. Median expenditure of families in Perth, on the other hand, has continued to increase, but at a lower rate from the previous period, reaching, nevertheless, an 8% growth rate in 2015-16.

## What is the balance of basic versus discretionary spending by WA households?

- The gap between basic and discretionary expenditures has almost doubled from 2003 to 2015 for WA and Australian households. In 2009, WA households consumed an extra 12% of discretionary goods and services relative to the rest of Australia.

However, this trend in WA was short-lived, and by 2015, the average weekly discretionary expenditure of WA households was back at the same level as the rest of Australia.

- Households living in regional WA appear to divert greater shares of their expenditures to transport, food and domestic fuel and power. However, the former also spend more on discretionary items such as tobacco, alcohol and recreation.

## A comparison of household expenditures by housing and household type

- Renter or recent mortgagor households spend over one-third of their budget on housing in WA, which is significantly higher than the one-quarter expenditure share accounted for by housing in the general WA population.
- Perth households spend an extra 7 percentage points of their budget on housing than the rest of WA. This higher housing budget share occurs at the expense of a range of other items including basic expenditures such as food, domestic fuel and power, transport and health.
- Single parents exhibited the lowest spending level of \$732 per week on an equivalised basis among all household types during 2015-16.
- During 2009-15, single parent households were the only household type to experience a decline in real expenditure, with mean expenditure falling by 9% over the period.
- Single parents devote a noticeably larger share of their expenditure to housing than other household types, crowding out expenditure shares on health, transport and discretionary items.

## How has the expenditure of financially stressed households evolve over time?

- The gap between households in financial stress and the rest of WA has deteriorated over time, doubling its size from 2003 to 2015.
- Financially stressed households spend on average 10% to 12% more in housing compared to the rest of WA households. This increase in expenditure is mostly offset by a cutback in discretionary expenses of 6% on average.

## Cost of living pressures and substitution effects: Nutritional poverty

- Lower income households tend to have higher budget shares on processed meat.

## The impact of the resources boom

- Triggered by unprecedented rural-to-urban migration in China leading to accelerated demand for iron ore for the production of steel, mining investment has increased, leading to higher wages and subsequently higher prices for several items in the household consumption basket.

## Cost of living adjustments

- September 2017 marked the point at which many Commonwealth benefits, such as the Age Pension, are indexed using the consumer price index.

## On poverty, indebtedness and low-income households in WA

- A family that is considered as being in poverty in a first world country would be an aspiration to others in less developed nations.
- According to OECD data, Australia's hourly minimum wage has been between the 2nd and 3rd highest over the past 5 years.

## Financial stress, exclusion and resilience

- Poor financial resilience for low income households can mean that just one emergency or crisis could find them facing severe financial shock and becoming over-indebted.

## Analysis of survey of financial counsellors in WA

- Increasingly, financial stress, being a previously less acknowledged or downplayed 'symptom' of low-income and poverty, is being brought to the fore.
- Expenditure on utilities are slightly higher for households in financial hardship than for an average household.

# Introduction

There appears to be a widespread perception among West Australian households that cost of living pressures are intensifying every year. A sustained resources boom during the first decade of the millennium has driven significant price growth across the State. During the boom, the cost of meeting some essential household needs, such as housing, soared to unprecedented levels in WA. This drove a growing wedge between the 'haves' and 'have nots', with previous BCEC analysis showing that financially vulnerable groups were increasingly lagging behind high-income groups during the height of the resources boom.

The perception that the average West Australian household is 'doing it tough' continues to persist post-boom, but have prices really been outpacing incomes? Nationally, WA is still perceived as a relatively expensive state, but do these perceptions align with reality? While the prices of some goods and services categories such as recreation, insurance and education appear to have risen more in Perth than most other major capital cities over the last two decades, prices of various other items such as food, clothing and footwear seem to have become relatively more affordable.

This is the tenth *Focus on Western Australia* report by the Bankwest Curtin Economics Centre. The report offers a much needed up-to-date analysis of the dynamics of cost of living pressures in the State. It offers empirical evidence to shed light on the unique cost of living pressures faced by West Australians. The report asks how WA benchmarks against other states and territories in terms of cost of living pressures. We consider the extent to which the resources boom and subsequent downturn have uniquely impacted on WA households' ability to meet basic needs over time. The report compares average price and income growth trends, to uncover the extent to which prices may have outpaced or lagged behind incomes over time.

This report also shines a spotlight on the circumstances of vulnerable groups including those in need of financial counselling. There remain significant cost of living challenges among households whose main source of income is from government transfers, and where the value of welfare payments fail to keep pace with local price increases. For instance, previous BCEC research has shown that high housing costs remain a critical burden for many low-income households. This report sheds light on the extent to which financial constraints might have forced households in financial hardship to divert household budgets away from other areas of spending to meet basic needs such as housing, food and health. Some low-income households may make trade-offs between discretionary and essential items, but others may be forced to trade off one essential item for another, with adverse impacts on health, wellbeing and financial resilience.

Given the lack of up-to-date evidence on cost of living pressures that are specific to WA, this report makes a timely contribution to the cost of living debate in Australia by highlighting key issues that pertain specifically to the State. It offers an in-depth analysis into variations in cost of living pressures in both Perth and regional areas, and across household types and income groups, drawing on a range of national and WA data sources.

# Measuring

the cost of living –  
definitions and approaches



# Measuring the cost of living – definitions and approaches

The cost of living refers to the (minimum or average) costs that are required for individuals or households to attain goods and services that will sustain them with a baseline standard of living. Most often the term is associated with comparisons of how expensive a city is in which to live relative to other cities or a control, such as New York City.

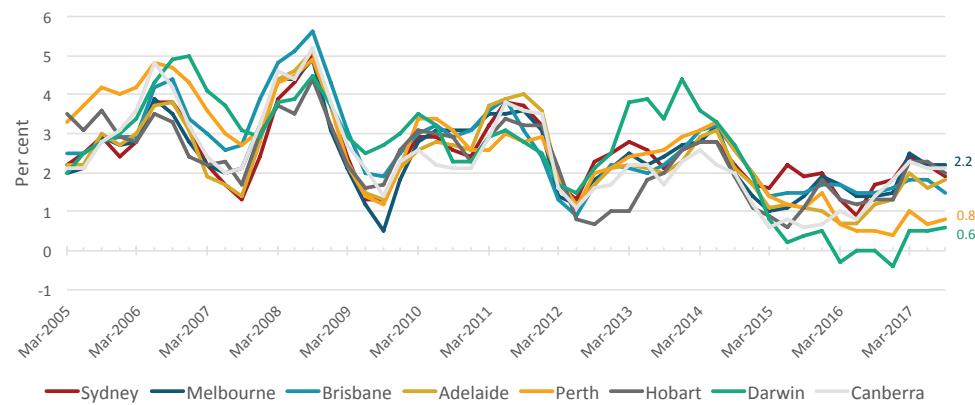
The most commonly used headline indicator of the cost of living is the consumer price index (CPI). The CPI is constructed using data on prices for a broad range of goods and services, and is used to measure the overall price inflation rate in Australia. There are eleven groups (e.g. Food and non-alcoholic beverages) which are aggregated upward from many more sub-groups (e.g. Bread and cereal products) and expenditure classes (e.g. Cakes and biscuits). Price data, from published sources, collected by trained field staff, transactions data and sometimes surveys are collected for the eight capital cities in Australia. The frequency of price collection differs for different items as necessary to obtain reliable price measures. The Australian Bureau of Statistics (ABS) uses information from the six-yearly household expenditure survey to derive the weights that reflects the expenditure patterns of households.

Figure 1 plots the inflation rate, or rate of growth of the CPI (all goods) for all eight capital cities in Australia. The inflation rate is typically pro-cyclical, as it tends to move with economic upturns and downturns as a result of demand and to a lesser extent, supply side factors. From the first quarter of 2005, inflation for all eight capital cities have been cyclical in nature, rising to a peak in September quarter 2008 of 5.6 per cent for Brisbane, and a trough of -0.4 per cent for Darwin in the December quarter of 2016.

The CPI is not technically a measure of the cost of living.

A closer examination of the inflation rate in Perth reveals that prices growth have been at or near the top of the range during the period of the mining boom from around 2005 to 2012. This is followed by Perth having lower prices growth relative to the other capital cities, especially in recent quarters. The inflation rate for Perth currently stands at 0.8 per cent on an annual basis for September quarter, 2017, as compared to 2.1 per cent for Australia as a whole.

**Figure 1** Rate of inflation, capital cities, 2005 to 2017



Source: Bankwest Curtin Economics Centre | ABS cat no 6401.0, Sep 2017.

# At a glance: Headline cost of living indicators

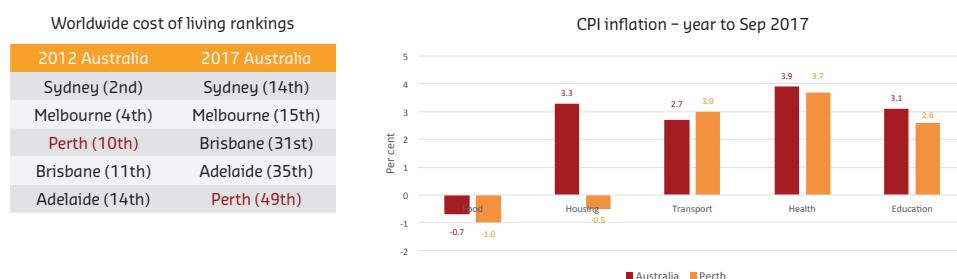
Figure 2 presents some related measures of cost of living in Perth and Western Australia, and provides some benchmarks for living costs in Perth compared with the other Australian state capitals.

The Economist Intelligence Unit produces a ranking of the most and least expensive cities around the world, using data from its World Cost of Living (WCOL) survey. Five Australian cities are tracked in this ranking. Perth ranked third among Australian state capitals and 10th worldwide in 2012, just prior to the post-resources boom economic downturn and the consequent falls in commodity prices in the State. However, in the latest iteration of the WCOL, Perth now ranks 49th among world cities, and is a cheaper than all other Australian cities in the WCOL survey - lower than Brisbane (ranked 31st in the world) and Adelaide (35th).

As will be discussed later, these indicators don't capture housing and thus may not be the most accurate representation of living costs in WA. Nevertheless, the ranking does help to rectify to a degree the perception that living costs in Western Australia remain among the highest in the country.

In terms of CPI inflation, Perth has grown at a slower rate of 0.8 per cent over the year to the September 2017 quarter, compared to Australia in general at 1.8 per cent. Food prices in Perth have fallen by 1 per cent through the year while housing has also experienced negative growth of 0.5 per cent. On housing, it is the single biggest expenditure item in WA households, with households spending on average \$334 per week on housing and related expenses. Food is the second largest category and also forms a significant proportion of weekly expenditure.

**Figure 2** Cost of living in WA at a glance



Note: The worldwide cost of living rankings exclude housing.

Source: Bankwest Curtin Economics Centre | Economist Intelligence Unit (EIU), ABS cat no 6401.0 Sep 2017, 6530.0 Sep 2017, Census 2016, BCEC analysis.

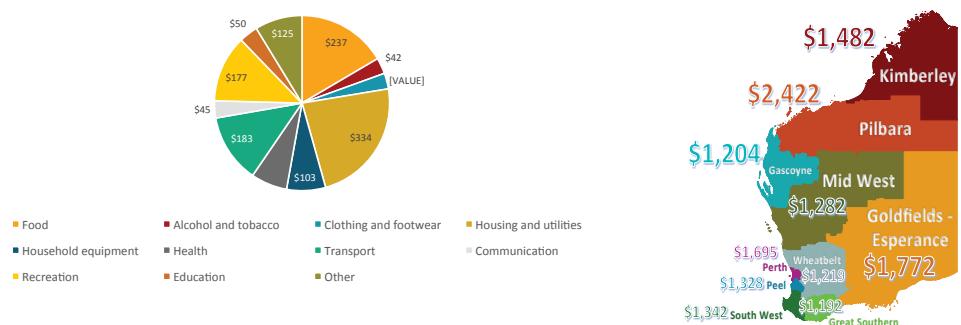
Though the CPI is treated technically as a representative measure of the cost of living, it falls short in a number of ways in capturing living costs in any real or relatable sense. Fundamentally, the CPI is a measure of prices designed as a measure of inflation (the so-called *acquisitions* approach in economics) while a more genuine cost of living indicator measures the costs or expenses required to maintain a specified or baseline standard of living (an *outlays* approach).

In terms of coverage, the CPI tracks the prices of an expanded 'basket' of goods and services. However, a number of studies have shown that the CPI overstates cost of living increases due to the way it is conceptualised and measured in practice (see, for example, ABS (2011) for an overview and Boskin *et al.* (1996) for a US-based study).

**Figure 3 Household expenditure, wages and income in WA**

Household expenditure, WA, 2015-16

WA wages and income, 2016



Source: Bankwest Curtin Economics Centre | ABS cat no 6530.0 Sep 2017, and Census 2016, BCEC analysis.

On the flipside of cost of living rankings and price inflation, it is important to compare expenditures, incomes and wages, both overall and for different regions of Western Australia (Figure 3). Housing and utilities are the single biggest expenditure item in WA households, with households spending on average \$334 per week on housing and related expenses. Food is the second largest category and also forms a significant proportion of weekly expenditure. Data from the latest 2016 Census reveals that the Pilbara has the highest total weekly household income in the State at \$2,422.

One of the most important shortcomings of using the CPI as a cost of living indicator is the way it treats housing. While the CPI includes purchases of new dwellings (excluding land), and rents, maintenance, property charges and utilities, it does not include the transfers of established homes. It is important to note that whilst it is common place to use the CPI as a defacto cost of living adjustment indicator, the ABS is very clear in stating that there exist other indicators that are more suited to assessing cost of living of Australian households – some of these indicators are presented later in this report.

Costs of living in Western Australia are analysed in a number of ways in this report. In addition to the CPI, several other cost of living indicators are considered to arrive at a general comparison of living costs between states and territories. The report also takes a detailed look at the expenditure patterns among West Australian households.

Chapter 2 analyses in detail trends in cost of living indicators in Western Australia. It begins with a summary of national and international indicators, and incorporates a summary analysis of the ABS' cost of living indexes for segments of the population - employees, age pensioners and self-funded retirees - as well as for specific components of the overall CPI for Perth and other capital cities.

Chapter 3 compares trends in wages and income for West Australians. We ask whether wages are sufficient to sustain the cost of living of households in WA and track the extent to which incomes have been outpacing, lagging behind, or keeping up with price growth over time. The primary indicator in this chapter is the wage price index, where it is analysed in nominal and real (inflation-adjusted) variants.

A Regional Income Index is developed using Census data to further understand regional disparities in prices and incomes. This indicator is analysed along with the WA Department of Primary Industry and Regional Development's Regional Price Index. This chapter concludes with a discussion of real income growth among different population subgroups in the state.

Chapter 4 takes a detailed look at the expenditure patterns of households in Western Australia, and how spending differs in the West compared to other states and territories. The analysis is made possible with the recent release of the six-yearly Household Expenditure Survey. Our analysis highlights the particular distinction between basic and discretionary spending, and looks at how different forms of spending have evolved over the course of the resources boom, and the post-boom slowdown. Expenditures are compared for different household types, and among those on low incomes or facing financial hardship.

The chapter also reports recent work by WA Council of Social Service, which compares incomes and expenditure for scenario households in the WA community facing different vulnerabilities – a single parent, a working family on casual hours, an unemployed single, and age pensioners.

As a complement to this analysis, the report examines spending patterns among households in financial hardship, and who have sought financial counselling. This section takes advantage of a unique data source generously made available by the WA Financial Counselling Network. The dataset covers the income and expenditure patterns of respondents both in Perth and regional WA, and provides a good point of comparison with the findings from the recent Household Expenditure Survey.



# Trends in cost of living in Western Australia



## Trends in cost of living in Western Australia

This chapter examines the evolution of cost of living indicators in Western Australia. It begins with a comprehensive look at the CPI and its components. This is followed by a study of the regional disparities in prices around WA. Finally an analysis of international comparisons show that Australian capital cities are, or have been, among the most expensive places in which to live.

# Cost of living indicators - International

Various cost of living indicators have been developed for purposes of comparison between cities or countries, or between demographic groups. This section looks at two sets which are indicative of these.

The first two are part of the Economist Intelligence Unit's (EIU) worldwide cost of living survey (The Economist, 2017). The survey is conducted twice a year and compares prices for, in the latest iteration, 133 cities. It draws upon a large dataset of prices for main expenditure groups such as Food, Alcohol, Household Supplies and Personal Care, and calculates a worldwide ranking. It should be noted at the outset that though prices on housing (and international schools, health and sport; and business trip costs) are collected they are not used in the capital city cost of living index calculations. The ranking are expressed as relativities to New York which is set to the index of 100. Table 1 shows where Perth and the Australian capital cities (only five are included) compared with the top and bottom ten most expensive cities.

Another point to note about the survey is its original intention. The survey's genesis was to compare the cost of living in over a hundred cities worldwide and calculate fair compensation policies for relocating employees. As such some of the goods and services surveyed, which in turn are used to calculate the 'cost of living' and 'liveability' indices reflect a basket of goods and services that are more relevant to a higher-end lifestyle - expatriate employees, for example, than for employees on lower incomes.

Singapore is the world's most expensive city and has been so for the fourth consecutive year with the EIU's Worldwide Cost of Living (WCOL) index of 20 per cent higher than the baseline of New York. Hong Kong remains second, followed closely by Zurich. On the other end of the scale, the Kazakh city of Almaty is the least expensive, with a WCOL index of 38, implying that general prices are 62 per cent cheaper than New York. Cities in South Asia are also highly represented in the bottom ten.

Five Australian cities are considered in the EIU measure. Sydney is the most expensive city in Australia according to the EIU measure, ranked 14th having risen 6 positions and with an index of 98 (2 per cent less than New York). This is followed by Melbourne, Brisbane and Adelaide. Perth is an interesting city among the 133 cities considered in 2017. It is currently ranked 49th, having risen by 7 positions. Perth's WCOL index is 78, or 22 per cent cheaper than New York. It has been as high as 12th in 2012 and has progressively become cheaper. The published prices are all expressed in US dollars, and so one reason for the lower rankings of Australian cities is the weaker Australian dollar.

According to the Economist Intelligence Unit, Sydney is the most expensive capital city in Australia. Perth is fifth.

**Table 1** Top and bottom 10 most expensive cities in the world and Australian capital cities, 2017

Rank	City	Country	WCOL index	Rank movement
1	Singapore	Singapore	120	=
2	Hong Kong	Hong Kong	114	=
3	Zurich	Switzerland	113	-1
4	Tokyo	Japan	110	+7
5	Osaka	Japan	109	+9
6	Seoul	South Korea	108	+2
7	Geneva	Switzerland	107	-3
8	Paris	France	107	-2
9	New York	United States	100	-2
9	Copenhagen	Denmark	100	-1
...				
14	Sydney	Australia	98	+6
15	Melbourne	Australia	95	+6
31	Brisbane	Australia	84	+18
35	Adelaide	Australia	82	+18
49	Perth	Australia	78	+7
...				
124	Bucharest	Romania	47	-2
124	Kiev	Ukraine	47	-6
124	New Delhi	India	47	+2
127	Chennai	India	45	=
127	Mumbai	India	45	+4
129	Algiers	Algeria	45	=
130	Karachi	Pakistan	44	-3
131	Bangalore	India	42	+1
132	Lagos	Nigeria	39	-16
133	Almaty	Kazakhstan	38	-6

**Note:** The Worldwide Cost of Living (WCOL) index is calculated with New York set as a benchmark equal to 100 in 2017. The indicators exclude housing.

Rank movements are relative to the last survey in 2015.

**Source:** Bankwest Curtin Economics Centre | Economist Intelligence Unit (The Economist 2017), Pash (Business Insider 2017), Probasco (Investopedia 2017), Smith (The Telegraph 2017).

It is worth returning to the point that the WCOL overall index excludes housing. It is a conscious decision by the Economist Intelligence Unit driven by the wide range of available housing in different parts of the world and the diversity prevents a straightforward way to integrating a standard housing unit into the index. Importantly, due to the intention of the index (to inform companies and expatriates on costs associated with spells abroad) housing (as well as school costs and medical packages) are provided by the companies in the relocation packages. This becomes an important issue since housing is perhaps the most important expenditure item in household budgets. If housing were to be incorporated into the index in one way or another the rankings would likely differ from what they are.

To provide some indication of house prices in a worldwide setting the Demographia International Housing Affordability Survey can shed some light on where Australian cities lie. The study covers 406 metropolitan housing markets in nine countries (Australia, Canada, China, Ireland, Japan, New Zealand, Singapore, the United Kingdom and the United States). Their third quarter 2016 results (Demographia, 2017) reveals that the 54 housing markets (cities) in Australia have a 'severely unaffordable' median multiple of 5.5. The median multiple (sometimes known as the

Price-Income ratio; see for example, Duncan *et al.* (2016)) is the median property price divided by median household income. Higher values indicate less affordability. It can be interpreted, if income is expressed annually, as the number of years a household would need to work to be able to afford the property. Table 2 shows the 30 least affordable housing markets from the survey. Note that this survey pertains only to housing costs (relative to income) in contrast to the broader Economist survey. Sydney retains its title as Australia's least affordable market (12.2 median multiple), followed by Melbourne (9.5 median multiple), Adelaide (6.6 median multiple), Brisbane (6.2 median multiple) and Perth (6.1 median multiple).

**Table 2** Demographia Housing Affordability Survey, Housing markets over 1 million population, Q3 2016

Rank	Housing market	Country	Median price	Median income	Median multiple
			AUD	AUD	Ratio
1	Hong Kong	Hong Kong	\$939,691	\$51,993	18.1
2	Sydney, NSW	Australia	\$1,077,000	\$88,000	12.2
3	Vancouver, BC	Canada	\$842,630	\$71,564	11.8
4	Auckland	New Zealand	\$777,610	\$77,686	10.0
5	San Jose, CA	United States	\$1,345,000	\$140,015	9.6
6	Melbourne, VIC	Australia	\$740,000	\$78,200	9.5
7	Honolulu, HI	United States	\$1,002,429	\$106,121	9.4
8	Los Angeles, CA	United States	\$798,796	\$85,946	9.3
9	San Francisco, CA	United States	\$1,123,613	\$121,588	9.2
10	Bournemouth & Dorset	United Kingdom	\$481,005	\$54,272	8.9
11	San Diego, CA	United States	\$792,609	\$92,402	8.6
12	London (Greater London Authority)	United Kingdom	\$798,650	\$94,023	8.5
13	Toronto, ON	Canada	\$625,095	\$80,903	7.7
14	Plymouth & Devon	United Kingdom	\$390,250	\$55,179	7.1
15	London Exurbs (E & SE England)	United Kingdom	\$517,308	\$73,331	7.1
16	Adelaide, SA	Australia	\$435,000	\$66,000	6.6
17	Bristol-Bath	United Kingdom	\$462,854	\$74,783	6.2
18	Brisbane, QLD	Australia	\$495,000	\$79,400	6.2
19	Perth, WA	Australia	\$528,300	\$87,300	6.1
20	Miami, FL	United States	\$423,675	\$69,268	6.1
21	New York, NY-NJ-PA	United States	\$534,772	\$94,419	5.7
22	Riverside-San Bernardino, CA	United States	\$429,055	\$77,069	5.6
23	Seattle, WA	United States	\$567,725	\$103,431	5.5
24	Portland, OR-WA	United States	\$482,183	\$87,694	5.5
25	Denver, CO	United States	\$520,246	\$96,571	5.4
26	Boston, MA-NH	United States	\$585,479	\$108,273	5.4
27	Warrington & Cheshire	United Kingdom	\$335,796	\$65,707	5.1
28	Sacramento, CA	United States	\$439,815	\$86,215	5.1
29	Liverpool & Merseyside	United Kingdom	\$249,578	\$49,371	5.1
30	Leicester & Leicestershire	United Kingdom	\$317,645	\$63,892	5.0

**Note:** The original financial data expressed in local currency units have been converted to 2016 Australian dollars (rounded to nearest \$10). The Median multiple is the ratio between median (house) price and median (household) income.

**Source:** Bankwest Curtin Economics Centre | 13th Annual Demographia International Housing Affordability Survey (Demographia 2017).

Perth has a housing affordability median multiple rating of 6.1.

Part of the Worldwide Cost of Living study also includes the Economist Intelligence Unit's Liveability Survey. The survey, like the broader cost of living study, is designed to assist expatriates and their employers in their decision-making process when considering relocating to another city. The Liveability Survey comprises five categories and an overall rating. The five categories are stability, healthcare, culture and environment, education and infrastructure. As such, the findings can be used to shed light on the cost of living in the five Australian cities that are part of the survey.

Table 3 contains the ratings, indices and ranks for Perth and the Australian cities for the period July 2017. The liveability ratings are from 1 to 100 and the EIU's descriptions are as follows:

Rating, 1 to 100	Description
80-100	There are few, if any, challenges to living standards
70-80	Although, generally, day-to-day living is fine, some aspects of life may entail problems
60-70	Negative factors have an impact on day-to-day living
50-60	Liveability is substantially constrained
50 or less	Most aspects of living are severely restricted

One of the advantages for having a rating and scale system such as this is that it provides a quantitative scale for employers to work with in providing additional allowances to expatriates upon their move.

**Table 3** Findings from the EIU Liveability Survey, July 2017

July 2017	Perth	Adelaide	Brisbane	Melbourne	Sydney
<b>Overall liveability scale</b>					
Liveability rating (1-100, 100 = Ideal)	96	97	94	98	95
Relative liveability index (New York = 100)	112	113	110	114	111
Liveability rank (out of 140 cities)	7	5	16	1	11
<b>1. Stability</b>					
Stability rating (1-100, 100 = Ideal)	95	95	95	95	85
Relative stability index (New York = 100)	146	146	146	146	131
<b>2. Healthcare</b>					
Healthcare rating (1-100, 100 = Ideal)	100	100	100	100	100
Relative healthcare index (New York = 100)	109	109	109	109	109
<b>3. Culture and environment</b>					
Culture and environment rating (1-100, 100 = Ideal)	89	94	94	95	94
Relative culture and environment index (New York = 100)	97	103	102	104	103
<b>4. Education</b>					
Education rating (1-100, 100 = Ideal)	100	100	92	100	100
Relative education index (New York = 100)	100	100	92	100	100
<b>5. Infrastructure</b>					
Infrastructure rating (1-100, 100 = Ideal)	100	96	89	100	100
Relative infrastructure index (New York = 100)	112	108	100	112	112

Source: Bankwest Curtin Economics Centre | Economist Intelligence Unit (The Economist 2017).

Overall, all Australian cities ranked highly in the liveability scale. Melbourne is the highest (98), followed by Adelaide and Perth. Brisbane, with a rating of 94, is the last of the five Australian cities. Since the WCOL study is benchmarked against New York City (set equal to 100) relative liveability indexes are also calculated which, in this case, is of the same rankings as the rating – for example, Perth’s relative Liveability index of 112 is the third highest among the Australian cities and is 12 per cent higher than New York City. Finally, all five Australian cities are in the top 20 of all (140) cities that were included in the study. Melbourne is the world’s most liveable city and has been so for the sixth consecutive year. Adelaide is fifth and Perth is, according to the EIU study, the world’s seventh most liveable city.

To dig deeper into the components of the overall rating, Table 3 also shows the stability, healthcare, culture and environment, education and infrastructure ratings and indexes. Stability comprises perceptions on the prevalence of petty and violent crimes, and threats of terrorism, civil unrests and military conflicts. Healthcare seeks to rate the availability and quality of public and private healthcare, over the counter pharmaceuticals and other general healthcare indicators.<sup>1</sup> Culture and environment captures the climate, ‘cultural hardship’ (corruption, social/religious restrictions, censorship), recreation in terms of sports, culture and food/drink, and the general availability of consumer goods and services. Education tracks the availability and quality of private education and general public education indicators. Finally, the infrastructure component is about the quality of transportation, availability of good quality housing and utilities.

In general, all five Australian cities fared very well in these component indicators. All cities have the same ‘High Stability’ rating of 95 with the exception of Sydney, which has a lower rating (Tolerable) for the prevalence of violent crimes and threat of terrorism. All five cities have a Healthcare rating of 100, 9 per cent higher than New York. Perth ranks the lowest in Culture and the environment, let down by an ‘Uncomfortable’ rating for Climate: Discomfort of environment to travellers. In terms of Education, all cities have the maximum rating of 100 with the exception of Brisbane, whose rating of 92 is due to the ‘Tolerable’ rating for the availability of private education. Finally, Perth, Melbourne and Sydney have the maximum rating of 100 for Infrastructure, with ‘Acceptable’ ratings for all sub-items.

A point repeated throughout this section is that of ‘fit for purpose’, in that the EIU surveys are not intended to reflect the cost of living for lower-income households. The section entitled ‘Can vulnerable households afford a basic standard of living?’ later in this report examines the cost of living for various vulnerable households in Western Australia.

<sup>1</sup> Note that the index captures the adequacy of health care in terms of availability rather than the costs.

# Cost of living indicators - Australian Bureau of Statistics

The second cost of living indicator, and one which is specific to Australia, is the ABS' series of cost of living indexes. These estimate the distribution of inflation across households according to their main source of income, where inflation is measured for segments of the population that include employees, age pensioners and self-funded retirees.

In particular the households are:

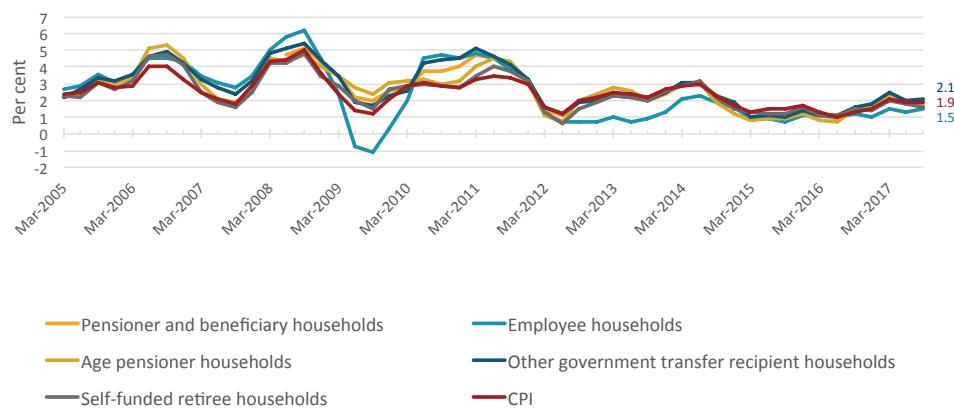
- Employee: Principal source of income is from wages and salaries
- Age pensioner: Principal source of income is the Age Pension or Veterans Affairs Pension
- Other government transfer recipient: Principal source of income is a government pension or benefit other than the Age or Veterans Affairs Pension
- Self-funded retirees: Principal source of income is superannuation or property income and where the Household Expenditure Survey defined reference person is 'retired' (not in the labour force and over age 55).

The broader *Pensioner and beneficiary households* (commonly abbreviated to PBLCI) is a measure of the effect of changes in prices on the out-of-pocket living expenses experienced by the two sub-groups: *Age pensioner and Other government transfer recipient households*. This measure was, until recently when it was replaced by the CPI, used in the indexing of Age Pension and other government benefits.

In particular these indices provide a measure of the impact of price change on out-of-pocket expenses incurred by the four household types to obtain a fixed basket of consumer goods. Figure 4 plots the indexes for the six groups from 2005 to 2017.

**Figure 4 Selected cost of living indexes, Australia, 2005 to 2017**

The cost of living index growth for government transfer recipients and pensioner and beneficiaries currently exceed CPI inflation.



Source: Bankwest Curtin Economics Centre | ABS cat no 6467.0 Sep 2017 and 6401.0 Sep 2017.

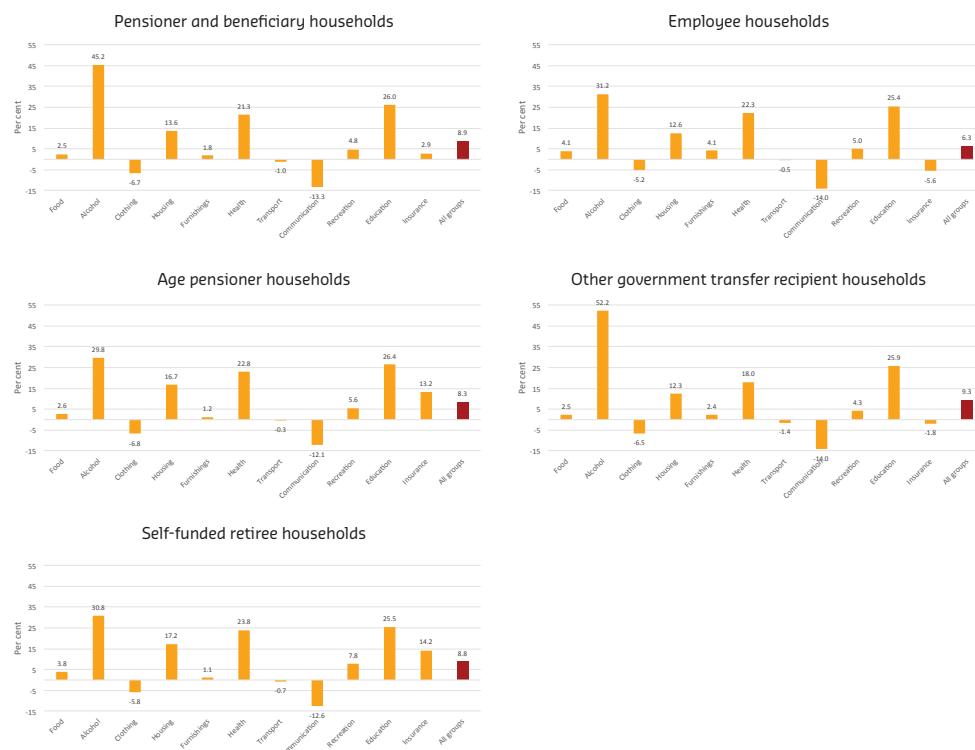
The latest September quarter 2017 data show the cost of living for *Other government transfer recipient households* (2.1%) and the broad *Pensioner and beneficiary holders* index (2.0%) both growing at a higher rate than the 1.9 per cent headline CPI inflation, while *Age pensioner households* (1.7%), *Employee households* (1.5%) and *Self-funded retirees* (1.6%) are currently growing slower than price inflation.

The *Employee household* cost of living index growth has in general been well below that of the CPI since March quarter 2012.

The cost of living index for *Self-funded retirees* has experienced similar growth to the CPI, with data for the last two quarters being marginally lower than CPI inflation.

Figure 5 tracks over time the cost of living for the commodity groups for each of the five household types for the past five years (since 2012). The growth in Food and non-alcoholic beverages has been interesting. While the costs for this category have grown over the past five years (affecting *Employee households* the most), they have fallen over the past year. Clothing and footwear, and Communication, have experienced a decline from September 2012 to September 2017, and also over the past year since September 2016. The index numbers for Transport have shown positive growth for all five household types over the past year but over the longer term, Transport has witnessed a decline.

**Figure 5** Cost of living increase over previous five years, by type and category, 2012 to 2017



Source: Bankwest Curtin Economics Centre | ABS cat no 6467.0 Sep 2017.

# Consumer price index and components

Having noted in the previous chapter that the CPI is not an ideal indicator of the cost of living, it can nevertheless be informative to examine the movements in the components of the CPI. When combined with an analysis of expenditure, trends in prices can reveal pressures faced by different households. Different households spend a greater or lesser proportion of their disposable income on different types of items – essential/necessities versus discretionary/luxury. If, for example, the cost of overseas holidays or new electronic gadgets go down the living standard of those who can afford these improves. On the other hand, when the price of food or utilities goes up, the impact on lower income households who spend a greater proportion of their income on these essentials are disproportionately affected.

We begin with trends in the main component groups of the CPI for Australia as a whole, calculated as the weighted-average of the eight capital cities. Figure 6 shows the four quarter ended percentage change in the CPI for Perth as compared to Australia for the 11 broad categories of goods and services that the CPI tracks. The last panel shows the overall (or all groups) inflation rate for Perth and Australia.

**Figure 6** Growth in consumer prices, component groups, Perth and Australia, 2000 to 2017



**Figure 6** Growth in consumer prices, component groups, Perth and Australia, 2000 to 2017

Source: Bankwest Curtin Economics Centre | ABS cat no 6401.0, Sep 2017.

These charts are characterised as much by inflation in Perth being similar to that for Australia as by several groups where they diverge. Price growth for Furnishings, household equipment and services, Transport, and Communication is similar for both Perth and Australia. By contrast, groups such Housing and Education see Perth with larger fluctuations in price growth than for Australia.

For the most recent quarters, groups where Perth is experiencing slower prices growth than Australia in general are Food and non-alcoholic beverages, Alcohol and tobacco, Housing, Furnishings, household equipment and services, Health, Transport, Communication, and Education. By contrast Clothing and footwear, Recreation and culture, and Insurance and financial services in Perth have experienced faster price growth than for Australia more generally.

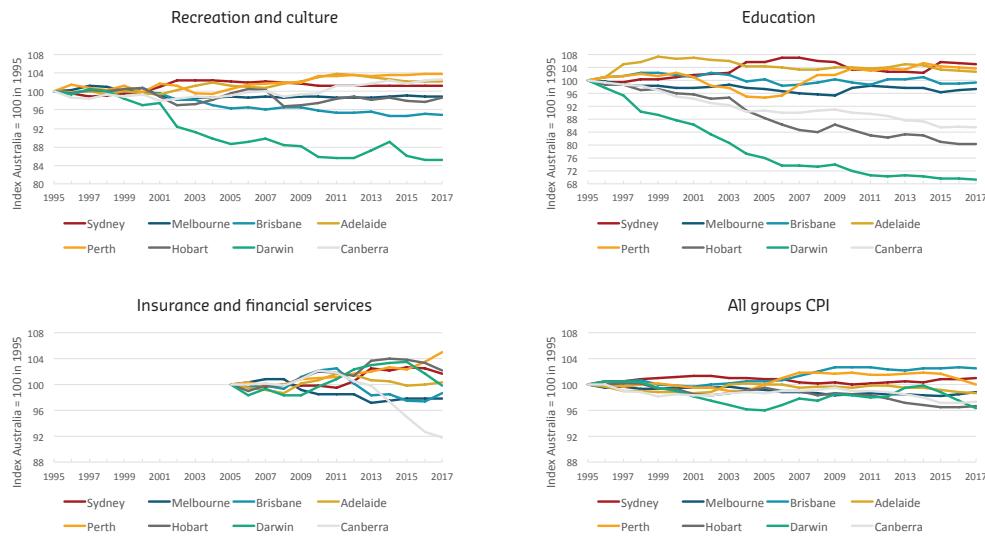
Figure 7 shows how the price indices for each of the 11 groups have moved over time for the eight capital cities. The price indices are expressed relative to Australia and are rebased so that the values for all indices are 100 in 1995.

The last panel of the charts show the price indices for all items for the eight capital cities relative to Australia. Since 2005, the general price level in Brisbane has been

higher than for Australia, with the latest data (March quarter, 2017) showing 2.4 per cent higher prices than for Australia. Darwin has had prices lower than Australia as a whole for longer than the other capitals. In 2005, prices were 4 per cent lower while they are currently 3.8 per cent lower than Australia. Prices in Perth have in general been higher than Australia for the entire period since 1995, with a divergence occurring around 2005 that has narrowed again over the past two years. Perth prices are currently (100.1) on par with the Australian level.

**Figure 7 Disparity in component group prices, capital cities with respect to Australia, 1995 to 2017**



**Figure 7 Disparity in component group prices, capital cities with respect to Australia, 1995 to 2017**

**Note:** Annual data aggregated from average the corresponding four quarters of CPI data. 2017 values are set to the average of the March, June and September quarters. Rebased to 1995 = 100. Data presented as percentage deviations from the Australian price level for each category. Price indices for insurance and financial services are only available from March quarter 2005 and, as such, they are rebased to 2005 = 100.

**Source:** Bankwest Curtin Economics Centre | ABS cat no 6401.0, Sep 2017.

# Prices of commonly consumed goods and services

Twice a year the Economist Intelligence Unit (The Economist) compiles and publishes their Worldwide Cost of Living Index for over a hundred cities. Five Australian cities feature in their survey – Adelaide, Brisbane, Melbourne, Perth and Sydney. Appendix A shows the mid-range prices from the most recent survey for the five Australian cities as well as their differences to Perth.

With the rich dataset of unit price data from the Economist Intelligence Unit, this section undertakes an analysis of the cost of a typical ‘shopping trolley’ for households living in each of the five capital cities surveyed.

Figure 8 contains a list of items, organised by category, that might be part of a household’s typical shopping list. Apart from food items, a shopping list would also normally contain other household and personal care items. Naturally, the composition of the list and basket would depend on the frequency of purchases or ‘trips to the shop’. As an example, while on a weekly basis the basket would contain food items, on a fortnightly basis the basket would expand to items such as shampoo and laundry detergent – items that usually last a bit longer.

The purpose of framing an analysis of the cost of a typical weekly ‘shopping trolley’ on a fixed list of items is to ensure consistency for the comparison across the capital cities.

**Figure 8** Representative weekly shopping trolley, capital cities, 2017

Grain	Meat	Vegetables and fruits	Dairy and eggs	Sugar and fat, Other food	Household items/ Personal care
					
White bread, 1 kg (x2)	Beef, stewing shoulder, 1 kg (x2)	Potatoes, 2 kg	Butter, 500 g	Olive oil, 1 L	Soap, 100 g
White rice, 1 kg	Beef, mince, 1 kg	Onions, 1 kg	Milk, 1 L (x2)	Instant coffee, 125 g	Toilet tissue, two rolls
Spaghetti, 1 kg (x2)	Lamb, leg, 1 kg	Mushrooms, 1kg	Yoghurt, natural, 150 g (x2)	Orange juice, 1 L (x2)	
Cornflakes, 375g (x2)	Pork, loin, 1 kg	Tomatoes, 1 kg	Apples, 1 kg	Wine, common table, 750 mL	Toothpaste, 120 g
	Ham, whole, 1 kg	Carrots, 1 kg	Eggs, dozen		
	Bacon, 1 kg	Lettuce, one			
	Chicken, frozen, 1 kg (x2)	Apples, 1 kg			
	Frozen fish fingers, 1 kg	Bananas, 1 kg			

**Note:** The shopping trolley is indicative.

**Source:** Bankwest Curtin Economics Centre | BCEC analysis.

Using prices data from the Economist Intelligence Unit, Table 5 shows the indicative costs of the shopping trolley for the five capital cities. The analysis also extends to two types of stores, that of supermarkets (generally lowest price) and mid-priced stores (for example independent grocers).

**Table 4** Prices of representative weekly shopping trolley, capital cities, 2017

Name	March 2017 AUD prices		Perth		Adelaide		Brisbane		Sydney		Melbourne	
	Supermarket	Mid-priced store	Supermarket	Mid-priced store	Supermarket	Mid-priced store	Supermarket	Mid-priced store	Supermarket	Mid-priced store	Supermarket	Mid-priced store
White bread, 1 kg	4.62	5.00	4.20	5.00	4.00	4.29	3.49	4.67	1.31	4.29		
Butter, 500 g	2.54	2.73	4.00	4.60	4.00	8.51	4.00	4.60	4.60	5.78		
White rice, 1 kg	2.85	3.45	2.00	3.00	2.00	2.16	2.59	2.69	2.68	2.74		
Spaghetti, 1 kg	3.4	3.40	3.99	4.90	3.90	3.90	3.90	4.47	4.90	5.40		
Cornflakes, 375 g	2.58	2.82	2.22	4.24	2.04	2.75	2.43	3.79	2.21	3.33		
Yoghurt, natural, 150 g	0.73	0.73	0.75	1.50	1.26	1.44	1.17	1.65	1.73	1.83		
Milk, pasteurised, 1 l	1	1.35	1.43	1.99	2.05	2.05	1.20	1.99	1.25	2.15		
Olive oil, 1 l	10.45	12.50	15.15	17.33	15.98	18.67	13.00	15.80	15.99	17.32		
Potatoes, 2 kg	6.4	6.40	3.25	5.00	7.50	8.00	5.98	7.00	7.00	8.00		
Onions, 1 kg	2.85	2.85	1.60	2.80	3.50	3.99	2.90	3.95	1.40	2.90		
Mushrooms, 1 kg	11.3	11.99	11.90	12.93	11.00	11.00	12.00	14.99	11.00	13.95		
Tomatoes, 1 kg	5.45	5.99	4.50	6.99	4.99	5.27	6.50	7.90	5.50	6.90		
Carrots, 1 kg	1.99	1.99	1.25	1.89	1.67	2.20	1.90	2.99	1.75	2.50		
Apples, 1 kg	5.38	5.99	2.90	4.50	5.00	5.00	5.00	7.99	3.90	4.90		
Bananas, 1 kg	3.9	4.00	2.50	3.10	2.50	3.00	3.50	4.79	2.80	3.50		
Lettuce, one	2.85	2.85	2.25	2.50	2.00	2.90	2.50	3.40	2.70	3.43		
Eggs, 12	4.5	4.99	4.99	6.99	4.89	5.00	4.60	7.24	4.60	5.90		
Beef: stewing, shoulder, 1 kg	10.99	12.55	12.50	15.99	18.99	20.00	14.99	24.99	14.00	16.99		
Beef: ground or minced, 1 kg	16	16.00	9.00	14.99	14.00	15.00	10.83	16.99	13.00	15.00		
Lamb: leg, 1 kg	19.99	22.85	11.99	19.00	10.00	10.00	9.00	18.99	13.00	23.00		
Pork: loin, 1 kg	10.99	12.99	10.99	16.00	8.99	9.00	10.99	20.47	12.00	22.90		
Ham: whole, 1 kg	14.99	16.00	18.00	20.00	24.00	24.00	10.99	16.99	16.00	22.00		
Bacon, 1 kg	12	15.00	12.00	14.99	12.00	12.00	12.30	18.20	12.00	18.75		
Chicken: frozen, 1 kg	6.55	7.45	4.29	5.99	4.00	5.58	5.99	7.99	5.60	6.30		
Frozen fish fingers, 1 kg	7.99	8.55	7.99	9.88	8.99	9.00	9.50	10.75	11.99	14.93		
Instant coffee, 125 g	6.67	7.96	5.68	7.83	7.83	7.83	6.67	7.83	5.62	7.83		
Orange juice, 1 l	3	3.13	2.15	2.25	2.40	2.40	3.35	3.66	2.40	3.35		
Wine, common table, 750 ml	10.95	13.00	12.99	18.99	8.99	10.99	19.95	25.95	19.95	24.95		
Soap, 100 g	1.45	1.65	0.85	1.08	0.82	0.85	0.78	0.79	0.79	0.79		
Toilet tissue, two rolls	3.85	3.85	1.67	2.00	1.20	1.83	1.50	1.67	1.65	1.94		
Toothpaste with fluoride, 120 g	3.65	4.25	3.82	4.42	2.24	2.25	2.33	3.57	2.12	4.42		

Source: Bankwest Curtin Economics Centre | Economist Intelligence Unit.

**Table 5** Indicative cost of weekly shopping trolley, capital cities

Capital city	Supermarket		Mid-priced store		Supermarket discount over		HES 2015-16 food and non-alcoholic beverages	
	\$/basket	\$/basket	\$/basket	\$/basket	Mid-priced store	Average weekly expenditure		
Perth	\$236.70	3	\$263.40	5	10.1%	4	\$239.80	3
Adelaide	\$217.20	5	\$288.50	3	24.7%	3	\$221.10	5
Brisbane	\$245.50	1	\$267.40	4	8.2%	5	\$239.50	4
Melbourne	\$241.30	2	\$325.90	2	26.0%	2	\$257.20	2
Sydney	\$234.80	4	\$335.90	1	30.1%	1	\$275.40	1

Note: Prices as at March 2017.

Source: Bankwest Curtin Economics Centre | BCEC analysis, ABS cat no 6530.0, 2015-16.

The cost of a typical shopping trolley in Perth is \$237 in a supermarket, which is 3rd most expensive among five Australian capital cities.

There are several interesting observations arising from the analysis in Table 5. Beginning with the costs of shopping at supermarkets, the same shopping trolley is most expensive in Brisbane, at \$245.50. Perth is ranked third. The difference between the most expensive city, Brisbane, and the least, Adelaide, is \$28.30.

Included in Table 5 is also the average weekly household expenditure on food and non-alcoholic beverages in the five greater capital city areas for reference. Note that the control basket in Figure 7 also includes some non-food items such as soap and toothpaste. Nevertheless the HES average expenditure amounts for most cases lie between the supermarket and mid-priced store levels.

The rankings are different when households shop at mid-priced stores. Sydney is the most expensive to purchase the contents of the control shopping trolley, at \$335.90. Perth in this case is the least expensive among the five capital cities, at \$263.40. For mid-priced stores the range between the most and least expensive is \$72.50.

Also of interest is the average discount that can be obtained by shopping in supermarkets as opposed to mid-priced stores for the same shopping trolley. On average, the savings amount to around 20 per cent. Sydney is where the greatest discount can be gained by purchasing the control shopping trolley in supermarkets as opposed to mid-priced stores (30.1%). The discount is least, at 8.2 per cent savings, in Brisbane.

# Prices in regional Western Australia

The Department of Primary Industries and Regional Development (previously the Department of Regional Development) in Western Australia has compiled a Regional Price Index (RPI) which has been published since 1998. The aim is to create a spatial index that compares the prices, by location, for a common basket of goods, which fills a gap since the CPI is only compiled at the capital cities' level. Metropolitan Perth is set as the basis for comparison with each regional location.

In 2017, 27 locations were surveyed, intended to capture the majority of the population in each of the nine regions within Western Australia.

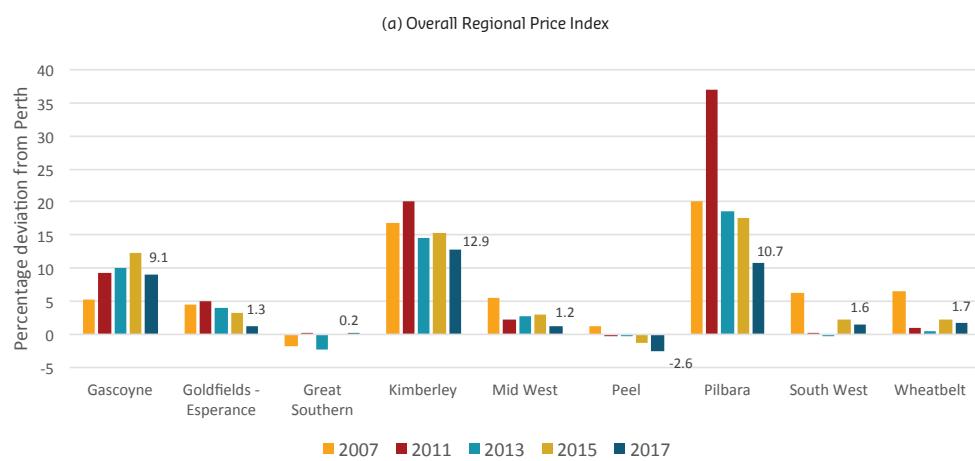
Prices are collected for a range of goods and services over 600 items in 2017, arranged in eight categories: Food, alcohol and tobacco, Clothing, Housing, Household equipment and operation, Health, Transportation, and Recreation and education. These broadly correspond to the categories in other household expenditure surveys and for the calculation of the CPI in general.

The RPI is calculated as a weighted index of the good or service sampled, with the weights taken for the CPI for Perth, which is the only published data available for consumer prices.

The RPI for each of the nine regions is in turn a weighted average of indices for the 27 regional centres, based on population shares.

The Department of Primary Industries and Regional Development Price Index shows the Kimberley as having the highest aggregate price level among WA's regions, having overtaken the Pilbara.

**Figure 9** Department of Regional Development Regional Price Index, Overall, 2007 to 2017



**Figure 9 Department of Regional Development Regional Price Index, Overall, 2007 to 2017**

(b) Map showing WA's regions for geographical reference



**Note:** The price index for Perth across all periods is indexed to 0. Regions above 0 indicate prices are above Perth, below 0 indicate prices are below Perth.

**Source:** Bankwest Curtin Economics Centre | Department of Primary Industries and Regional Development.

Figure 9 charts the overall price level, in index form, benchmarked against Perth, for the WA regions for the past five iterations spanning a decade of the RPI. Several observations can be gleaned from the data. First, at this aggregate level, the Peel and Great Southern regions are most similar to Perth. For the past four iterations of the index, prices in Peel have been lower than those in Perth. By contrast, further south, prices in the Great Southern region have been close to being on par with those in Perth. Second, the most notable aspect of the chart is the Pilbara in 2011 – the height of the iron ore boom. Aggregate prices were 37 per cent higher than those in Perth. Third, the Pilbara has had the highest prices relative to Perth in all except for the latest 2017 period, when it was overtaken by the Kimberley. In order to see which components of prices were responsible for the overall trends, Figure 10 examines the RPI for the WA regions by sub-categories.

**Figure 10** Department of Regional Development Regional Price Index, 2007 to 2017

**Note:** The price index for Perth across all periods is indexed to 0. Regions above 0 indicate prices are above Perth, below 0 indicate prices are below Perth.

\* 2017 data omits pricing for the cost of education.

**Source:** Bankwest Curtin Economics Centre | Department of Primary Industries and Regional Development.

Prices for the Kimberley region in all eight sub-categories were higher than those in Perth.

The first category in the figure is Food, which comprises the main groups of meat and seafood, fruit and vegetables as well as snacks and confectionery, and takeaway foods. Food prices in the Peel and Great Southern regions have in the latest survey fallen below those in Perth. There has also been a large reduction in Pilbara food prices relative to Perth, falling from 17.6 per cent above Perth in 2015 to 10.3 per cent above Perth in 2017.

The next category is Cigarettes, tobacco and alcohol. Prices for this category were the highest in the Kimberley at 9.3 per cent above Perth, while the Great Southern and the South West were lower than Perth.

For the Clothing category, prices in the Gascoyne, Kimberley and South West have been progressively falling relative to Perth over the past three iterations though they are still higher than Perth. Clothing prices in the Peel region have fallen below Perth for the first time over the ten year span.

The most notable aspect of the chart for Housing, which includes rates and charges, rents, utilities and insurance/credit charges, is the Pilbara in 2011. The housing price index for the Pilbara in 2011 was 199.8 or almost twice that for Perth. This was a period at the height of the mining boom where demand for housing was so great that prices were pushed to an all-time high. Pilbara prices have since moderated significantly. Across the State in 2017, the Kimberley has the highest housing prices after the Pilbara, followed by Gascoyne. Wheatbelt, Great Southern, Goldfields – Esperance, Mid West and Peel have prices lower than those for Perth.

For the past two iterations of the RPI, regional prices for Household equipment and operation have been higher than Perth. This category includes kitchen utensils, household appliances and supplies, furniture and accessories, and household services and communication. In 2017, prices in the Kimberley is the highest, at 13.6 per cent higher than Perth. This is followed by Gascoyne (10.7% higher than Perth) and Wheatbelt (7% higher). The lowest, being Great Southern, is 0.6 per cent higher than Perth.

The Mid West has the lowest aggregate price for Health and personal care in the State, which in 2017 is 1.5 per cent less than Perth. Health and personal care comprises hospital, dental, optical and pharmaceutical services. The Peel region is the only other region where prices are lower than Perth (0.9% lower). By contrast, the top three highest are Pilbara (11.6% higher), Goldfields – Esperance (9.3% higher), and Gascoyne (7.9% higher).

Turning to Transport which comprises motor vehicles, fuel, parts and charges, the Kimberley is the highest in 2017 at an average of 6 per cent higher than Perth, and the lowest is Peel at 3.2 per cent lower than Perth. A consideration when discussing transport and its prices across WA is that of distance. Even when the price of fuel is held constant, the costs of transport will tend to be higher in regional WA as compared to Perth because of the greater distances involved in a typical trip.

The final category is Recreation and education. It is important to note that there has been a definitional change in this category in that it now excludes the cost of education. The implication of this is that care must be taken in comparing the values of this index over time. The index currently includes newspapers and magazines, audio and visual, computing equipment, sporting goods and services, toys and pets. In 2017, Peel again has the lowest relative price of recreation, at 2.1 per cent lower than Perth. The highest is the Gascoyne (10.7% higher), Pilbara (8% higher) and the Mid West (5.2% higher).

Earlier in this report, Table 2 showed the rankings of the top 30 least affordable housing markets in the nine countries surveyed by Demographia. The same survey also considers several WA regional cities. Table 6 lists the WA regional centres that are part of the survey and ranks the centres from least affordable to most affordable, according to the median multiple measure. With the exception of Mandurah, with the lowest median annual household income among the regional centres, all the other centres are regarded as more affordable than Perth.

**Table 6** Demographia Housing Affordability Survey, WA regional housing markets, Q3 2016

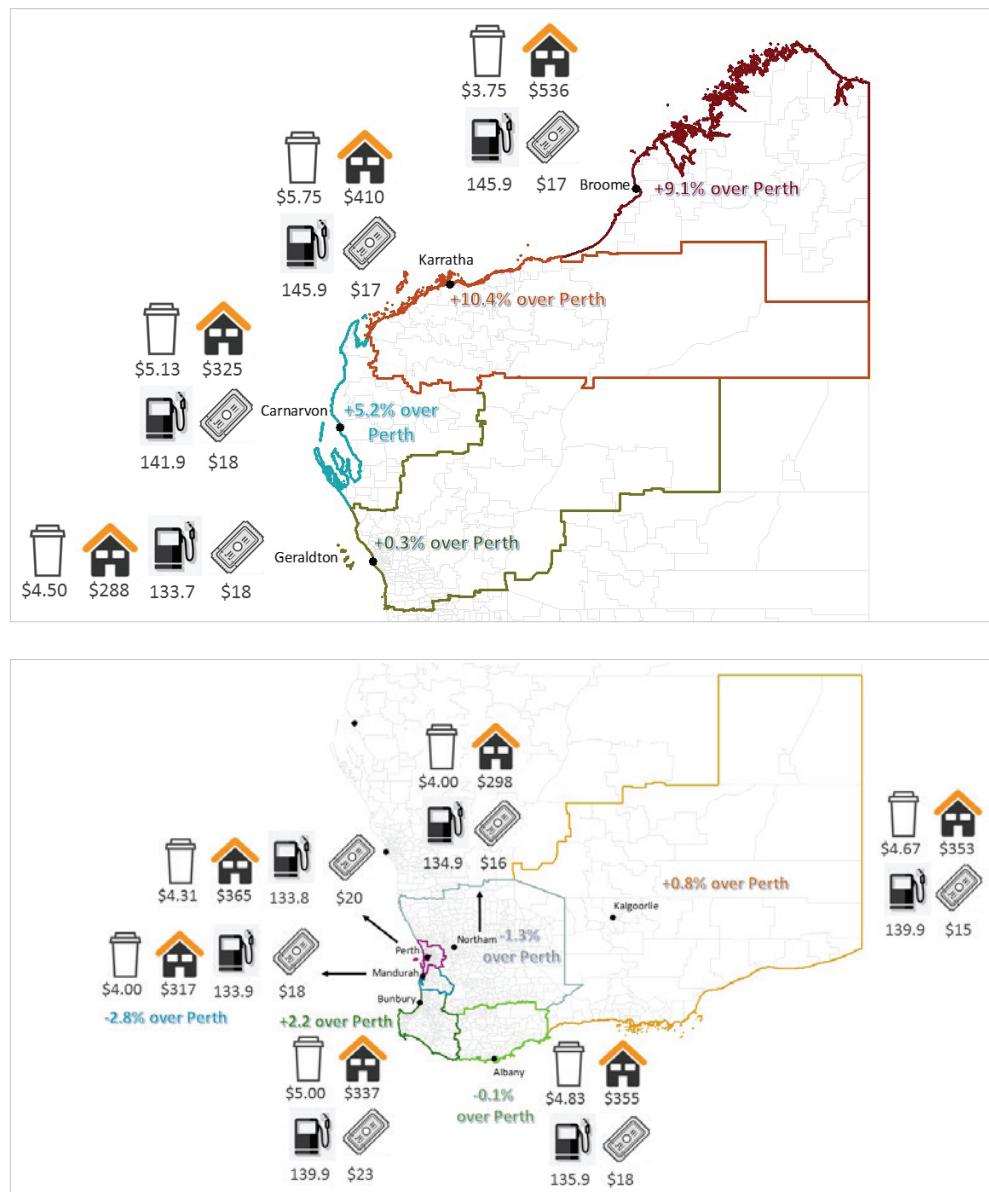
Rank	Housing market	Median price	Median income	Median multiple
1	Mandurah	\$402,000	\$59,400	6.8
2	Perth	\$528,300	\$87,300	6.1
3	Geraldton	\$345,000	\$73,700	4.7
4	Albany	\$340,000	\$84,300	4.0
5	Bunbury	\$340,000	\$84,300	4.0
6	Kalgoorlie	\$312,000	\$118,100	2.6
7	Port Hedland	\$390,000	\$168,700	2.3
8	Karratha	\$363,000	\$171,900	2.1

Note: The Median multiple is the ratio between median (house) price and median (household) income.

Source: Bankwest Curtin Economics Centre | 13th Annual Demographia International Housing Affordability Survey (Demographia 2017).

Finally, to obtain an indication of prices, as opposed to cost of living, in regional Western Australia, Figure 11 maps Perth and the regional centres and shows prices that consumers can expect to pay for several representative items. These items - a cup of takeaway coffee, median rent of a house, a litre of unleaded petrol and an adult international-release movie ticket at a typical cinema - are representatives from the weights in expenditure bundles for West Australians.

**Figure 11** A comparison of prices of commonly consumed goods and services, Perth and regional centres, 2017



**Note:** Prices are averages for a takeaway coffee, median weekly house rental (average 2017Q1 and 2017Q2 to account for low volumes), a litre of 91RON petrol, and an adult movie ticket. Some Northam and Carnarvon prices are indicative. Percentage deviations from Perth are regional-centre data from the DPRID's Regional Price Index, 2017.

**Source:** Bankwest Curtin Economics Centre | REIWA, fuelwatch.wa.gov.au, numbeo.com, Department of Primary Industries and Regional Development.

# Have

wages kept up with prices  
in Western Australia?



# Have wages kept up with prices in Western Australia?

This chapter compares trends in wages and income for West Australians. We ask whether wages are sufficient to sustain the cost of living of households in WA and track the extent to which incomes have been outpacing, lagging behind, or keeping up with price growth over time.

We begin by comparing average wages and prices in WA to provide a state-wide assessment of income growth relative to price growth. In order to do so, we compare the ABS Wage Price Index (WPI) with the CPI for WA. The WPI measures the quarterly changes in the price of wages and salaries in the Australian labour market, and it is available by state and territory, public versus private sector, and industry. The WPI and CPI are particularly comparable as the methodology used to construct the WPIs is similar to that used for the CPI. The WPI is based on data collected from a representative sample of employee jobs drawn from a sample of employing organisations (ABS 2017). Specifically, we apply an index constructed from total hourly rates of pay excluding bonuses.

By tracking the WPI and CPI trajectories from 2002 to 2017, we are able to assess the extent to which wages are tracking price growth in WA and how WA compares to other states and territories. However, wages do not adequately capture the financial circumstance of vulnerable groups, many of whom might be reliant on government transfers such as pensions and allowances as their primary source of income. Hence, the WPI-CPI comparisons are complemented by a separate comparison on the growth of pension and allowance rates against the CPI over the period 2002-2017.

This chapter also examines whether there are geographical variations in the extent to which incomes are tracking price growth over time across the nine regions in WA outside Perth. To do so, we drill down the regional level to compare the RPI against a Regional Income Index (RII). The latter is constructed using data on weekly gross household incomes from the 2006, 2011 and 2016 Censuses of Population and Housing to build a profile of median household income<sup>2</sup> at a regional level in Western Australia. The deviation in median household income from Perth is then calculated for each region so the RII for each region reflects its deviation from Perth. This allows us to achieve consistency in interpretation of the RII with the RPI.

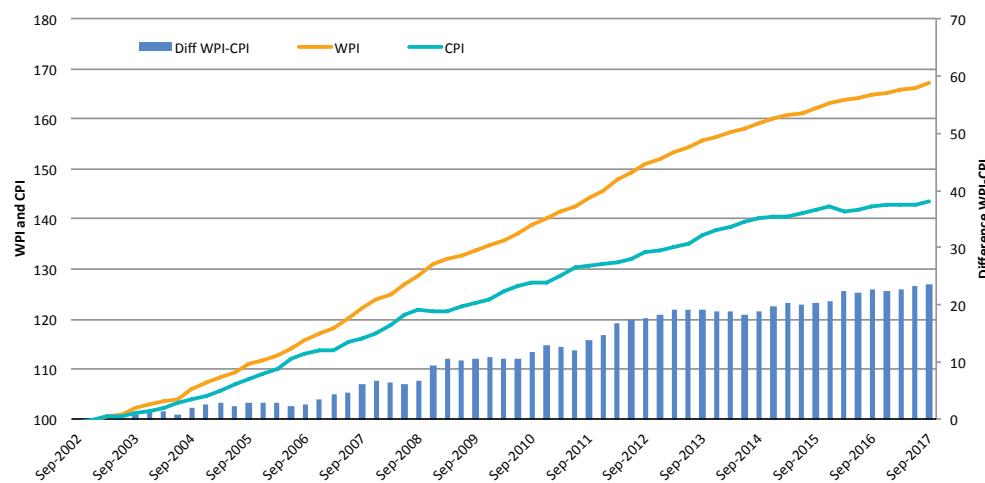
The chapter concludes by drilling down to the household level to shed light on variations in real income growth across WA household types. Real income growth is growth income adjusted for price inflation. It therefore represents changes in the purchasing power of WA households over time. To the extent that real income growth varies across different population subgroups, it reflects variations in purchasing power across the WA population. Of particular interest is whether the income growth of financially vulnerable households is lagging behind the income growth of more financially secure households. For instance, if the rate of income growth of low-income households is falling further and further behind the average WA household, it suggests that the former are facing greater difficulty in coping with general cost of living pressures than the general WA population.

<sup>2</sup> Household income data at the LGA level (building blocks for regions) are not directly collected from the Census. Instead, the Census reports gross weekly household income in bands. We are able to observe which income band the median household is likely to fall into in each LGA. The estimated level of median household income is then pro-rated from this income band.

Figure 12 tracks the WPI movements in Western Australia between 2002 and 2017 against CPI movements in the State. The ABS currently sets the base years of the WPI and CPI as 2008-09 and 2011-12 respectively. To enhance comparability between the two index series, we reset the base year of both the WPI and CPI series to 2002-03 so that both series begin with a base index of 100 at the start of our timeframe of analysis.

The figure shows that in Western Australia, average wages represented by the WPI have grown at a steeper rate than prices between 2002 and 2017. Over this period, the WPI rose by over 60 per cent while the CPI rose by over 40 per cent. This converts to a quarterly percentage growth in WPI of nearly 0.9 per cent between 2002 and 2007 compared to a 0.62 per cent quarterly percentage growth in CPI. Hence, wage growth has in fact outpaced price growth on a state-wide basis, suggesting that the average employed West Australians is better able to cope with general cost of living pressures over time. However, these average trends do not, of course, capture variations across regions or different household types, so they should not be taken to reflect the position of all West Australians.

**Figure 12** Wage Price Index and Consumer Price Index movements in WA, 2002 to 2017



**Note:** The base year for the WPI and CPI has been reset to 2002-03.

**Source:** BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Cat. No. 6401.0 and 6435.0.

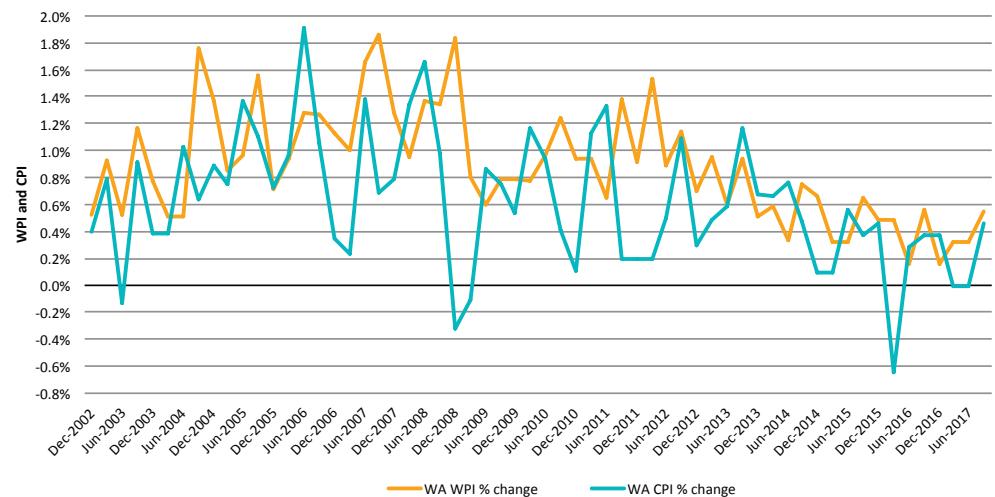
Figure 12 tracks the WPI against the CPI in WA using quarterly percentage change measures. At first glance, there appears to be great volatility in the trends. However, upon closer inspection, some distinct patterns emerge across economic cycles, that is, the growth rate of wages and prices in WA appear to rise and fall in line with economic booms and downturns in the state. The rate of growth in both the WPI and CPI trended upwards during the economic boom of the first half of the 2000s. Wages and prices both fell during the GFC. However, both started trending upwards again in 2009 as the extended resources boom in WA helped cushion the State from the after-effects of the GFC. As noted in previous BCEC analysis of the State's economic trends, the extended resources boom had culminated in a spike in the WA's gross state product (GSP) in 2011-12, with its annual GSP growth rate reaching 9 per cent, nearly three times Australia's national gross domestic product (GDP) growth rate in

Average wages have risen at a steeper rate than prices in WA between 2002 and 2007. In this time, the WPI rose by over 60% while the CPI rose by over 40%.

The growth rate of wages and prices in WA appear to rise and fall in line with economic booms and downturns in the State.

that year (Duncan et al., 2016). However, the state GSP started declining post-2012 and we observe a similar downward trend in both the state's WPI and CPI during the post-2012 era in Figure 13.

**Figure 13** Quarterly percentage change in Wage Price Index and Consumer Price Index in WA, September 2002 to September 2017



Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Cat. No. 6401.0 and 6435.0.

# How do real wage movements in WA compare to Australia as a whole?

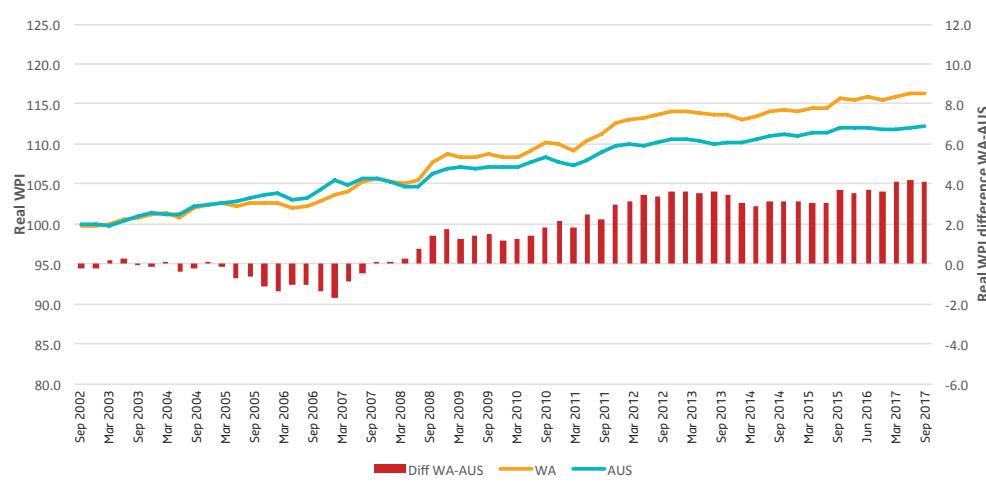
Overall, the CPI in WA has trended very closely to the CPI in Australia as a whole. Between 2002-03 and 2016-17, the CPI in both the state and nation rose by around 43 per cent. The quarterly rate of growth in CPI was 0.62 per cent for both WA and Australia over this time period.

Hence, if the WPI movements in WA have outpaced Australia overall, it indicates the typical West Australian wage earner has become better positioned than the typical Australian wage earner in coping with general cost of living pressures over time. On the other hand, if the WPI movements in WA have lagged behind Australia, then the typical WA wage earner's ability to shoulder cost of living pressures has started to lag behind the typical Australian wage earner.

Up to this point, the analysis has focused on nominal WPI. However, in this section, we examine real WPI, that is, nominal WPI adjusted for general price level changes or CPI over time. The real WPI in fact collapses the nominal WPI and CPI trends in previous figures into a single trend that reflects changes in the typical wage earner's purchasing ability over time.

Figure 4 compares the real WPI in WA versus Australia between 2002 and 2017. Other than a brief period between 2005 and 2007 when the real WPI in Australia exceeded the real WPI in Western Australia, the latter has generally exhibited higher real WPIs than the former. The figure also shows that the real WPI, or purchasing ability, of West Australian wage earners has climbed at a steeper rate than Australia as a whole. The gap between the real WPI of WA and Australia has gradually widened over time, from around zero in 2008 to around four index points in 2012 during the peak of the WA resources boom. During the immediate post-boom years, the real WPI gap between WA and Australia narrowed slightly to around three index points but it has widened again to four index points in 2016.

**Figure 14** Real Wage Price Index, WA versus Australia, 2002 to 2017



Note: The base year for the WPI and CPI has been reset to 2002-03.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Cat. No. 6401.0 and 6435.0.

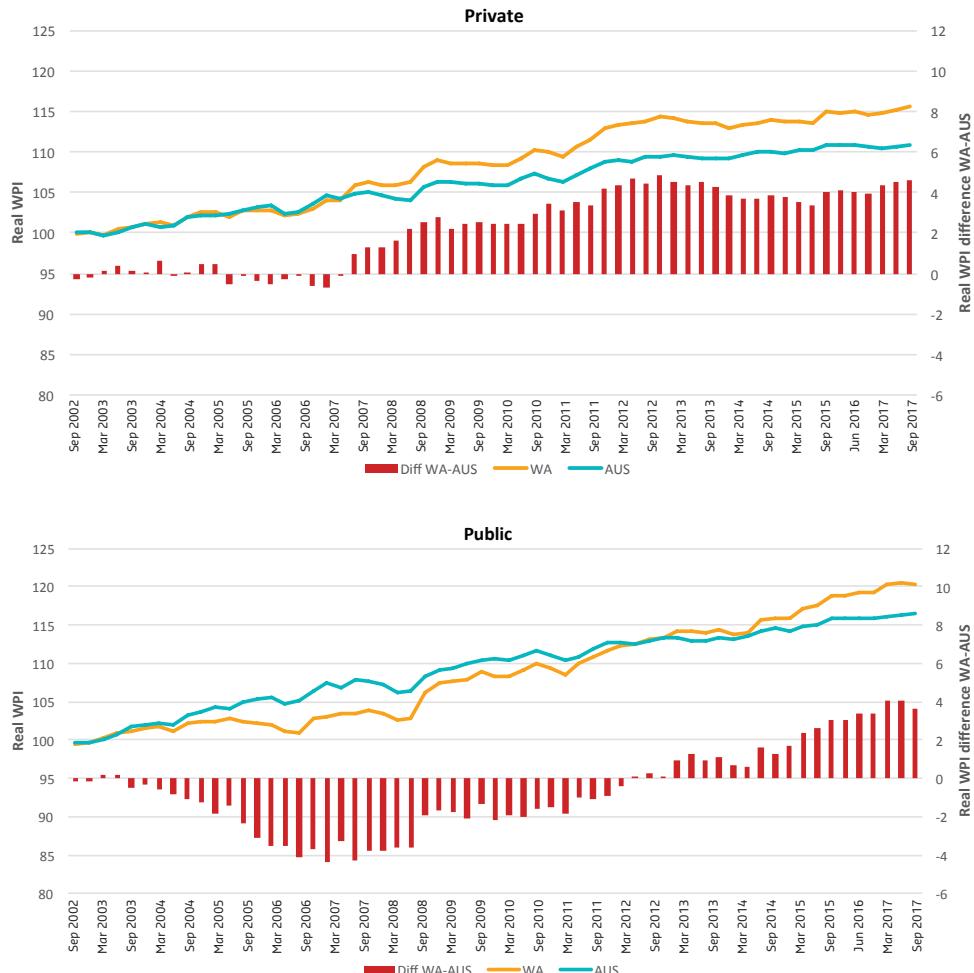
The real WPI in WA has climbed at a steeper rate than Australia as a whole between 2002 and 2017. The gap between the real WPI of WA and Australia widened from zero to four points between 2008 and 2016.

The private sector real WPI in WA began surpassing Australia back in 2007. By 2013, the public sector real WPI in WA had also begun surpassing the public sector real WPI in Australia.

Interestingly, the widening gap in real WPI in favour of WA reflects a combination of state-national differences in the public and private sector. Figure 15 shows that the private sector real WPIs in both the state and nation trended closely together in the early 2000s. However, the private sector real WPI in WA began surpassing Australia back in 2007, with the size of the gap widening noticeably in favour of WA during the resources boom peak. By 2013, the public sector real WPI in WA had also begun surpassing Australia. It is also noticeable that the real WPI has climbed more steeply in the public sector than the private sector in WA in recent years.

Hence, the widening WA-Australia gap in real WPIs in Figure 14 was initially driven by trends in the private sector only. However, in more recent years, this gap has continued to widen due to increases in real WPI in WA beyond Australia in both the private and public sectors.

**Figure 15** Real Wage Price Index by sector, WA versus Australia, 2002 to 2017



**Note:** The base year for the WPI and CPI has been reset to 2002-03.

**Source:** BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Cat. No. 6401.0 and 6435.0.

## Wages and price growth: State and territory comparisons

The previous section confirms that real WPI in WA has outpaced Australia overall, suggesting that the typical West Australian wage earner has become better positioned than the typical Australian wage earner in coping with general cost of living pressures over time. In this section, we delve deeper into WA's position relative to the rest of Australia by conducting comparisons of wage and price growth by state and territory.

Table 7 ranks the states and territories by real WPI growth over the period of the last 15 years. WA has experienced the highest real WPI growth rate among all states and territories over the period 2002-2017 at 0.26 per cent, per quarter. On the other hand, the three most populous states – New South Wales, Victoria and Queensland – have experienced the slowest real WPI growth rate at under 0.2 per cent per quarter.

The real WPI growth rate is driven by the relativities between two forces – the growth in nominal WPI and CPI growth. Firstly, it is clear that the nominal WPI growth rate has outpaced the CPI growth rate in every state and territory. However, there are differences in relativities between the two trends.

As shown in the table, WA experienced the highest nominal WPI growth rate among all states and territories of 0.88 per cent and the second highest ranking in terms of CPI growth rate at 0.62 per cent. However, WA's high nominal WPI growth rate has clearly outstripped its CPI growth by the greatest margin among all the states and territories to position it in the highest ranking in terms of real WPI growth.

Tasmania ranks rather low in terms of both nominal WPI growth at 0.82 per cent and CPI growth at 0.58 per cent. Mirroring WA trends, however, its nominal WPI growth has also outstripped CPI growth by a significant margin to make it the second most highly ranked state in terms of real WPI growth.

Like WA, Queensland and New South Wales have relatively high CPI growth rates at over 0.6 per cent. However, their nominal WPI growth rates of 0.83 per cent and 0.8 per cent respectively are not as high as WA's 0.88 per cent. Hence, New South Wales and Queensland have the two lowest rankings in real WPI growth among all states and territories.

WA has experienced the highest real WPI growth rate among all states and territories over the period 2002-2017 at 0.26% per quarter, while Queensland ranks the lowest at 0.17%.

Like WA, Queensland and New South Wales had relatively high CPI growth rates during 2002-2017. However, their nominal WPI growth rates of 0.83% and 0.8% respectively were not as high as WA's 0.88%.

Between 2002-2007 and 2007-2012 the real WPI in WA more than doubled from 0.22% to 0.42%. During the post-resources boom period of 2012-2017 WA's real WPI growth rate was just 0.1% per quarter.

**Table 7** Quarterly percentage change in Wage Price Index and Consumer Price Index, by state and territory, September 2002 to September 2017

State	Real WPI growth	Nominal WPI growth	CPI growth		
WA	0.26%	1	0.88%	1	0.62%
TAS	0.24%	2	0.82%	4	0.58%
NT	0.22%	3	0.82%	3	0.60%
SA	0.21%	5	0.81%	5	0.61%
ACT	0.21%	4	0.81%	6	0.59%
VIC	0.19%	6	0.79%	8	0.60%
NSW	0.18%	7	0.80%	7	0.62%
QLD	0.17%	8	0.83%	2	0.66%
AUS	0.20%		0.81%		0.62%

Note: The rankings are based on percentage change estimates expressed to four decimal places.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Cat. No. 6401.0 and 6435.0.

Interestingly, the real WPI growth over 2002-2017 also differ, considerably in the case of some states and territories, over the economic cycle. Table 8 breaks down the real WPI growth rate over 2002-2017 into five-year periods – 2002-2007, 2007-2012 and 2012-2017.

Between 2002-2007 and 2007-2012, the real WPI in WA more than doubled from 0.22 per cent to 0.42 per cent. However, the post-boom downturn has brought about much reduced wage growth; during 2012-2017, WA's real WPI growth rate was just 0.14 per cent per quarter or one-third the growth rate it experienced during the height of the resource boom in the preceding period.

Tasmania exhibited a similar (though milder) trend in real WPI growth as WA, with the real WPI growth rate peaking during 2007-2012. On the other hand, South Australia exhibited an opposite trend, with the real WPI growth rate dipping during 2007-2012.

In New South Wales, Victoria, Queensland and the Australian Capital Territory, real WPI growth rates have systematically declined over the three sub-periods in question. In Northern Territory, they have remained relatively constant over time.

**Table 8** Quarterly percentage change in real Wage Price Index, by state and territory and period, September 2002 to September 2017

State	Sep-2002 to Sep-2007	Sep-2002 to Jun-2007	Sep-2007 to Jun-2012	Sep-2012 to Sep-2017
WA	0.26%	1	0.22%	7
TAS	0.24%	2	0.25%	3
NT	0.22%	3	0.22%	8
SA	0.21%	5	0.23%	6
ACT	0.21%	4	0.28%	1
VIC	0.19%	6	0.24%	5
NSW	0.18%	7	0.28%	2
QLD	0.17%	8	0.25%	4
AUS	0.20%		0.26%	0.24%

Note: The rankings are based on percentage change estimates expressed to four decimal places.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Cat. No. 6401.0 and 6435.0.

# Have incomes in WA regions kept pace with price growth?

This section shines a spotlight on intrastate variations in income and price growth by investigating whether there are geographical differences in the extent to which incomes are tracking price growth over time across the nine regions in WA outside Perth. To do so, we drill down the regional level to compare the RPI against a RII. As explained in greater detail earlier in this chapter, the RII is constructed using data on weekly gross household incomes from the Censuses of Population and Housing to derive an index for each region that reflects the percentage deviation in the region's median household income from Perth. This is consistent with the interpretation of the RPI, which reflects the percentage deviation of the region's price for a typical basket of goods and services from Perth.

Because the years for which the RPI and RII are available are not directly aligned, we conduct the RII – RPI comparisons using the closest years possible for which data are available. To be specific, the 2006 RII is compared with the 2007 RPI, the 2011 RII is compared with the 2011 RPI, and the 2016 RII is compared with the 2017 RPI.

Figure 16 combines the nine regions into four broad groups reflecting four main trends observed in regional income and price growth over the period 2006-07 to 2016-17. Each continuous line represents the RPI for a region, while each dotted line represents the RII for a region. The RPI and RII are expressed in percentage deviations from Perth, which has been assigned a base index of 100. So for instance, the upper left panel of the figure shows that the RII deviation from Perth for the South West region was 34.5 in 2006, indicating that in 2006 median income in the South West was 34.5 per cent higher than in Perth. Similarly, the South West's RPI deviation from Perth was 6.3 in 2007, indicating that prices in the South West were 6.3 per cent higher than in Perth in that year.

We first make some general observations before examining each panel in Figure 16 in detail.

Firstly, it would appear that prices in the regions tended to exceed prices in Perth during the three years of observation. To explain, it can be observed that the continuous line – representing each region's RPI deviation from Perth – remained above zero for all three years across all regions with only a couple of exceptions. In the Great Southern and Peel regions, the RPI deviation did dip below zero at times, but very slightly so.

Secondly, there are clearly significant inter-regional differences in RPI. These differences have already been described in detail earlier in the report. However, to reiterate, the resource-rich Pilbara region exhibited the greatest divergence from Perth in terms of RPI; in 2007, the Pilbara's prices were 20 per cent higher than in Perth, this spiked at 37 per cent in 2011 during the height of the resources boom. During these two years the price deviation between Pilbara and Perth was greater than any other region. The Pilbara's RPI deviation from Perth declined to 11 per cent in 2017. However, it is noteworthy that the Pilbara still ranked second in terms of price premium over Perth in 2017, after the Kimberley where the price premium over Perth was slightly higher at 13 per cent. At the other end of the scale, the Great Southern and Peel regions had price levels that closely mirrored Perth in all three years.

Thirdly, the regions exhibit clear differences in median income levels. Table 9 ranks regions by their real median household income levels. The Pilbara region had the highest median income in 2016 of \$2,400, well exceeding Perth's \$1,700. Other regional areas exhibit median income levels that are close to or below Perth's median income.

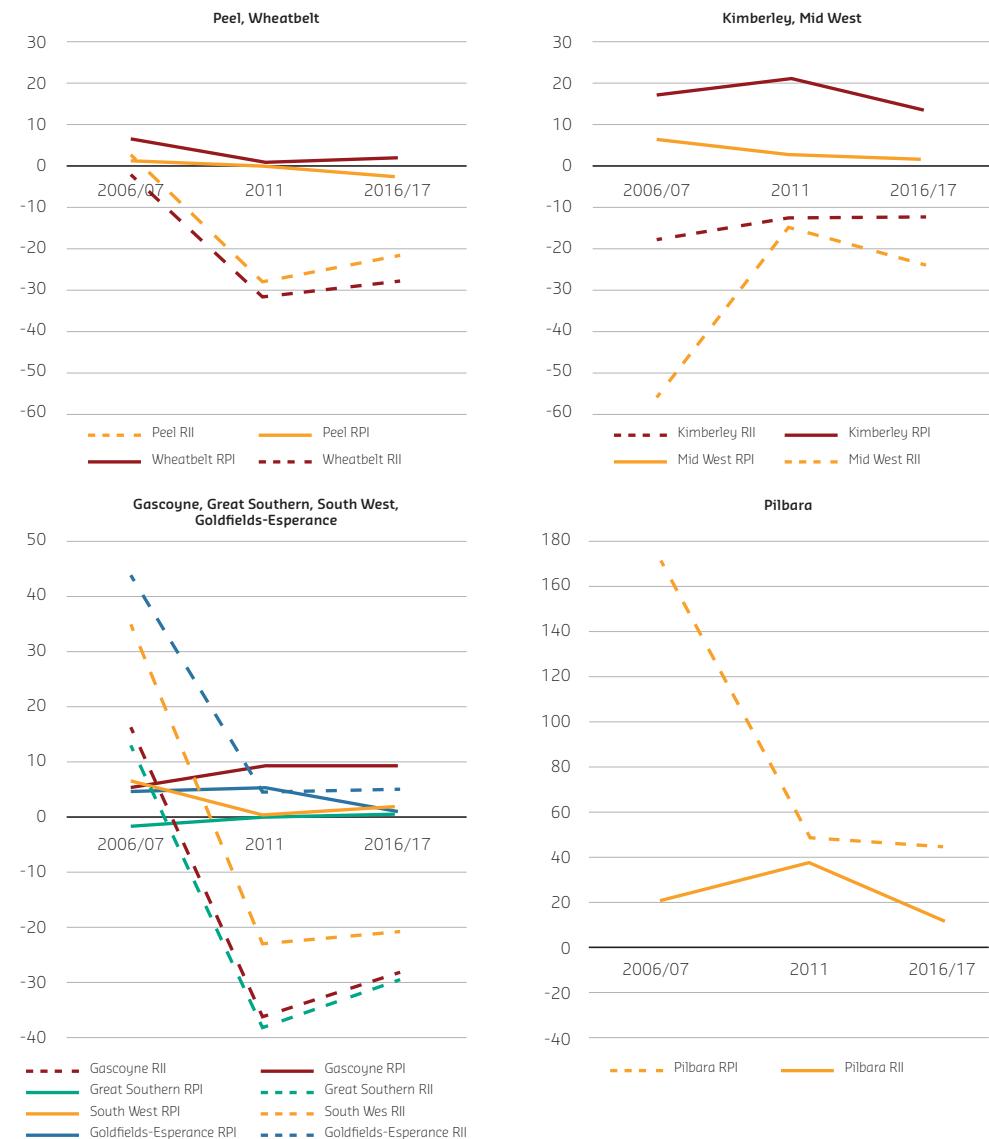
Fourthly, we can observe from Figure 15 that over the period of analysis, the regions' income movements relative to Perth were much more volatile than price movements. While price movements were volatile in all regions, some of this volatility can be attributed to significant price shifts in Perth over the period in question. As shown in

Regional income movements have been more volatile than regional price movements relative to Perth over the period 2006-07 to 2016-17.

Table 9, Perth's real median household income rose from \$800 to \$1,400 – a 75 per cent jump – between 2006 and 2011. Only two other regions exhibited greater volatility in income change; the real median household income in the Kimberley and Mid West regions jumped by 100 per cent and 300 per cent respectively between 2006 and 2011.

Next, we comment on each panel in Figure 16 in detail. As explained earlier, the figure groups the nine regions into four broad groups reflecting four main trends observed in regional income and price growth over the years 2006-07, 2011 and 2016-17. For each region, if the dotted line lies above the continuous line, it indicates that incomes are outpacing prices relative to Perth. If the dotted line lies below the continuous line, it shows that incomes are failing to keep pace with prices relative to Perth.

**Figure 16** Regional Income Index and Regional Price Index, percentage deviation from Perth, 2006-07, 2011, 2016-17



**Note:** Due to data limitations, it is not possible to exactly align the years of comparisons between the RII and RPI. Hence, the 2006 RII has been paired with the 2007 RPI, the 2011 RII has been paired with the 2011 RPI, and the 2016 RII has been paired with the 2017 RPI in the figure. For reasons of space, the vertical axis are not perfectly aligned across the four panels. Hence, caution must be exercised when comparing estimates between panels.

**Source:** BANKWEST CURTIN ECONOMICS CENTRE | Department of Regional Development and authors' estimates based on the 2006, 2011 and 2016 ABS Censuses of Population and Housing.

The two top panels capture regions where prices relative to Perth have generally exceeded incomes relative to Perth. At the top left, the Peel and Wheatbelt regions have exhibited some divergence between their price and income trajectories, with incomes relative to Perth dipping below prices relative to Perth after 2006-07. At the top right, the Kimberley and Mid West regions exhibited some convergence, with incomes relative to Perth rising to towards prices relative to Perth.

However, regardless of whether there has been divergence or convergence between incomes and prices, incomes relative to Perth still remained below prices relative to Perth throughout the period. This indicates that incomes have been failing to keep pace with prices relative to Perth.

The bottom left hand panel groups together the regions of Gascoyne, Great Southern, South West and Goldfields – Esperance. Within these groups, median incomes relative to Perth were outstripping prices relative to Perth during the economic boom of 2006-07. However, by 2011, incomes relative to Perth had declined to prices relative to Perth in Goldfields – Esperance. In the other three regions, incomes relative to Perth had fallen below prices relative to Perth, indicating that incomes in these regions have been failing to keep pace with prices.

Unlike the other three broad groups, the Pilbara is the only region where income relative to Perth strongly outstripped price relative to Perth in all three years of observation. While income relative to Perth has declined since the height of the resources boom, it remains higher than price relative to Perth in the most recent year.

**Table 9** Approximate real median household income during 2006, 2011 and 2016, by region, at 2017 price levels

	2006	2011	2016	Percentage change 2006-2011	Percentage change 2011-2016
Perth	\$800	\$1,400	\$1,700	75.0%	21.4%
Pilbara	\$2,100	\$2,000	\$2,400	-4.8%	20.0%
Goldfields - Esperance	\$1,100	\$1,400	\$1,800	27.3%	28.6%
Kimberley	\$600	\$1,200	\$1,500	100.0%	25.0%
Mid West	\$300	\$1,200	\$1,300	300.0%	8.3%
Peel	\$800	\$1,000	\$1,300	25.0%	30.0%
South West	\$1,000	\$1,100	\$1,300	10.0%	18.2%
Gascoyne	\$900	\$900	\$1,200	0.0%	33.3%
Great Southern	\$900	\$900	\$1,200	0.0%	33.3%
Wheatbelt	\$800	\$900	\$1,200	12.5%	33.3%

Note: The estimates have been inflated to September 2017 price levels using the Perth CPI.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Cat. No. 6401.0 and Censuses of Population and Housing.

There has been some divergence between prices and incomes relative to Perth in the Peel and Wheatbelt regions, but some convergence in the Kimberley and Mid West.

In most regions, incomes relative to Perth have failed to keep up with price relative to Perth. The Pilbara is a clear exception, where income relative to Perth strongly outstripped price relative to Perth during 2006-07 to 2016-17.

## Have real incomes grown at the same pace across different population subgroups in WA?

During 2003-09, low-income households' real income growth lagged behind high-income households, with the poorest 20% experiencing only an 11% increase in real income while the richest 20% in WA reaped income gains of nearly 60%.

All quintiles experienced a smaller real income growth in 2009-15 than back in 2003-09. However, the richest 20% of households experienced the greatest reduction in real income of 8%.

This chapter concludes by drilling down to the household level to shed light on variations in real income growth across WA household types. Real income growth is growth income adjusted for price inflation. It therefore represents changes in the purchasing power of WA households over time. To the extent that real income growth varies across different population subgroups, it reflects variations in purchasing power across the WA population.

Of particular interest is whether the real income growth of financially vulnerable households is lagging behind the income growth of more financially secure households. We compare gross household income growth rates by income bands, the main reported source of income for the household, and household type. To do so, we employ the ABS Survey of Income and Housing (SIH) for the years 2003-04, 2009-10 and 2015-16.

In order to derive income bands that allow us to distinguish between low-income and high-income households, we rank households in each year by their equivalised household disposable income and then divide these households into five equal groups or quintiles. The lowest quintile comprises the 20 per cent of households with the lowest equivalised household disposable incomes. The highest quintile comprises the 20 per cent of households with the highest equivalised household disposable incomes. The household incomes are equivalised in order to control for the effect of household size on their reported income. For instance, couple households are more likely to report higher incomes than a single person household due to the former having more adults in the households. If incomes were not equivalised before the households are ranked, then smaller sized households (e.g. single person households) would be over-represented in the bottom of the income distribution.

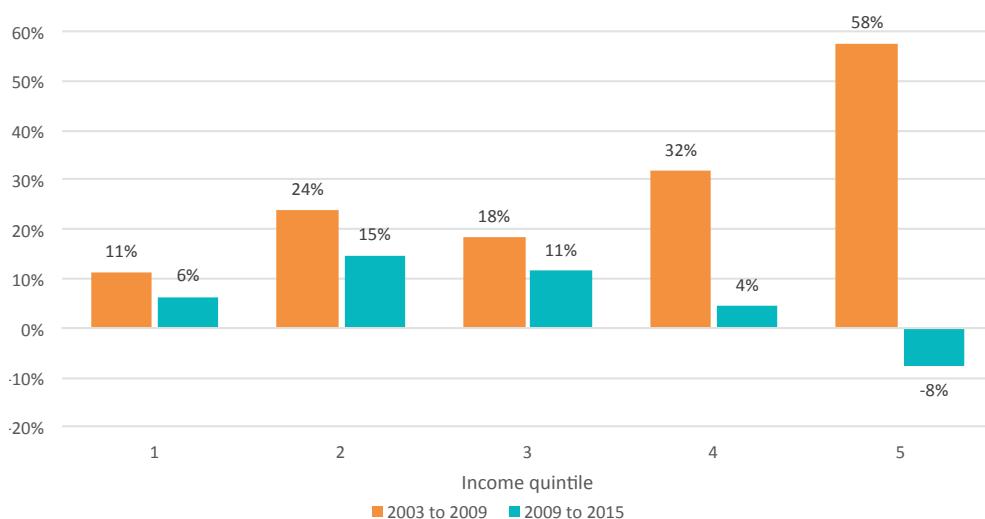
Figure 17 presents some vivid differences in income growth across the income distribution and between years. During 2003-09, healthy economic conditions underpinned strong income growth amongst the higher income quintiles. Low-income households' real income growth lagged behind high-income households, with the poorest 20 per cent experiencing only an 11 per cent increase in real income while the richest 20 per cent in WA reaped income gains of nearly 60 per cent. During 2003-09, income grew at increasingly higher rates as one moved up the income quintile. For instance, households in the third quintile reaped income gains of 18 per cent, those in the fourth quintile 32 per cent, and those in the highest quintile 58 per cent.

However, weaker economic conditions after 2009 saw a reversal of fortunes amongst higher income groups. During 2009-2015, the growth in real incomes narrowed on increasingly higher income quintiles, from 11 per cent in the third quintile, to 4 per cent in the fourth quintile, to negative growth of -8 per cent in the highest quintile. Of course, it is important to note that all quintiles suffered from a smaller income growth in 2009-15 than back in 2003-09. Among the poorest 20 per cent of households, real income growth narrowed from 11 per cent in 2003-09 to 6 per cent in 2009-15. However, the richest 20 per cent experienced the greatest reduction in income growth.

The SIH asks each household to report its main source of income. These are categorised into wage and salary, own unincorporated business income, government pensions and allowances, and other income. Those households that rely on government pensions and allowances as their main source of income will likely

be most financially vulnerable on the basis of their relatively low income levels. Government pensions and allowances are 'safety nets' that offer targeted assistance to those most in need. On the other hand, the business income and other income categories are potentially enlightening. Business income and other income (e.g. investment income) can tend to be more uncertain than wages and salaries or government pensions and allowances.

**Figure 17** Percentage change in mean real gross weekly income of WA households, by household income quintile, 2003-04 to 2015-16



Note: The income quintiles are constructed by ranking WA households in the data according to equivalised household disposable income.  
 Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Surveys of Income and Housing.

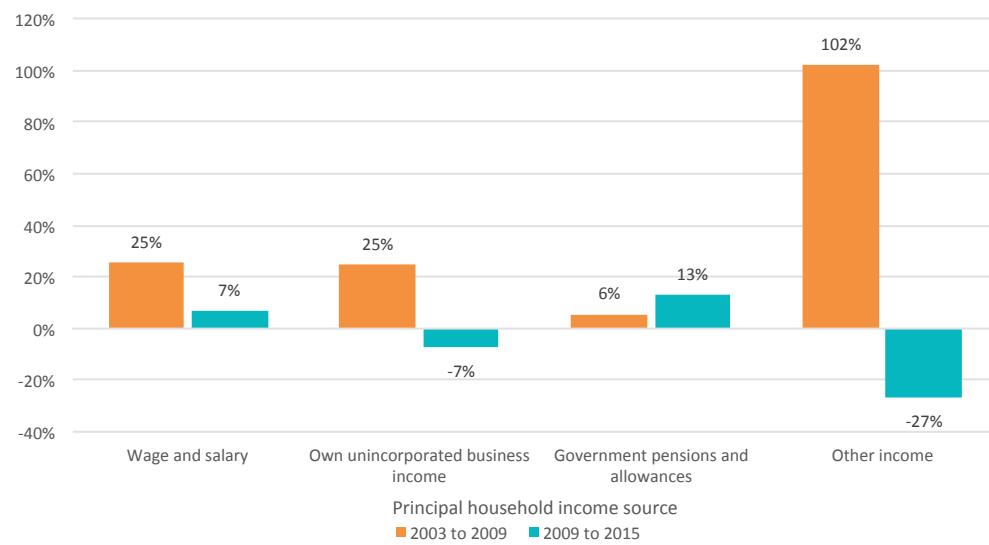
Figure 18 shows the proposition that low-income groups appear to lag behind high-income groups during periods of strong economic growth. During 2003-09, households relying on government pensions and allowances as their main source of income experienced a real income growth of just 6 per cent (equivalent to the magnitude of growth experienced by the lowest income quintile in Figure 16). However, households that rely on earnings via employee wages and salaries or business income enjoyed real income growth of 25 per cent. Strikingly, those who rely on other sources (e.g. investment income, superannuation annuities or lump sums) experienced an even greater real income growth of over 100 per cent.

During 2009-15, households with more volatile main sources of income (business and other income) suffered from a reduction in real income as economic conditions became more uncertain. Households that relied on other income as their main income source appear to be most susceptible to economic downturns, suffering a reduction in real income of 27 per cent, presumably because investment related income are directly affected by the movements of the economic cycle.

However, households that receive income streams from government income support or employers are typically less exposed to economic uncertainty. During 2009-15, government pension and allowance recipients, and wage and salary earners continued to experience real income growth of 13 per cent and 7 per cent respectively.

During 2009-15, households with more volatile main sources of income (business and other income) suffered from a reduction in real income as economic conditions became more uncertain.

**Figure 18** Percentage change in mean real gross weekly income of WA households, by principal source of household income, 2003-04 to 2015-16



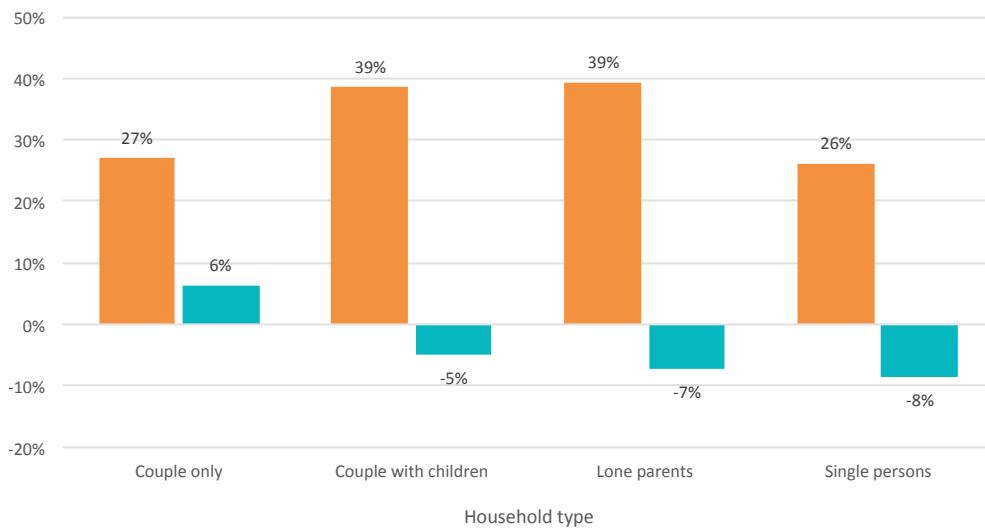
Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Surveys of Income and Housing.

Government pension and allowance recipients also appear to be least exposed to the movements of the economic cycle, with real income growth rising from 6 per cent during 2003-09 to 13 per cent during 2009-15 even though the latter period reflects weaker economic conditions. The rise in real income growth can be at least partially attributable to the pension reforms that were implemented in September 2009 resulting in pensions being indexed to one of the three benchmarks – CPI, Pensioner and Beneficiary Living Cost Index, or 41.76 per cent of the Male Total Average Weekly Earnings (MTAWE) for the combined couple rate – with the indexation method that achieves the highest real value retained. These pension reforms are described in more detail earlier in this chapter.

Lone parents and single person households suffered the largest reduction in real income among all household types during 2009-15 of 7% and 8% respectively.

Figure 19 highlights differences in real income growth across key household types in WA. The figure indicates that during 2003-09, households with children experienced the greatest increase in real household income of 39 per cent. On the other hand, households without children experienced a smaller increase of around 26-27 per cent. During 2009-2015, the patterns change significantly. While couples without children continued to experience positive real income growth, this growth was at a much reduced rate of 6 per cent compared to 27 per cent in 2003-09. The other three household types suffered from a reduction in real income, and this was greatest for lone parents and single person households: 7 per cent and 8 per cent respectively.

**Figure 19** Percentage change in mean real gross weekly income of WA households, by household type, 2003-04 to 2015-16



**Note:** Group households are excluded due to a small sample size affecting the robustness of the estimate. Other household types are also excluded as the group comprises a heterogeneous mix of individuals that preclude meaningful observation of income patterns over time.

**Source:** BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Surveys of Income and Housing.

Overall, the findings in this section indicate that WA households on low incomes or who rely on government pensions and allowances as their main income source experience relatively low real income growth during an economic boom. In contrast, households that are on high income or more volatile income sources such as business and investment income experience much higher growth in real income when the economy is doing well. It is to be expected that low income households are likely to find themselves struggling more with general cost of living pressures than high income households. However, this appears to be exacerbated during an economic boom.

During periods of economic slowdown, however, those on low incomes are better protected from income volatility and this is at least partially attributable to the protection that low income households receive from the safety nets provided by the government income support system. On the other hand, households on high or volatile income sources find themselves more susceptible to the downswings of the economy.

Lone parent and single person households are also more vulnerable to a decline in real income during an economic downturn, suggesting these groups are more financially vulnerable than couple households where income risks are shared across two adults.

Clearly, household real incomes have not grown at the same pace across different population subgroups in WA. This in turn reflects variations in the purchasing power across the WA population. However, while analysis of real income growth (and therefore purchasing power) goes some way towards unearthing the extent to which households are able to cope with price pressures, it is likely the case that different household types and income groups may manage their expenditure differently during periods of economic booms and busts. We therefore take a detailed look at household expenditure patterns among WA households in the next chapter.



# A detailed look at West Australians' expenditure



## A detailed look at West Australians' expenditure

This chapter examines expenditure on commonly consumed goods and services for West Australian households. We draw extensively on the ABS Household Expenditure Survey (HES), a nationally representative survey that contains a comprehensive range of variables on household expenditures on both essential and discretionary goods and services. The HES is released once every six years, so we are able to chart the real expenditure levels of households in WA over different phases of the economic cycle using data from the years 2003-04, 2009-10 and 2015-16. The years between 2003-04 to 2009-10 span a period of strong economic boom, while 2009-10 represented a period of slower economic growth. Not only did the global financial crisis hit Australia around 2009-10, resource prices peaked around 2011-12 and so the economy started slowing after 2012.

Using the HES, we are also able to conduct a detailed investigation into changes in the importance of common household expenditure items, including housing, domestic fuel and power, food, clothing and footwear, transport, health, education, communication, household furnishing and equipment, household services and operation, personal care, recreation, alcoholic beverages and tobacco products. We examine the importance of each of these items within WA households' expenditures by profiling how the expenditure share of each item has changed over time. This detailed examination also sheds light on whether households are increasingly shifting expenditure away from discretionary goods and services to fund basic needs to cope with cost of living pressures.

Patterns of expenditure for households in WA are compared to other states and territories. Regional differentiation in expenditure patterns within WA is also observed, with an emphasis on whether there are significant differences between regional WA and the capital city Perth. In this chapter, we also compare how expenditure patterns differ across household types in WA.

## How different are household expenditure patterns in WA compared to the rest of Australia?

In Figure 20, the triangles show the average weekly dollar expenditure of households by state and territory in 2015-16. In order to track changes in expenditure values over time, the percentage change in real expenditure by state and territory is shown in bars for the years 2003-09 and 2009-15. In order to ensure comparability in the expenditure values between different periods, the expenditure values have been inflated to September 2017 price levels.

In terms of real weekly mean expenditure in 2015, it is important to point out that WA expenditure almost equals the mean expenditure of the overall country at around \$1,500 per week. The territories and New South Wales have the highest expenditure values at nearly \$1,800 and over \$1,600 respectively. On the other hand, Tasmania and South Australia have the lowest real expenditures at under \$1,300. In the mid-range lie WA, Queensland, and Victoria at around \$1,500 of average weekly expenditure.

Real total expenditure has increased from 2003 in all states and territories, but the rate of growth differs greatly between them, as indicated by the bars within the figure. In WA, as well as in Queensland, real household expenditure climbed by 25 per cent between 2003-04 and 2009-10, as the resources sector boomed. This significantly exceeded the national average rate of increase in real household expenditure of 16 per cent. On the other hand, after the peak of the mining boom, the growth rate of household expenditure decreased considerably in the same states, dropping to as low as 4 to 5 per cent during 2009-15. This was lower than the national average expenditure growth rate of 10 per cent.

More diverse economies such as those of New South Wales, Victoria and South Australia have experienced slower but steadier growth in real household expenditure values. These three states recorded a relatively low rate of increase in expenditure of under 15 per cent during 2003-09. Household expenditures in New South Wales and South Australia increased at a slightly faster rate during 2009-15 period than 2003-09. In Victoria, household expenditure growth rates declined slightly between 2003-09 and 2009-15.

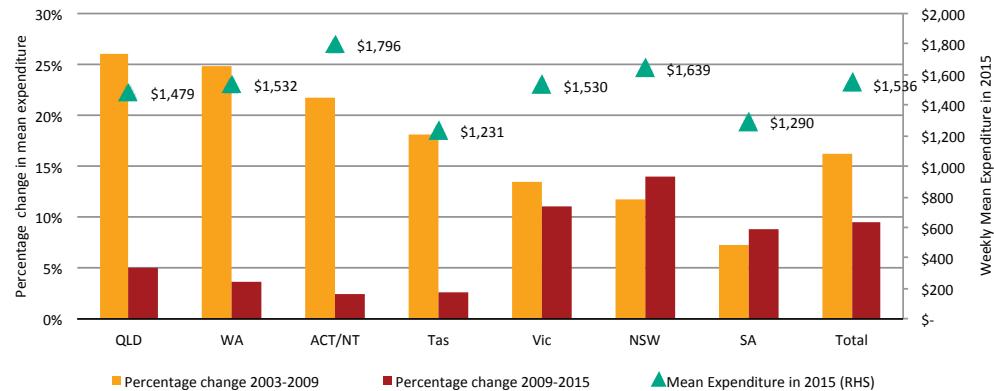
These state and territory differences reflect the workings of what appeared to be a 'two-speed economy', featuring stark differences in economic growth rates and households' purchasing powers between the resource-rich states of WA and Queensland and the rest of Australia.

Concerning Western Australia, these results corroborate the findings of Figure 12 and Figure 13 in chapter 3, where we observed that the trends of WPI and CPI followed the booms and downturns in the State. The significant increase in real wages in the 2003-2009 period has translated in a considerable increase in expenditure as observed in Figure 20. At the same time, the consumption growth rate has decreased from 2009-10 to 2015-16, as the slope of real WPI has flattened.

WA households' average weekly expenditure lies at around \$1,500, which is similar to the average weekly expenditure of Australia as a whole.

In WA and Queensland, real household expenditure increased by 25% compared to 16% for Australia during 2003-09. Expenditure values continued to increase in 2009-15, but at a lower pace than the rest of Australia.

**Figure 20 Real mean household expenditure, by state, 2003-04 to 2015-16**



Note: Expenditures have been uprated to September 2017 prices.

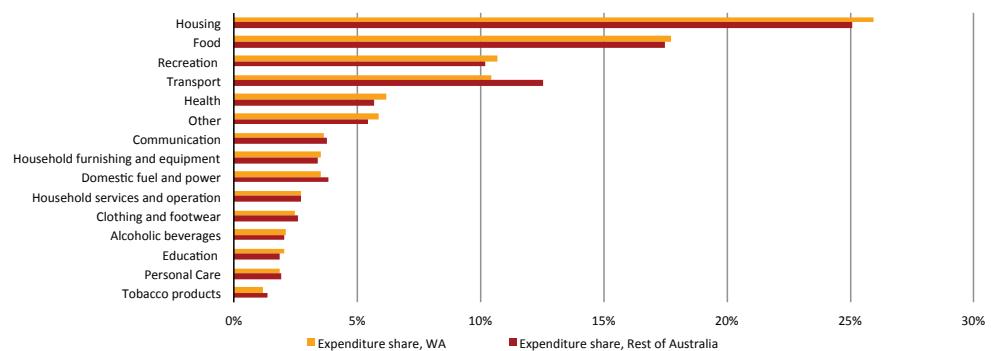
Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Household Expenditure Survey, 2003-04, 2009-10 and 2015-16, and Cat. No. 6401.0.

Next we take a deeper look inside the typical WA household's expenditure basket, by breaking down total expenditure into 15 different categories according to the household's goal and consumption type. Figure 21 presents the average expenditure shares of WA households versus the rest of Australia in 2015-16. In general, we observe that expenditures in WA are comparable to those of the rest of Australia. Housing dominates the typical household's expenditure basket, contributing an expenditure share of around one-quarter. This is followed by food which contributes an expenditure share of around 18 per cent. These two essential expenditure items are followed by recreation, transport and health.

Expenditure shares in WA are comparable to the rest of Australia. However, expenditure shares are slightly higher for housing, food, recreation and health, but smaller for transportation and domestic fuel and power in WA than the rest of Australia.

However, there are a few, albeit minor, differences between WA and the rest of Australia. Expenditure shares are slightly higher in WA than in the rest of Australia for housing, food, recreation and health categories. On the other hand, transport and domestic fuel and power make up smaller expenditure shares in WA than the rest of Australia. Transportation stands out as a unique category since the difference of expenditure between WA and the rest of Australia is much more striking, with WA households allocating 2-3 percentage points less of total expenditure to this item.

**Figure 21 Expenditure shares for WA and rest of Australia, 2015-16**



Note: Expenditures have been uprated to September 2017 price level.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Household Expenditure Survey, 2003-04, 2009-10 and 2015-16, and Cat. No. 6401.0.

## Are there variations in household expenditure patterns between Perth and the rest of WA?

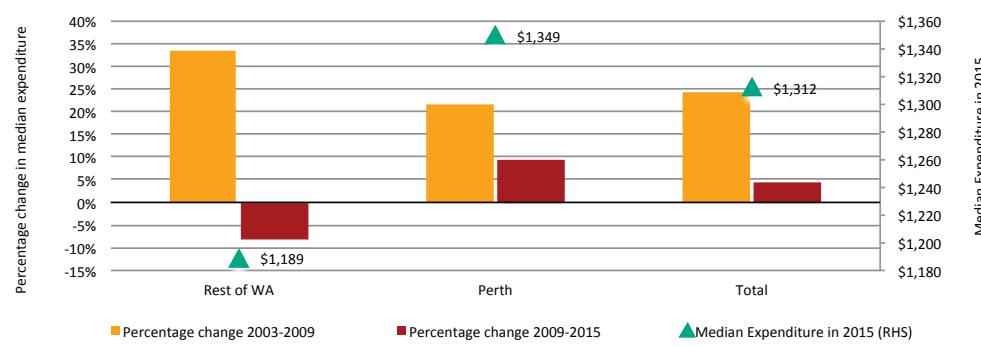
Clearly, geographical variations in household expenditure patterns exist between WA and the rest of Australia. Trajectories in household expenditure may also vary within WA. In this section, we compare household expenditures between Perth and in the rest of WA. As in the previous section, Figure 22 presents triangles which show the average weekly dollar expenditure of households in Perth and the rest of WA in 2015. The percentage change in real expenditure across the two regions are shown in bars for the years 2003-09 and 2009-15. Again, in order to ensure comparability in the expenditure values between different periods, the expenditure values have been inflated to September 2017 price levels.

In real terms, households in Perth outspent their regional WA counterparts in median expenditure by \$160 per week in 2015, which corresponds to a gap of approximately 12 per cent in expenditure. However, these snapshot estimates mask significant changes in spending patterns over prior periods.

During the 2003-09 period both Perth and the rest of the State experienced a significant growth in household expenditure, rising by 33 per cent for those living outside Perth and 22 per cent for those living in the capital. The economic slowdown during 2009-15 appears to have hit regional areas harder as they experienced an 8 per cent decline in median expenditure. Median household expenditure in Perth, on the other hand, has continued to increase in real terms, but at a lower rate from the previous period, reaching an 8 per cent growth rate in 2015-16.

The economic slowdown during 2009-15 appears to have hit the region harder as they experienced an 8% decline in median expenditure.

**Figure 22** Real median household expenditure, Perth and rest of Western Australia, 2003-04 to 2015-16



Note: Expenditures have been uprated to September 2017 price level.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Household Expenditure survey, 2003-04, 2009-10 and 2015-16, and Cat. No. 6401.0

# What is the balance of basic versus discretionary spending by WA households?

The gap between basic and discretionary expenditures has almost doubled between 2003 and 2015 for WA and Australian households.

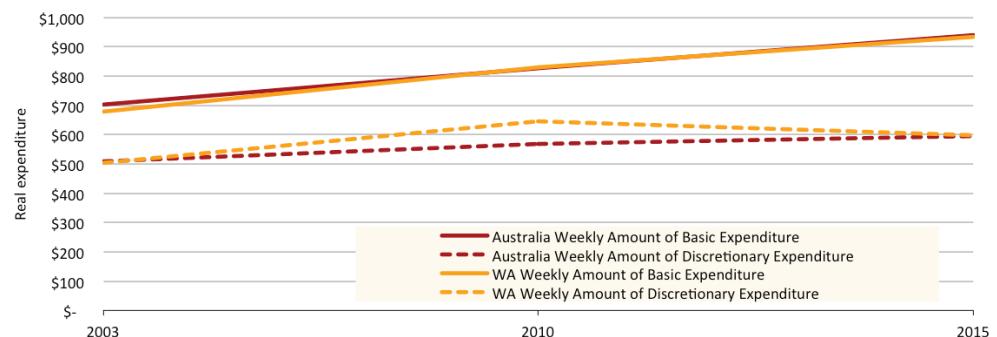
To have a broader sense of diverging trends in consumption expenditure of WA families, Figure 23 represents the average weekly expenditure on basic and discretionary goods and services from 2003-04 to 2015-16. We draw on the ABS HES categorisation of basic and discretionary expenditures. Items which are considered as basic needs include food, housing, domestic fuel and power, transportation and health care (ABS, 2017). The remaining categories are included under the discretionary expenditure group and all expenditures are expressed in real terms uprated to 2017 prices.

A glance at Figure 23 clearly shows that the gap in real values of basic and discretionary expenditure has broadened from 16 per cent in 2003-04 to roughly 22 per cent in 2015-16 for both West Australians and households in the rest of Australia. This implies that households may be shifting consumption away from goods considered as luxuries to expenditures directed to more vital needs to cope with cost of living pressures.

In real terms, we observe that the amount spent on basic necessities in WA and Australia is almost the same each year, with average households dedicating around \$700 per week in 2003 and \$935 by 2015. In 2003-04, households in both WA and the rest of Australia spent on average around \$500 per week on discretionary consumption. This increased slightly to \$600 in discretionary consumption per week in 2015-16. Hence, overall, the gap in discretionary and basic expenditure in both WA and the rest of Australia widened from around \$200 to \$335 between 2003-04 and 2015-16, expressed in 2017 prices.

On the other hand, we observe some interesting differences between WA and the rest of Australia in discretionary expenditure trends over time. In 2009-10, WA households increased their spending on discretionary items by \$77 per week compared to the rest of Australian households. This divergence between WA and the rest of Australia in 2009-10 may be due to the resources boom in WA, which continued to surge ahead in WA while economic conditions in other states and territories slowed in the aftermath of the global financial crisis. During 2009-10, WA households not only outpaced their fellow Australians in discretionary spending, they also narrowed the expenditure gap between discretionary and basic consumption by 3 per cent as a proportion of total expenditure. However, this trend in WA was short-lived, with the gap between discretionary and essential widening again after 2009-10. By 2015-16, the average weekly discretionary expenditure of WA households returned to the same level as the rest of Australia again.

**Figure 23** Average weekly expenditure on basic and discretionary goods, WA and Australia, 2003-04 to 2015-16



**Note:** Expenditures have been uprated to September 2017 price level.

**Source:** BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Household Expenditure Survey, 2003-04, 2009-10 and 2015-16, and Cat. No. 6401.0.

In order to further analyse the evolution in consumption during the expansion, peak and slowdown of the mining boom in WA, Figure 24 shows us the percentage change in expenditure shares for 2003-09 and 2015-16. After constructing the expenditures shares for each category and year, the percentage point change is calculated by subtracting the 2009-10 expenditure share to its counterpart in 2003-04 (respectively 2015-16 and 2009-10).

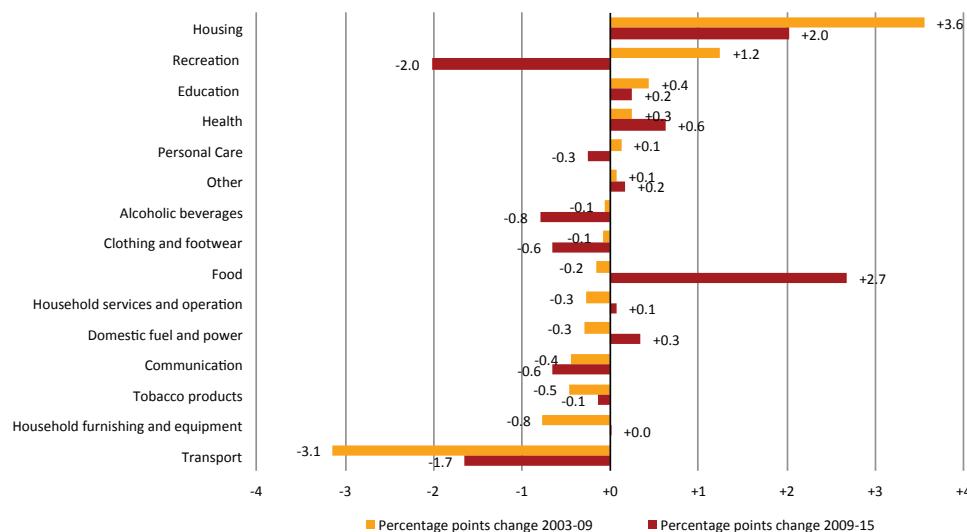
The figure shows that overall, households in WA have increased their share of expenditure in housing, education and health in both periods. While the increase in education and health expenditures has been minor, the share allocated to housing expenditures as a part of total spending is 3.5 percentage points higher in 2009-10 relative to 2003-04 and two percentage points higher in 2015-16 with respect to 2009-10. On the contrary, the share of consumption in clothing, communications, tobacco and alcoholic beverages have all reduced from 2003-04, while that of transport spending fell by 2.5 percentage points on average for the whole period.

Interestingly, expenditures in items such as food, households' services and domestic fuel and power seem to be countercyclical as their share of expenditure decreased during the boom period of 2003-09 between 2003-04 and 2009-10 and increased after the mining peak in 2009-15 from 2009-10 to 2015-16. This is most stark in the case of food which increased in share terms by nearly three percentage points between 2009-10 and 2015-16, to 18 per cent of total spending. The opposite occurred for recreation and personal care expenses, which increased in the booming period and decreased afterwards. The expenditure share occupied by recreation expanded by over one percentage point but declined by two percentage points between 2009-10 and 2015-16.

In fact, these findings follow general economic theory, which suggests that during expansionary periods with wage growth, expenditure on basic needs are expected to decrease as a share of total budget. At the same time, following the opposite trajectory, the share allocated to discretionary or luxury goods should increase with income growth as is the case here (personal care and recreation items are mostly considered as luxury goods).

During expansionary periods with wage growth, expenditure on basic needs such as food decreased as a share of total budget, while the share allocated to discretionary or luxury goods grew.

**Figure 24** Percentage points change of expenditure shares, WA, 2003-04 to 2015-16



Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Household Expenditure survey, 2003-04, 2009-10 and 2015-16.

Households living in regional WA appear to divert greater shares of their expenditures to transport, food and domestic fuel and power. However, they also spend more on discretionary items such as tobacco, alcohol and recreation.

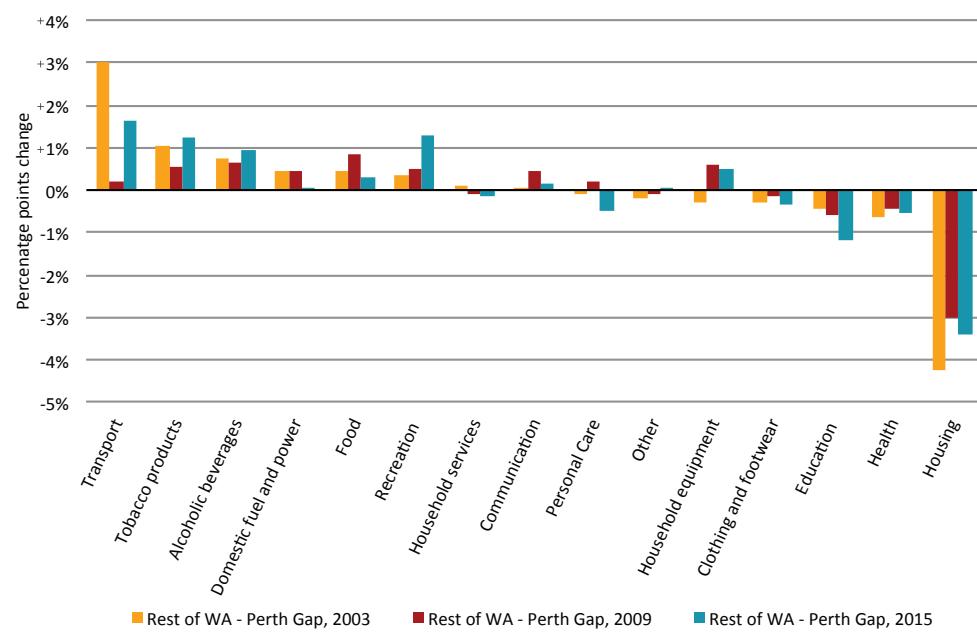
A deeper look into the changes and gaps in expenditures patterns of households in regional WA relative to Perth are shown in Figure 25. More specifically, the figure indicates the percentage point difference in the regional households' expenditure shares relative to Perth for the years 2003-04, 2009-10 and 2015-16. The gap has been calculated for each category by subtracting the budget shares of households living outside Perth to those in the state capital.

The widest gap between households in Perth and the rest of the State is in housing related expenditures, with housing's contribution to expenditure shares in Perth exceeding regional WA by around 3.5 percentage points for the whole period. Perth households also appear to spend greater shares of their budget than regional households on other basic needs like health and education.

At the other extreme, households living in the rest of WA appear to divert greater shares of their expenditures to transport, food and domestic fuel and power, presumably because many regional households have to travel further to access major town centres and essential services. Nonetheless the gap is narrowing over time.

However, households in regional WA also appear to spend more on discretionary items than Perth households, such as tobacco, alcoholic beverages and recreation. In the case of these discretionary expenditures, the gap between regional WA and Perth has overall expanded between 2003-04 and 2015-16.

**Figure 25** Percentage points differences in expenditure shares, rest of WA relative to Perth, 2003-04 to 2015-16



Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Household Expenditure survey, 2003-04, 2009-10 and 2015-16.

# A comparison of household expenditures by housing and household type

As we observed earlier in this chapter, housing expenses capture the biggest share of the total household budget. It is noteworthy that the share of expenditure in housing has increased almost 4 percentage points from 2003 to 2015, which translates in real terms to an extra \$105 per week in 2017 prices<sup>3</sup>. In order to gain a better understanding of the housing cost pressures faced by households that do not own their homes outright, Table 10 presents the expenditures shares in 2015 for families living in rentals or for owners having purchased a dwelling with a mortgage after 2009. The underling point is that, due to the increase in housing costs, renters and early buyers may have modified their expenditure patterns in order to access the housing market. Since these households are more likely to be at the mercy of variations in the real estate market, the increase in the housing cost may have hit them unequally harder. The first column in the Table 10 shows the mean expenditure shares for all Australian households, while the second to fifth columns show the same expenditures shares but only for households that rent or bought their home with mortgage after 2009. This comparison is given for WA versus Australian households, columns two and three respectively, and for Perth versus the Rest of WA households, columns four and five respectively.

Let's begin by comparing the first and second columns in the table. There is a striking difference between the distribution of expenditure shares of all households and households that either rent or owe an early mortgage. First of all, families living in rentals or having contracted a mortgage after 2009 spend over one-third of their budget on housing in WA. This is significantly higher than the one-quarter expenditure share that is observed when all households (including those bearing no mortgage) are included. Hence, households that rent or owe a recent mortgage have to engage in greater substitution of consumption away from non-housing expenditures to pay for their housing costs than those who do not owe a mortgage on their homes. The former devote on average, a smaller part of their budget on food, recreation, transportation and health than the latter.

However, when comparing the second and third columns in the table, we find that there are some clear differences between renter and recent mortgagor households in WA versus the rest of Australia. These two groups differ in respect to their budget allocation to recreational activities and transportation. Indeed, WA renter and early mortgagor households spend one-third less in transportation but one-third more in recreation compared to Australian renter and recent mortgagor households.

The two rightmost columns of Table 10 compare renter and mortgagor households having purchased a home after 2009 within WA – specifically between Perth and the rest of WA. Two main intrastate differences can be observed. First, households in Perth spend an extra 7 percentage points of their budget on housing relative to the rest of WA. Second, in order to meet the higher expenditure share occupied by housing costs, families living in Perth have to devote less of their household budget to a range of other items than households in the rest of WA. These items include food, health, domestic fuel and power, recreation, communication, household equipment, household services and tobacco products.

Renter or recent mortgagor households spend over one-third of their budget on housing in WA, which is significantly higher than the one-quarter expenditure share accounted for by housing in the general WA population.

<sup>3</sup> Authors' estimates based on ABS Household Expenditure survey, 2003-04, 2009-10 and 2015-16, and Cat. No. 6401.0.

Perth households spend an extra 7 percentage points of their budget on housing than the rest of WA. This occurs at the expense of a range of other items including food, domestic fuel and power, transport and health.

Single parents exhibited the lowest spending level of \$732 per week on an equivalised basis among all household types during 2015-16.

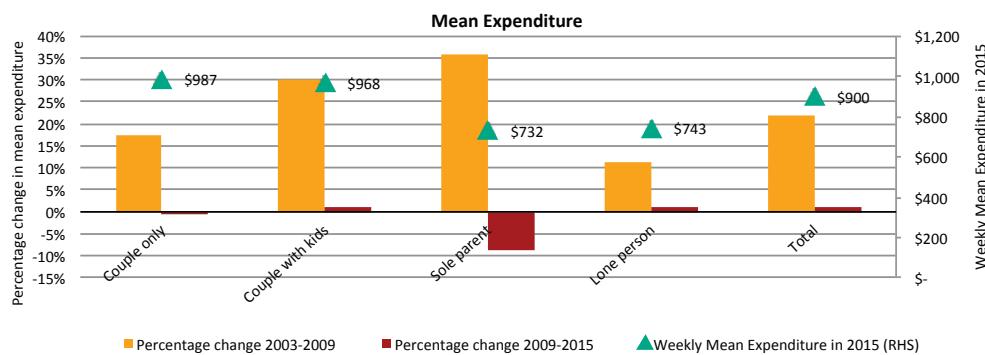
**Table 10** Expenditure shares in 2015 for households with rental and mortgages contracted after 2009

Expenditure Group	All households		Households with Rentals and Mortgages Contracted after 2009		Households with Rentals and Mortgages Contracted after 2009	
	WA	WA	WA	Rest of Australia	Perth	Rest of WA
Housing	26%	36%	36%	34%	38%	31%
Food	18%	16%	16%	16%	15%	16%
Recreation	11%	9%	9%	6%	9%	11%
Transport	10%	8%	8%	12%	8%	8%
Health	6%	4%	4%	4%	4%	5%
Other	6%	5%	5%	5%	5%	6%
Communication	4%	3%	3%	4%	3%	4%
Household equipment	4%	3%	3%	3%	3%	4%
Domestic fuel and power	4%	3%	3%	4%	3%	4%
Household services	3%	2%	2%	3%	2%	3%
Clothing and footwear	2%	2%	2%	2%	2%	2%
Alcoholic beverages	2%	2%	2%	2%	2%	2%
Education	2%	2%	2%	2%	2%	1%
Personal Care	2%	2%	2%	2%	2%	1%
Tobacco products	1%	1%	1%	2%	1%	2%

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Household Expenditure Survey 2015-16.

Figure 26 reports mean and median real expenditures by household type in WA. The orange and red bars represent the percentage change in expenditure for the periods 2003-09 and 2009-15 respectively. The triangles represent the mean or median expenditure levels of households in 2015-16.

As with previous analysis in this chapter, expenditure values are expressed in real terms in 2017 prices. In addition we equivalise household expenditure values by the modified OECD equivalence scale when comparing expenditure values by household type. This is because smaller sized households, such as a lone person households, typically have lower expenditure values than larger households such as couples with children. Hence, actual reported expenditure values reflect to a large extent differences in household size between different household types. The application of the equivalence scale adjusts reported household expenditures by household size to facilitate comparison across households that is not biased by household size.

**Figure 26** Real household expenditure in WA, by household type, 2003-04 to 2015-16

Note: Expenditures have been uprated to September 2017 price level and equivalized by the modified OECD scale.  
 Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Household Expenditure Survey, 2003-04, 2009-10 and 2015-16, and Cat. No. 6401.0.

As shown in Figure 26, West Australian households spent on average \$900 per week on an equivalised basis. Couples had the highest mean expenditure levels, with couples only spending \$87 more than the average household in WA and couples with children spending \$68 more than the average WA household. On the other hand, lone persons spent less than the average WA household at \$743. Sole parents exhibited the lowest spending levels of \$732 on an equivalised basis.

The percentage change in mean expenditure for the 2003-09 and 2009-15 period shows that sole parents are more affected by economic cycles compared to other household types. Indeed, during the resources boom that took place during 2003-09, sole parents experienced the highest growth in real mean expenditure of 35 per cent. This was a higher growth rate than other household types, suggesting that sole parents had to increase their expenditures to match price increases more than any other household type during the boom. Real average expenditures rose by 30 per cent for couples with children, 18 per cent for couples only, and 11 per cent for lone persons.

On the other hand, during the slowdown phase following the mining boom peak, sole parent households were the only group experiencing a decline in real expenditure, with mean expenditure falling by 9% between 2009-10 and 2015-16. All other household types experienced almost no change in real mean expenditure.

Digging a little deeper into the WA expenditure pattern by family composition, Figure 27 represents the percentage point gap in expenditure shares by household type relative to couples only in 2015-16. First, we itemised categories reflecting basic needs separately (housing, domestic fuel and power, food, health and transport). The remainder of the items were grouped into a discretionary category. Second, we extracted the budget shares for each category by dividing the expenditure allocated to each good with respect to total expenditure. Third, the expenditure share of couples with children for each category was subtracted from the expenditure share of each household type for the same category. So for instance, Figure 27 shows that the share of household budget that sole parents attribute to housing is 10 percentage points higher than couples only. For lone persons, the share of household budget attributed to housing is 6 percentage points higher than couples only.

During 2009-15, single parent households were the only household type to experience a decline in real expenditure, with mean expenditure falling by 9% over the period.

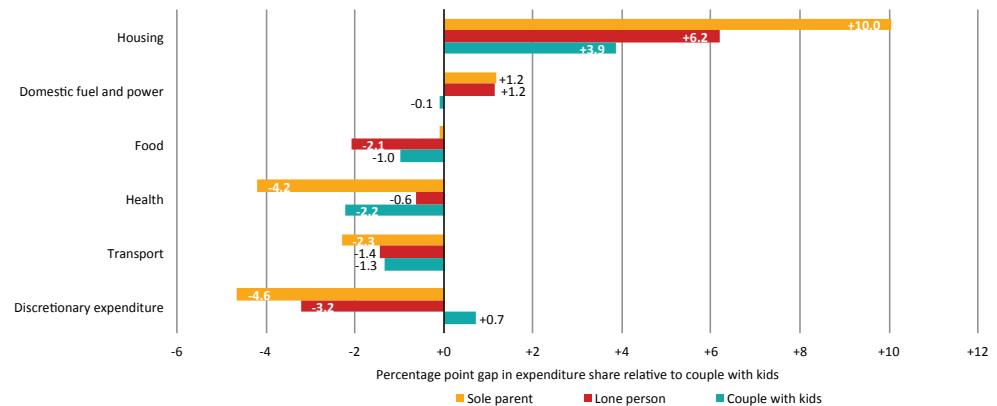
Single parents devote a noticeably larger share of their expenditure to housing than other household type, crowding out expenditure shares on health, transport and discretionary items.

An important finding arising from this figure is that sole parent households devote a noticeably larger share of their expenditure to housing than other household type. Both sole parents and lone persons also divert larger shares of their expenditures to domestic fuel and power. The share of household budget that sole parents and lone persons attribute to domestic fuel is 1.2 percentage points higher than couples only.

The expenditure shares that sole parents and lone persons devote to housing and utilities are offset by lower expenditure shares on discretionary items relative to couple only. While the expenditure share the couples with children divert to discretionary items is 0.7 percentage points higher than couples only, it is in fact 4.6 percentage points lower for sole parents and 3.2 percentage points lower for lone persons relative to couples only.

Worryingly, the large expenditure share that sole parents and lone persons devote to housing also appear to crowd out their expenditure shares on various other basic necessities. For instance, the household budget shares the sole parents divert to health and transport are 4.2 and 2.3 percentage points lower than couples respectively. Lone persons' expenditure share on food is 2.1 percentage points lower than couples only.

**Figure 27** Percentage point gap in expenditure shares, by family composition relative to couple with children, 2015-16



Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Household Expenditure survey 2015-16.

The key finding is that households with lone parents with children devote a larger share of their expenditure in basic needs such as housing, food and domestic fuel and power, as well as a smaller share in discretionary expenditure than couples with children. One parent families and lone persons seem to follow the same trajectory in what concern housing expenditure, as they allocate 6 per cent and 2 per cent more towards housing costs than couples with kids. Moreover, the expenditure share in discretionary goods is 5 per cent and 4 per cent smaller for households with one parent only and lone persons than couples with children. This confirms our previous observations, as results point vulnerable households are substituting discretionary consumption by basic goods and services in order to keep up with the increasing cost of living. Finally, we observe that health expenses for lone parents with children are significantly lower compared to the rest of family types (-2 per cent with respect to

4 The specification between basic and discretionary items follow the ABS categorization of the Household Expenditure Survey 2015.

families with children and -4 per cent relative to couples). This is quite worrisome since health consumption is mostly composed by expenditures in private health insurance, meaning these households are not fully covered for medical attention, even though they are the most economically vulnerable families.

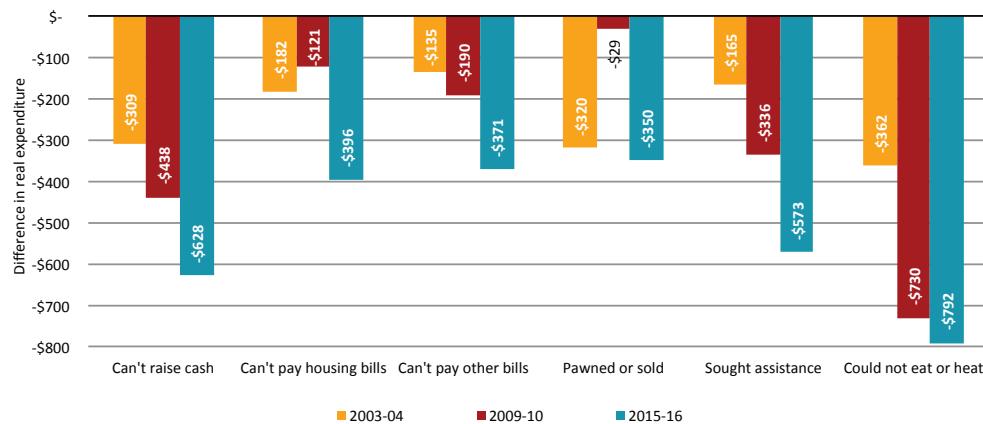
## How has the expenditure of financially stressed households evolved over time?

The gap between households in financial stress and the rest of WA has deteriorated over time, doubling its size from 2003 to 2015.

As confirmed by earlier sections in this chapter, vulnerable households such as lone sole parents, renters and early mortgagors have likely modified their consumption behaviour in order to cope with the increasing cost of living. This section shed lights on the expenditure patterns of households experiencing financial stress to give us a better understanding on the substitutions and cutbacks undertaken by these families. The HES provides multiple indicators of financial stress that ranges from financial hardship and safety nets to deprivation measures of consumption. Financial hardship signals include in ability to raise cash in short periods, to pay for housing utilities and other related bills, and whether any family member pawned or sold something due to shortage of money. Deprivation measures indicate different levels of poverty and penury, and have been grouped into two different categories: households that seek financial assistance from family, friends or welfare institutions and households that could not eat or heat due to money shortages.

Figure 28 shows the difference in real expenditure of WA households experiencing any episode of financial hardship or deprivation from 2003-04 to 2015-16 relative to the rest of WA. As for previous figures of this chapter, real expenditure has been inflated to 2017 prices to ensure time comparability. We observe that households in financial stress (all measures combined) spend in 2015-16, an average of \$520 less per week than the rest of WA households. This means that they consume on average, a third less than other WA households. The evolution of the gap from 2003-04 reveals that the situation of households under financial pressure has been declining over time. Regardless of the measure considered, the gap has at least doubled during the last 12 years and their situation further deteriorated vis-à-vis the rest of the WA population.

**Figure 28** Difference in real expenditure, households with financial hardship and deprivation measures, relative to the rest of WA households, 2003-04 to 2015-16



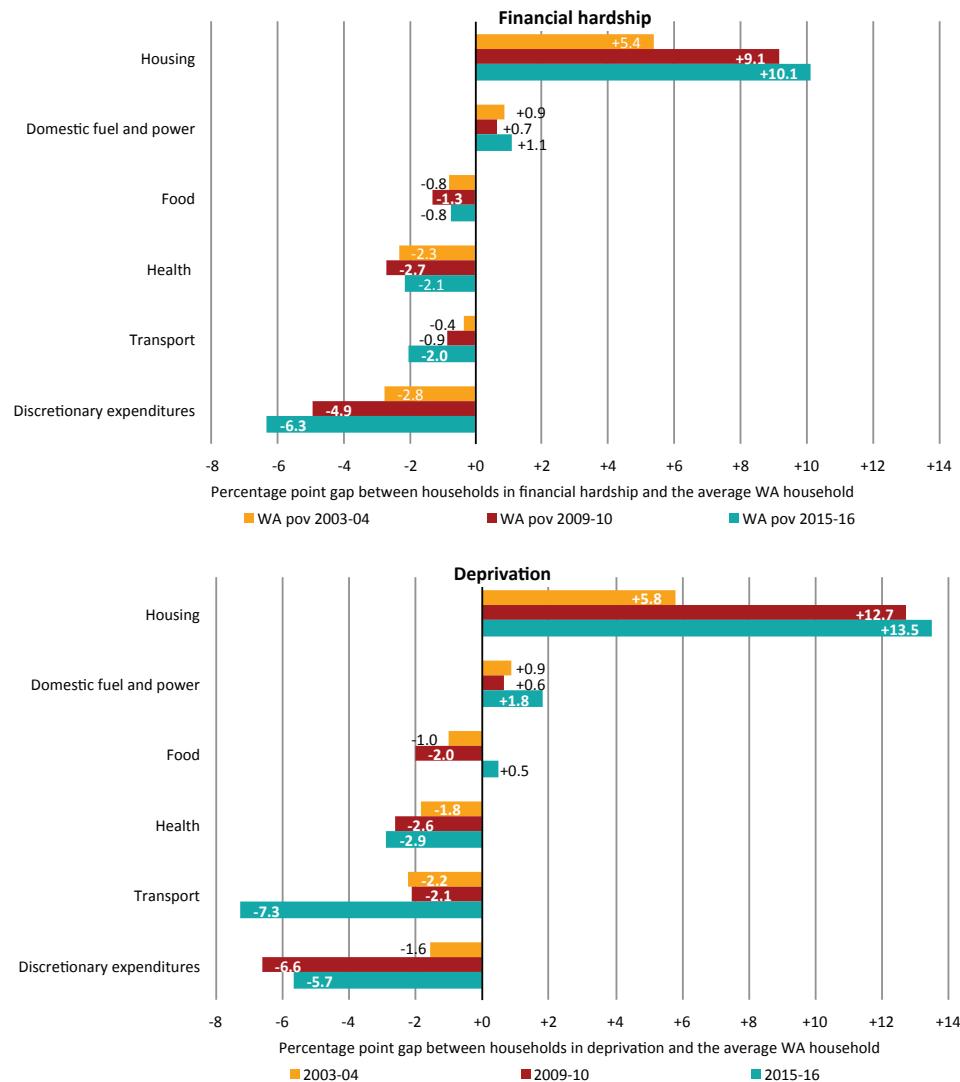
Note: Expenditures have been uprated to September 2017 price level.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Household Expenditure survey, 2003-04, 2009-10 and 2015-16, and Cat. No. 6401.0.

Due to the important increase in the gap of real expenditures, Figure 29 looks at the configuration of expenditures shares for households under financial hardship and families encountering any sort of deprivation. To achieve this analysis, Figure 29 shows the expenditure share gap between financially stressed households and the rest of WA for the 2003-2015 period. Consumption items of basic needs (housing, domestic fuel and power, food, transportation and health) have been represented independently, while discretionary expenditure has been regrouped into one category. The chart at the top indicates the expenditure gap for households in financial hardship and the one in the bottom shows those experiencing deprivation in consumption.

The two charts show similar consumption patterns but differ as to their magnitude. Overall, we observe that the population in financial stress spend, relatively, a bigger proportion on housing and domestic fuel and power and a smaller proportion on food, transportation, health and discretionary expenditures. The gap in expenditure share for these items has also increased during time, notably in what concerns housing and discretionary expenditures. Indeed, relative to the rest of WA, households in financial hardship have spent, in 2015, 10 per cent more of their budget on housing, which represents twice as much as it did in 2003.

**Figure 29** WA gap in expenditure shares, households with financial hardship and deprivation measures, relative to the rest of WA households, 2003-04 to 2015-16



Financially stressed households spend on average 10 - 12% more on housing compared to the rest of WA households. This increase in expenditure is mostly offset by a cutback in discretionary expenses of 6% on average.

**Note:** Expenditures have been uprated to September 2017 price level.  
**Source:** BANKWEST CURTIN ECONOMICS CENTRE | Authors' estimates based on ABS Household Expenditure survey, 2003-04, 2009-10 and 2015-16, and Cat. No. 6401.0.

This percentage has reached 13 per cent for households in financial deprivation. Most of the extra amount of money spent on housing seems to be offset by a decreasing amount allocated to discretionary expenditure. The gap with the rest of WA households has increased from -2 per cent in 2003 to -6 per cent on average in 2015. Finally, transport is an interesting case of study since there is an important difference between households in financial hardship and households in deprivation for the year 2015. In the previous periods of 2003-04 and 2009-10 both types of households have spent on average 2 per cent less than the rest of WA in health expenditure, but in 2015-16 deprived households decreased their consumption on transport by an extra 5 per cent.

# Can vulnerable households afford a basic standard of living?

Another approach to understanding the cost of living is to simulate expenditure patterns of model low-income households and see how changes in living costs affect their household budgets. Households on lower incomes often have to ration their consumption and spend a greater proportion of their income on essential goods and services. As a result, they are likely to be disproportionately affected by price rises in key items such as housing, utilities, food and transport. Looking at how these costs impact on them can help us to formulate better policy and service responses, including concessions on State household fees and charges, as well as financial counselling and emergency relief services for those in financial hardship.

This section looks at the analysis undertaken for the WACOSS 2017 Cost of Living in WA Report (WACOSS, 2017). The model below is based on that developed by the Western Australian Council of Social Service (WACOSS) in 2009 and extended to three households in 2012 (see, for example WACOSS (2016)). It has since been adopted by other state Councils with most COSSes now producing their own state or territory reports (e.g. QCOSS (2014)). The model has been further extended in 2017 to include an age pensioner couple household (including a comparison of home ownership versus rental versus costs). Four different representative households have been selected, with differences in household makeup, circumstances, income and consumption needs enabling us to consider how different kinds of low-income households are affected by changing economic circumstances.

Consumption patterns for each household are based on the average expenditure for similar households derived from the 2008-09 and 2015-16 ABS Household Expenditure Surveys, with 'live' representative costs at a state or regional level included for items such as housing, utilities, transport, food and health. The use of this 'live' data enables us to track the comparative impact of changes in different costs from year to year on the households (particularly in the years where HES data is not available). It is important to understand that low income households will change their consumption and expenditure patterns in response to changing costs – meaning that our model may provide an accurate reflection of living cost pressures for these households, but may not reflect changes in consumption and expenditure *patterns* by actual households in response to those changes in prices. This also means that the relative changes in costs between expenditure categories from year to year is more informative than the balance of income and expenditure in any given year in understanding the impact of the cost of living. The characteristics and assumptions for each household are shown in Table 11. They pertain to age, number of children, employment status and, supplementary income, housing and transport.

**Table 11 Four model low-income West Australian households**

	Single parent	Working family	Unemployed single	Aged pensioners
Household members	Single mother with two dependent children	Working family with two school aged children	Single, unemployed female	Couple, retired
Age	34 years old, with two children aged 7 and 8	2 adults aged 40 and 38 years, with two children aged 11 and 13	44 years old	2 adults aged 67 and 69 years
Income source	Mother works 18 hours a week for 39 weeks a year at minimum wage + casual loading. Eligible for government payments.	1 works full time (minimum wage + 33 per cent); the other casual (16 hours per week at minimum wage with casual loading). Eligible for government payments.	Newstart Allowance only	Aged Pension and supplements only
Housing	Rents a unit (85 per cent median unit rental).	Rents a house (85 per cent median house rental)	Shares a house with two other adults (paying one third of 85 per cent median house rental).	Renters: Rent a unit (85 per cent median unit rental).  Owners: Own a house
Education	Both children attend a public primary school	Both children attend a public primary school	N/A	N/A
Transport	Owns a small car	Own a small car and uses public transport for 5 round trips per week.	Public transport is only mode of transport (5 round trips per week).	Renters: Public transport is only mode of transport (5 round trips per week).
Health	No private health insurance	Has basic private health insurance	No private health insurance	No private health insurance

Source: BANKWEST CURTIN ECONOMICS CENTRE | 'WACOSS Cost of Living Report 2017'; WA Council of Social Service.

It is important to note that the assumptions we make about the expenditure patterns of our representative households can mask some difficult decisions and trade-offs made by real-world families. For instance, we assume the household is able to secure a rental property for 85 per cent of median rental, but affordable properties for low income households can be very hard to come by.<sup>5</sup> Our family might not be able to find a place they can afford close to work or school – do they end up paying higher rent to stay in the same area, but having to cut corners on their food and transport costs to get by? Or do they move to a cheaper place out on the fringes of the city, only to find their transport costs go up drastically or that they are paying much more in utility costs to heat or cool a poorly built and insulated property (and missing out on access to jobs and services)?

The analysis below has also sought for the first time to partially model the comparative living costs for our four household models in the different regional centres of WA. To do so we are forced to make some assumptions about consumption and expenditure patterns that may require further analysis. We have used data on the comparative costs of regional goods and services derived from the RPI produced by the Department of Primary Industries and Regional Development (as discussed in Chapter 1, p 23) together with limited data on cost for the rest of the state from the Household Expenditure Survey. One place we have sought to make our consumption patterns more realistic is in relation to utility costs, as we are aware that significant differences in climate in the Northwest contribute to much higher utility costs for heating and air-conditioning. To this end we have used average consumption data for each region provided by Horizon Power, Synergy and the Water Corporation.

5 As demonstrated by the WA data in the 2017 Anglicare Rental Affordability Snapshot, Anglicare Australia (Anglicare, 2017).

Table 12 through to Table 15 show the WACOSS (2017) estimated weekly expenditure for the four households. The *single parent family* (Table 12) is comprised of a single parent with two primary school children.<sup>6</sup> The parent works part-time, rents a unit, and owns a small car. The parent is assumed to already be working 18 hours a week for 39 weeks of the year while the children attend school. WACOSS' calculations assume that the parent is unable to work during school holidays in order to care for the children. This household is eligible to receive Parenting Payment Single (rather than being shifted to the much lower Newstart Allowance) due to one of the children being below the age of 8. Over the past three years, the single parent household has seen their 'bottom line' (total income less total expenditure) increase from \$6 to \$72 to \$103 per week. However, their income has been reduced in the current financial year by the cancellation of the Schoolkids Bonus (for which they received the last half-yearly payment in December) and is expected to fall further in the coming year as a consequence. WACOSS (2017) states that it is important to remember that these calculations make little allowance for the family to save, or for the parent to undertake training for improved future employment prospects, or enable the family to respond in unanticipated emergencies.

**Table 12** Income and expenditure for single-parent family, WA, 2014-15 to 2016-17

Household = Single parent	2014-15	2015-16	2016-17	2016-17/ 2015-16	2016-17/ 2015-16
<b>Weekly income</b>					
Wage (gross)	\$394.30	\$402.60	\$410.30	\$7.70	1.9%
Parenting Payment	\$241.80	\$245.30	\$247.60	\$2.30	0.9%
Other regular government benefits	\$309.10	\$318.20	\$319.30	\$1.10	0.4%
Government supplements *	\$51.70	\$54.30	\$46.00	-\$8.30	-15.2%
Tax paid	\$58.70	\$48.20	\$50.10	\$1.90	3.9%
Total household income	\$944.10	\$978.00	\$979.00	\$1.00	0.1%
<b>Weekly expenditure</b>					
Rent	\$357.00	\$324.10	\$289.00	-\$35.10	-10.8%
Food and beverage	\$220.70	\$219.20	\$220.30	\$1.10	0.5%
Utilities	\$35.90	\$37.50	\$39.20	\$1.70	4.5%
Transport	\$55.20	\$54.80	\$56.80	\$2.00	3.6%
Other - housing and living costs	\$269.50	\$270.40	\$270.40	\$0.10	0.0%
Total household expenditure	\$938.20	\$905.90	\$875.70	-\$30.30	-3.3%
<b>Weekly difference</b>					
Total income	\$944.10	\$978.00	\$979.00	\$1.00	0.1%
Total expenditure	\$938.20	\$905.90	\$875.70	-\$30.30	-3.3%
Difference	\$6.00	\$72.10	\$103.30	\$31.20	43.3%

Note: \* One off payments, converted to weekly figures.

Source: BANKWEST CURTIN ECONOMICS CENTRE | 'WACOSS Cost of Living Report 2017'; WA Council of Social Service.

The *working family* (Table 13) consists of one parent working full time, one doing part-time casual employment, and two school aged children. The family rents a house, owns a small car, and use public transportation for five round trips a week. In 2016-17, WACOSS' calculations show that this family's weekly income surpassed their basic living costs by \$173 per week, which is an increase of \$42 from the year before. WACOSS (2017) further notes that while the continued improvement provides some allowance for the family to save or to cover unexpected expenditure, if either of the couple loses their job or have their hours reduced their financial position could be very different.

<sup>6</sup> Noting that a similar outcome is achieved when the parent continues to work during school holidays to maintain employment, but effectively spends most of the additional income on child care costs.

**Table 13** Income and expenditure for working family, WA, 2014-15 to 2016-17

Household = Working family	2014-15	2015-16	2016-17	2016-17/ 2015-16	2016-17/ 2015-16
<b>Weekly income</b>					
Combined wages (gross)	\$1,221.90	\$1,247.70	\$1,271.40	\$23.70	1.9%
Regular government benefits	\$254.10	\$262.40	\$263.00	\$0.60	0.2%
Government supplements *	\$58.90	\$59.30	\$47.00	-\$12.30	-20.8%
Tax paid	\$137.50	\$143.90	\$131.40	-\$12.50	-8.7%
<b>Total household income</b>	<b>\$1,397.50</b>	<b>\$1,425.60</b>	<b>\$1,450.00</b>	<b>\$24.50</b>	<b>1.7%</b>
<b>Weekly expenditure</b>					
Rent	\$376.10	\$344.30	\$316.60	-\$27.70	-8.0%
Food and beverage	\$316.60	\$314.70	\$316.30	\$1.60	0.5%
Utilities	\$53.90	\$56.20	\$58.60	\$2.30	4.1%
Transport	\$87.50	\$88.00	\$90.40	\$2.50	2.8%
Other - housing and living costs	\$487.40	\$491.50	\$495.20	\$3.80	0.8%
<b>Total household expenditure</b>	<b>\$1,321.40</b>	<b>\$1,294.60</b>	<b>\$1,277.10</b>	<b>-\$17.60</b>	<b>-1.4%</b>
<b>Weekly difference</b>					
Total income	\$1,397.50	\$1,425.60	\$1,450.00	\$24.50	1.7%
Total expenditure	\$1,321.40	\$1,294.60	\$1,277.10	-\$17.60	-1.4%
<b>Difference</b>	<b>\$76.10</b>	<b>\$131.00</b>	<b>\$173.00</b>	<b>\$42.00</b>	<b>32.1%</b>

Note: \* One off payments, converted to weekly figures.

Source: BANKWEST CURTIN ECONOMICS CENTRE | 'WACOSS Cost of Living Report 2017'; WA Council of Social Service.

The next household is the *unemployed single person* (Table 14), whose only income derives from government allowances and benefits. This person is currently looking for work, lives in shared accommodation, and relies on public transport to get to appointments (such as with Centrelink or for interviews). In this latest iteration of the modelling, in 2016-17, the weekly income for the unemployed single person has only increased by 1 per cent, which translates to an extra \$3.10 per week to make ends meet. The weekly expenditure on basic living costs has decreased by 2.3 per cent (\$7.90) over the past 12 months, meaning they fall \$23.66 short of being able to achieve a basic standard of living in line with community expectations. The gap between income and expenditure, which has been negative for the past three years, means that in practice they have to make some very tough choices about which basic everyday living items are most essential in a given week. The ongoing, negative difference is a clear indication that this person is struggling to meet a basic standard of living in WA and is facing financial hardship (WACOSS, 2017).

**Table 14** Income and expenditure for unemployed single, WA, 2014-15 to 2016-17

Household = Unemployed single	2014-15	2015-16	2016-17	2016-17/ 2015-16	2016-17/ 2015-16
<b>Weekly income</b>					
Newstart Allowance	\$257.70	\$261.80	\$263.30	\$5.50	2.1%
Rent Assistance	\$42.50	\$42.80	\$42.50	-\$0.30	-0.8%
Clean Energy Supplement	\$4.40	\$4.40	\$4.40	\$0.00	0.0%
Tax paid	\$0.00	\$0.00	\$0.00	\$0.00	0.0%
Total household income	\$304.70	\$309.00	\$312.10	\$3.10	1.0%
<b>Weekly expenditure</b>					
Rent	\$125.40	\$114.80	\$105.50	-\$9.20	-8.0%
Food and beverage	\$95.90	\$95.50	\$96.00	\$0.50	0.5%
Utilities	\$16.60	\$17.30	\$18.00	\$0.70	4.2%
Transport	\$13.00	\$13.30	\$13.80	\$0.50	4.1%
Other - housing and living costs	\$102.60	\$102.90	\$102.40	-\$0.50	-0.5%
Total household expenditure	\$353.50	\$343.70	\$335.70	-\$7.90	-2.3%
<b>Weekly difference</b>					
Total income	\$304.70	\$309.00	\$312.10	\$3.10	1.0%
Total expenditure	\$353.50	\$343.70	\$335.70	-\$7.90	-2.3%
Difference	<b>-\$48.80</b>	<b>-\$34.70</b>	<b>-\$23.60</b>	<b>\$11.10</b>	<b>-32.0%</b>

Source: BANKWEST CURTIN ECONOMICS CENTRE | 'WACOSS Cost of Living Report 2017'; WA Council of Social Service.

WACOSS (2017) added an additional household - that of an *age pensioner couple* - in their latest modelling (Table 15). This is a retired couple aged 67 and 69. As retirees, the couple's only income is from the Age Pension and supplements. Two housing scenarios are provided: one where the couple rents a unit (at 85 per cent of the median unit rental cost), and the other where the couple owns a house. For weekly income the only difference between the two scenarios is the rent assistance of \$61.70 per week. This modest amount for the renters only partially offsets the \$289 additional spent on rent each week, which does not affect the home owners. Overall, WACOSS' (2017) modelling shows that the rental couple has a positive balance of only \$12.70 per week, while the home owners have a more healthy balance of \$230 per week. This suggests that home ownership is critical to the financial resilience of retirees, particularly those reliant on the aged pension.

**Table 15** Income and expenditure for age pensioners, WA, 2016-17

Household = Aged pensioners	2016-17 Renters	2016-17 Home Owners
<b>Weekly income</b>		
Aged Pension	\$603.20	\$603.20
Rent Assistance	\$61.70	\$0.00
Clean Energy Supplement	\$10.60	\$10.60
Pension Supplement	\$49.30	\$49.30
Cost of Living Rebate	\$2.50	\$2.50
Tax paid	\$0.00	\$0.00
Total household income	\$727.10	\$665.40
<b>Weekly expenditure</b>		
Rates and charges	\$0.00	\$25.60
Rent	\$289.00	\$0.00
Food and beverage	\$181.10	\$181.10
Utilities	\$42.10	\$44.10
Transport	\$13.80	\$43.30
Other - housing and living costs	\$188.40	\$188.40
Total household expenditure	\$714.40	\$482.60
<b>Weekly difference</b>		
Total income	\$727.10	\$665.40
Total expenditure	\$714.40	\$482.60
Difference	<b>\$12.70</b>	<b>\$182.90</b>

Source: BANKWEST CURTIN ECONOMICS CENTRE | 'WACOSS Cost of Living Report 2017'; WA Council of Social Service.

Taken together, the analysis of the four different WACOSS household models highlights the different ways that cost of living pressures impact on low-income households dependent on their makeup, circumstances and sources of income. We see that our low income working family remains more financially resilient (due primarily to a reduction in the median house rental price during a period where their income has remained flat), whereas at the other end of the scale, our unemployed single is facing significant financial hardship due to the inadequacy of their income from the Newstart Allowance.

The circumstances of our single parent household appear on the surface to be relatively stable (if they have managed in practice to secure a reduction in the cost of rental for their unit), however they face a further significant reduction in income in the coming year as a result of the cancellation of the Schoolkids Bonus. Taken in the context of the longer-term trends in income (Figure 23, p 50) and expenditure (Figure 30, p 72) their current housing, essential and discretionary spending patterns reflect the more dramatic reduction in discretionary spending experienced by lone parent households compared to couples (Figure 31, p 73).

Consideration of the circumstances of a retired couple on the aged pension highlights the significant disparity in financial resilience between those who own their own home on retirement (and can get by the most comfortably of our different low-income households) and those who are still struggling to find affordable rental in age, and continue to struggle to make ends meet. This is confirmed by the analysis of expenditure shares in Chapter 3 that highlight housing as the biggest single area of expenditure (Table 11, p 62) and the fastest rising area as a share of expenditure in recent years (Figure 28, p 59), particularly for households experiencing deprivation or financial hardship (Figures 33 & 34, p 76).

From a policy point of view, this highlights that the single most critical area for intervention to reduce rates of hardship and deprivation and to address child poverty is housing affordability. While State government concessions for transport and utilities remain critical in ensuring affordability and equity of access to these essential services by vulnerable groups, they are unlikely to reduce in any meaningful way the rates of financial hardship while housing costs remain so high – given their relative proportion of expenditure. Taken together with an increasing trend of fewer households owning their home on retirement, we are likely to see an increased risk of poverty and financial hardship in age over time, exacerbated by population ageing.

# Vulnerable households living in regional WA

The tables below provide some analysis of essential living costs in regional areas taken from the *WACOSS 2017 Cost of Living Report*. Limitations of the data on detailed household expenditure patterns in the ABS Household Expenditure Survey mean there is insufficient detail to confidently extend the WACOSS household models to individual regions within WA. The data below accurately reflects the differences in costs of essential items, but we recognise that low income households living in these regions will change their actual expenditure patterns to compensate so they can balance their weekly budget.

**Table 16** Weekly expenditure across the regions - Rent

Household type	Perth	Gascoyne	Goldfields-Esperance	Great Southern	Kimberley	Mid West	Peel	Pilbara	South West	Wheatbelt
Single parent and age pensioners	\$289.00	\$335.75	\$240.13	\$237.79	\$302.39	\$175.31	\$235.45	\$253.51	\$256.70	\$247.56
Working family	\$317.05	\$419.69	\$298.56	\$302.81	\$459.85	\$243.31	\$272.64	\$333.84	\$288.58	\$252.03
Unemployed person	\$105.54	\$164.58	\$117.08	\$118.75	\$180.33	\$95.42	\$106.92	\$130.92	\$113.17	\$98.83

Source: BANKWEST CURTIN ECONOMICS CENTRE | Calculations based on REIWA data.

Analysis of rental costs for the four WACOSS model households based on REIWA data is included in Table 16. It is important to note that availability can become a much more critical factor in regional areas with smaller housing markets and a more limited range of choice. So while our analysis reflects the actual costs of the type of appropriate housing assumed in the four models, real households may not be able to secure appropriate housing in some regional centres and forced to compromise on either the appropriate size for their household makeup or on affordability.

For our single parent and aged pensioner households (both of whom rent a 2 bedroom unit) median rental costs are significantly lower in the Midwest (\$112 less per week), and comparably lower in the Peel, Great Southern, Goldfields and Wheatbelt (between \$42 and \$54 less). Rental is also slightly lower in the Southwest and Pilbara (\$33 to \$36 cheaper, showing a big turn-around in rental costs from the peak of the resources boom) by comparison to those in Perth. Rental costs in the Kimberley are comparable but slightly higher (an extra \$13 per week), while the highest median rental cost for a two bedroom unit is in the Gascoyne (where it costs nearly \$50 more than the metro area) perhaps reflecting the lack of this kind of housing stock.

For our working family and single unemployed person (who are looking to rent or share a three bedroom house) the differences in housing costs are somewhat similar, with a few variations reflecting the comparative availability and demand for different types of housing stock. The most expensive housing is in the Kimberley (\$132 extra) and Gascoyne (\$102 extra) compared to Perth, with costs also slightly higher in the Pilbara (\$16 extra). In contrast, the lowest housing costs for our working family are in the Midwest (-\$74), Wheatbelt (-\$65) and Peel (-\$45) with the cost in other regions only slightly less to those in Perth metropolitan region.

**Table 17** Weekly expenditure across the regions – Food and beverages

Household type	Perth	Gascoyne	Goldfields-Esperance	Great Southern	Kimberley	Mid West	Peel	Pilbara	South West	Wheatbelt
Single parent	\$202.83	\$220.07	\$220.48	\$202.63	\$227.98	\$215.81	\$201.82	\$223.72	\$204.66	\$211.55
Working family	\$291.68	\$316.48	\$317.06	\$291.39	\$327.85	\$310.35	\$290.22	\$321.73	\$294.31	\$304.23
Unemployed person	\$88.85	\$96.40	\$96.58	\$88.76	\$99.87	\$94.54	\$88.41	\$98.00	\$89.65	\$92.67
Age pensioners	\$177.70	\$192.81	\$193.16	\$177.52	\$199.74	\$189.08	\$176.81	\$196.01	\$179.30	\$185.34

Source: BANKWEST CURTIN ECONOMICS CENTRE | Calculations based on ABS 2015-16 HES and RPI data.

By comparison, weekly expenditure on food for our single parent household is comparable in the Perth, Pilbara, Great Southern and Southwest regions, and only marginally higher in the Wheatbelt (\$9 extra) and Midwest (\$13 extra). Food expenditure is higher in the Goldfields (\$18 extra) and Pilbara (\$21 extra), and highest in the Gascoyne (\$33 extra). The pattern of expenditure differences is very similar for the other households – with comparable food costs for the working family in the Perth, Pilbara, Great Southern and Southwest regions, marginally higher costs in the Wheatbelt (\$5 extra) and Midwest (\$19 extra). Food expenditure is higher in the Midwest (\$19 extra), Gascoyne (\$25 extra), Goldfields (\$26 extra), and Pilbara (\$30 extra), and highest in the Kimberley (\$36 extra).

The same pattern generally holds true for our aged pensioner couple and our unemployed single – with highest food costs in the Kimberley, Pilbara, Gascoyne and Goldfields, and only marginal differences in costs in the other regions.

**Table 18** Weekly expenditure across the regions – Electricity

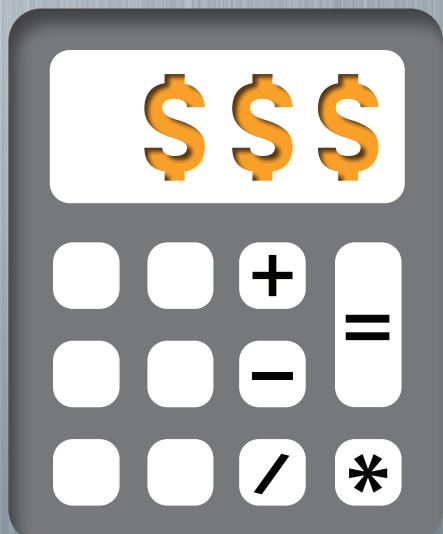
Household type	SWIS	NWIS	West Kimberley	Gascoyne/Mid West	Esperance
Single parent	\$15.52	\$39.03	\$34.47	\$19.67	\$12.84
Working family	\$31.04	\$58.70	\$53.33	\$35.92	\$27.88
Unemployed person	\$8.85	\$18.07	\$16.28	\$10.48	\$7.80
Age pensioners	\$22.41	\$45.92	\$41.36	\$26.56	\$19.72

Source: BANKWEST CURTIN ECONOMICS CENTRE | Calculations based on data supplied by Synergy and Horizon Power.

The patterns of weekly expenditure on utilities show the most dramatic regional variations, with all household models consistently spending twice as much on electricity in the Northwest Interconnected System (Pilbara) and West Kimberley as they do in the Southwest Interconnected System (Perth, Peel and Southwest), only marginally more in the Gascoyne and Midwest, and slightly less in the Esperance region. While all our household models spend a comparatively small proportion of their overall weekly budget on utilities (around 4 - 5%) in the Perth region, the significant increase in regional electricity expenditure combined with the seasonal and intermittent nature of electricity bills is likely to mean that low-income regional households are much more at risk of bill shock, and more likely to get into utility debt during the peak summer period.

# From

numbers to issues surrounding  
the cost of living



## From numbers to issues surrounding the cost of living

After analysing several datasets on prices, expenditure and cost of living indicators, this chapter examines in more detail a number of topical issues surrounding the cost of living in Western Australia. The first is the measurement of standard of living and cost of living adjustments.

# The impact of the resources boom

This section seeks to understand the impact of the resources boom on the cost of living for West Australians. It is widely acknowledged that the boom brought along with record profits for Australia's multinational resources companies a significant increase in income for blue and white collar workers associated with the industry. This includes, apart from mining, construction, professional, technical and scientific services and financial and insurance services. Whilst income for a group of professions is commonly thought to have initiated an imbalance in the economy – a two speed economy – the downside is that prices have been pulled up for the general public.

When judged by trends in mining investment and commodity prices, the start of the boom can be dated to 2005, and lasting, by various measures, just under a decade by 2012-13. Two notable studies of the resources boom, one researched in the midst of the boom and one post event, are Garton (2008) and Tulip (2014)<sup>7</sup>. Garton (2008) discusses the 'two-speed economy' with the mining states (prominently featuring Western Australia) and the non-mining states. Tulip (2014) presents findings from a macroeconomic model on the impact of the mining boom on several macro indicators.

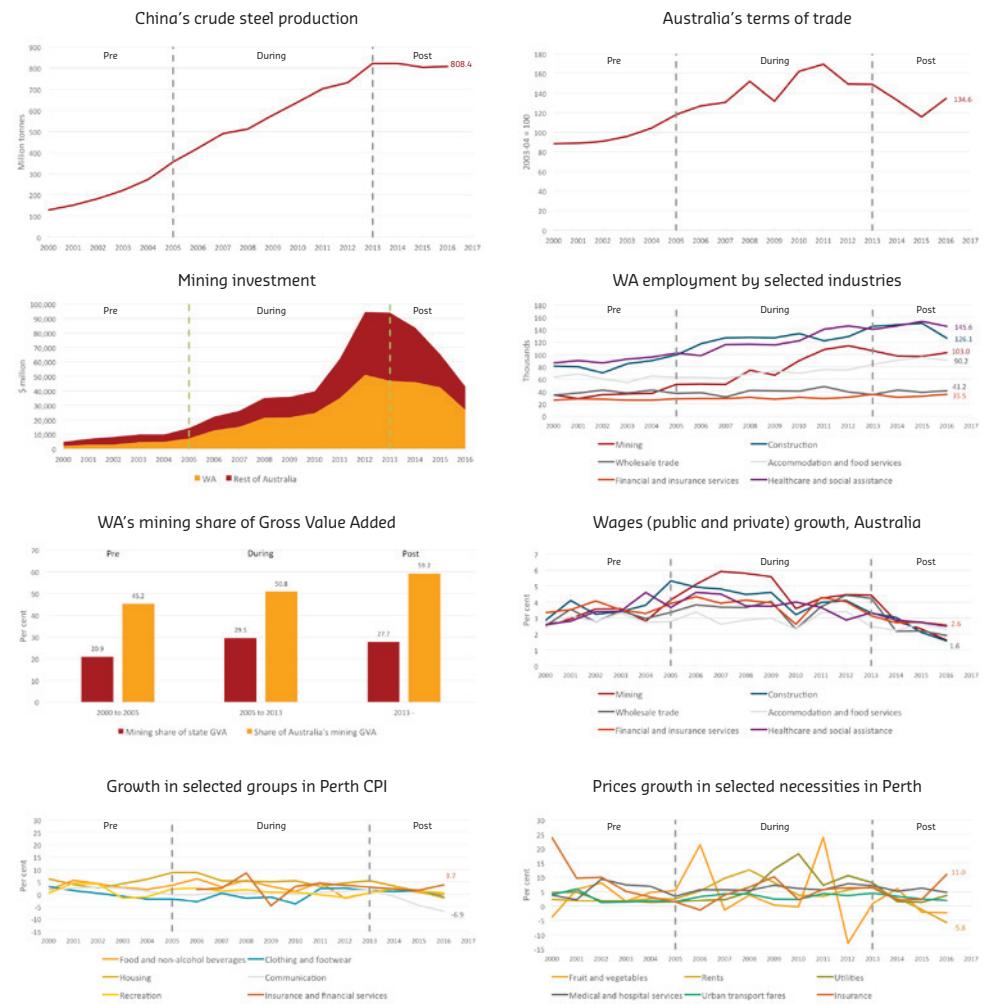
Figure 30 depicts indicators related to the resources boom from the source to measures of cost of living for Perth and Australia. Its aim is to trace the steps from the origins of the resources boom and its ultimate flow on through to the costs of living in Western Australia.

As part of China's push to grow its economy and further industrialise, the onset of rural-urban area migration led to a boost in steel production. Steel is used to feed infrastructure projects on residential and non-residential construction, roads and rail networks, as well as in other sectors such as machinery and shipbuilding. Australia, in particular Western Australia, is a beneficiary of this as one of the world's largest producer of iron ore, which is the main ingredient in steelmaking. The demand for iron ore is reflected in a rise in Australia's terms of trade (an index of export prices relative to import prices) during the mining boom years. Concomitantly, significant investment was undertaken in Western Australia on mining and related activities. New greenfield projects supplemented brownfield project expansions. Capacity was increased in rail and ports. This led to an uptick in employment in mining, construction and other related sectors. Along with this, wages, particularly in the mining and construction sectors, rose.

The bottom two panels of Figure 30 show growth rates in components of the CPI in the three phases – pre mining boom, during the boom, and post boom. Whilst there is an indication of increased volatility in prices growth in the broad CPI groupings, there is some evidence of the prices of several necessities increasing during the mining boom.

<sup>7</sup> Tulip (2014) is a more accessible version of the study by Downes *et al.* (2014).

**Figure 30 The resources boom: From Chinese growth to Perth and Australian prices**



**Note:** Pre-boom is 2004 and prior, During-boom is 2005 to 2013, and Post-boom is 2014 and beyond. The terms of trade series is based on the last quarter of the calendar year and is rebased to 2003-04 = 100. Mining investment is expressed as the ratio of actual private new capital expenditure in mining to total actual private new capital expenditure, where the annual data is obtained by averaging the four quarters of the year. Employment is total employed by industry in Western Australia.

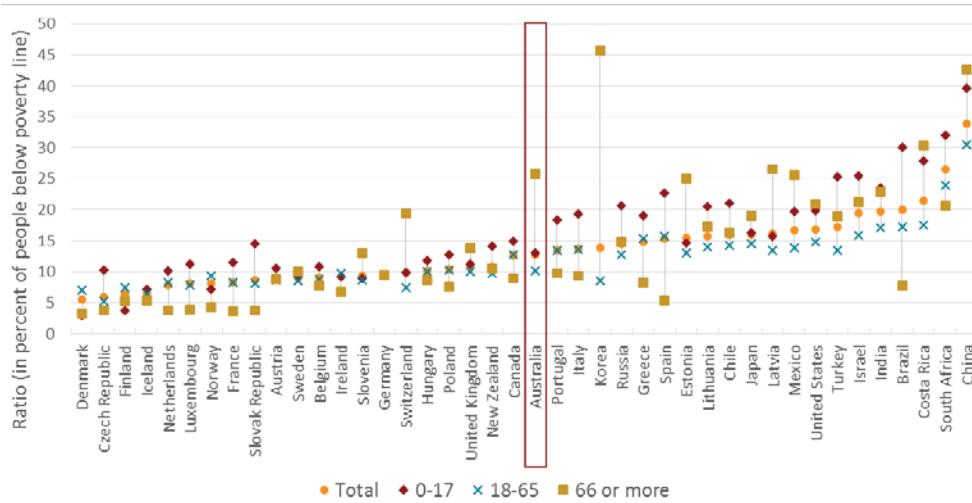
**Source:** BANKWEST CURTIN ECONOMICS CENTRE | Worldsteel Association, ABS cat no 5206.0, 5220.0, 5625.0, 6291.0.55.003 and 6401.0.

# On poverty, indebtedness and low-income households in WA

This section considers poverty and households in Western Australia that are doing it tough. A BCEC report in 2014 examined poverty and disadvantage in Australia in detail (Cassells *et al.*, 2014). This section will begin with an international comparison of rates of poverty. Following that, selected analyses for WA are highlighted. This includes an examination of a sample of data from households in WA who have sought financial counselling.

The OECD compiles data on the poverty rate for various age groups of its member countries. Figure 31 shows the rate (ratio of the number of people whose income falls below the poverty line<sup>8</sup>) for the entire population, 0-17 year olds, 18-65 year olds and 66 year-olds or more. In terms of total poverty rate, Australia falls around the middle of the group of countries, where Denmark has the lowest poverty rate and China has the highest. 2014 data for Australia reveals a total poverty rate of 12.8 per cent. Those in the 0-17 age group have a poverty rate of 13 per cent, 18-65 is 10.2 per cent, and those aged 66 and above is 25.7 per cent.

**Figure 31** Poverty rate among OECD countries, total and by age segments



Note: Data sorted in ascending order of total poverty rates. Data are for the latest available year ranging from 2011 to 2016 (Australia, 2014).  
 Source: BANKWEST CURTIN ECONOMICS CENTRE | OECD.

A good definition of poverty is the situation where a household's income is inadequate to the extent that it precludes them from having an acceptable standard of living. There is of course much that are 'general' in this definition. Circumstances differ not only between different households but also across countries. A family that is considered as being in poverty in a first world country would be an aspiration to others in less developed nations.

The concept and measurement of poverty is often contested, for how we define it can have different implications for policy development and moral suasion. In simple terms 'income poverty' is when an individual, household or family's income fails to meet an established threshold – usually defined by what is generally considered a basic but 'acceptable' or 'decent' standard of living within a particular society. The analysis above of poverty rates in the OECD uses a relative measure of income poverty, defined as less than 50 per cent of median income (also known as the Henderson

<sup>8</sup> Taken as half the median household income of the total population.

poverty line). Relative measures of poverty are sometimes contrasted with 'absolute' definitions of poverty based on the amount of money necessary to meet the most basic survival needs, such as food, clothing and shelter.<sup>9</sup> Comparisons between first-world and third-world poverty often contrast the quality of life and life expectancy of those suffering resource deprivation in the 'un-developed' and 'developing' versus 'developed worlds'. Such comparisons may be useful in making the case for increased overseas aid, but they do little to recognise the impacts of social and economic exclusion within our own society and our obligations to those less fortunate in our community arising from the social contract.

**Table 19 Households with debt three or more times income, 2005-06 to 2015-16**

States and territories	2005-06		2009-10		2011-12		2013-14		2015-16	
	Per cent	Rank								
New South Wales	26.7	1	25.0	3	24.1	5	25.8	5	26.4	5
Victoria	23.6	2	22.9	5	22.2	7	25.2	6	26.2	6
Queensland	23.1	4	24.8	4	25.9	2	26.1	4	27.7	4
South Australia	19.8	7	21.0	7	22.8	6	23.1	7	26.0	7
Western Australia	23.6	2	28.4	1	29.6	1	31.5	1	31.9	2
Tasmania	14.2	8	15.1	8	18.0	8	17.9	8	18.8	8
Northern Territory	21.1	5	26.2	2	25.4	3	27.7	2	37.4	1
Australian Capital Territory	20.4	6	21.2	6	24.9	4	27.1	3	29.0	3
Australia	23.9		24.2		24.4		26.0		27.2	

Note: Income is current disposable household income annualised.

Source: BANKWEST CURTIN ECONOMICS CENTRE | ABS cat no 6523.0, September 2017.

There are three established methods for measuring poverty – relative income poverty (such as the Henderson line), relative deprivation (that is, lack of access to essential goods and services relative to established community standards) and subjective or experiential poverty (an individual's perception of themselves as 'poor' or excluded). A high level of correlation has been demonstrated between relative and deprivation measures of poverty. Relative income poverty measures are considered more statistically reliable and are easier to measure, while deprivation measures are more difficult and expensive to collect but can provide useful insights into both community attitudes and lived experience of poverty. The concept of relative deprivation is linked to the capability or empowerment perspective, seen in the UN Development Program (see, for example, UNDP, 1997) and Amartya Sen's work on capability deprivation (Sen, 2000). More recently the UN Sustainable Development Goals have extended the concept of 'inclusive development' to set targets for increasing the income of the bottom 40 per cent of households relative to the rest of society (hence reducing inequality) (Gupta and Vegelin, 2016).

Application of a 50 per cent poverty line in Western Australia by comparison to the national median income suggests that 14 per cent or 240,000 Western Australians are living in relative poverty (ACOSS, 2016). However, if the comparison is made in relation to state median income (which provides a better reflecting of both living standards and costs within the state) this figure rises to 17.6 per cent or around 360,000 Western Australian's living in poverty – as shown in Table 20. Perth ranks sixth across all state capitals when comparing relative poverty rates at a standard 50 per cent measure, suggesting lower overall rates of poverty. However, it ranks second when we compare the number of households living in severe poverty (that is,

9 See for instance UNESCO definition of poverty:  
<http://www.unesco.org/new/en/social-and-human-sciences/themes/international-migration/glossary/poverty/>

below 30 per cent of median income), indicating higher rates of inequality and a small subclass of citizens who are being left further behind.

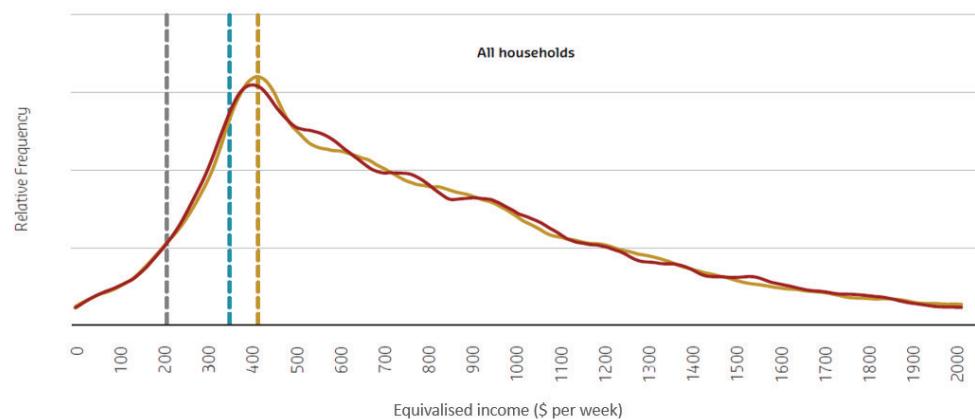
**Table 20** Poverty rates using state-specific median incomes, 2003-04 to 2013-14

States and territories	Median equivalised disposable income by state/territory and year as a share of national median						National poverty line	State poverty line
	2003-04	2005-06	2007-08	2009-10	2011-12	2013-14		
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
New South Wales	103%	99%	96%	98%	99%	99%	16.6%	16.6%
Victoria	103%	100%	104%	100%	97%	102%	16.6%	15.9%
Queensland	95%	100%	102%	98%	99%	96%	16.0%	14.6%
South Australia	95%	95%	95%	98%	92%	92%	14.9%	12.2%
Western Australia	99%	103%	108%	106%	112%	111%	14.1%	17.6%
Tasmania	92%	92%	86%	89%	89%	90%	16.7%	11.9%
ACT/NT	127%	134%	130%	138%	133%	135%	10.2%	15.8%

Source: BANKWEST CURTIN ECONOMICS CENTRE | Reproduction of Bankwest Curtin Economics Centre, 'Poverty Week Presentation', October 2016.

Figure 32 shows the distribution of equivalised incomes for Western Australia showing the 30 per cent (grey) extreme poverty, 50 per cent (blue) poverty line and 60 per cent (gold) at risk category, indicating that an additional 150,000 Western Australians are potentially vulnerable to financial hardship – should they experience an unforeseen crisis, like a loss of work income, a series accident or a rise in interest rates.

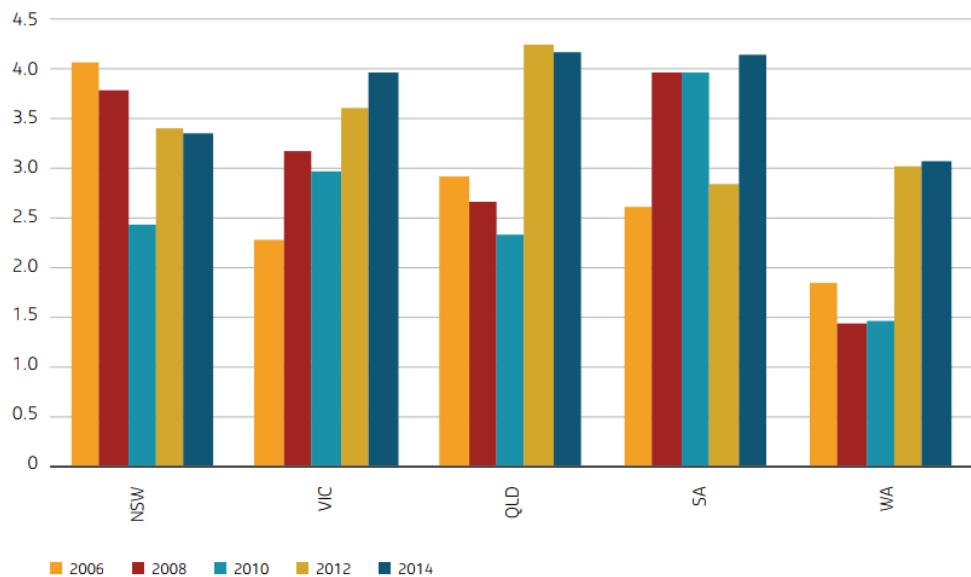
**Figure 32** Distribution of equivalised incomes and poverty lines



Source: BANKWEST CURTIN ECONOMICS CENTRE | Reproduction of slide in Bankwest Curtin Economics Centre, 'Child Poverty: Prevalence and Progress', WACOSS Community Relief and Resilience Conference, Perth Zoo, 26 July 2017.

Figure 32 provides an analysis of HILDA data on self-reported employment vulnerability, showing a doubling of Western Australian households between 2010 and 2014 (from 1.5 to 5%) who fear they could lose their job in the coming year.

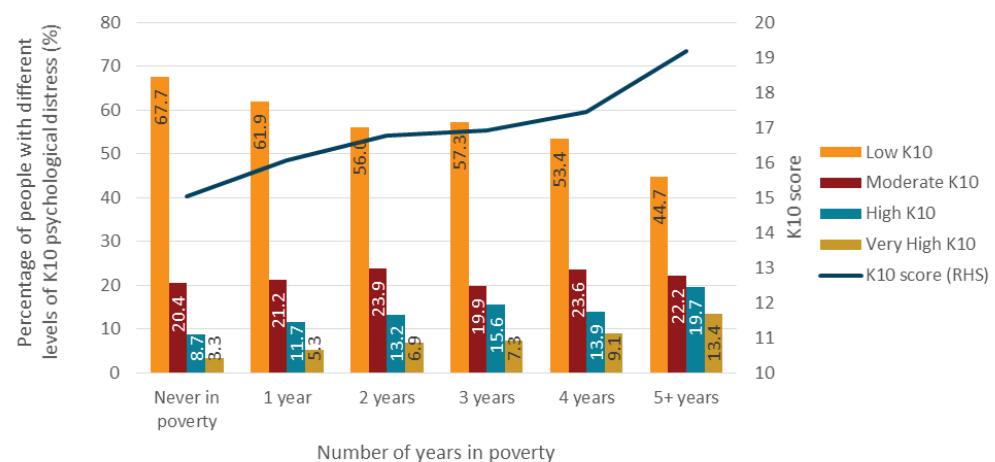
**Figure 33** Share of employees who report more than 50 per cent likelihood of losing their job next year, five most populous states, 2006 to 2014



Source: BANKWEST CURTIN ECONOMICS CENTRE | Reproduction of Figure 37 of Bankwest Curtin Economics Centre, 'Back to the Future: Western Australia's economic future after the boom', Focus on Western Australia Report Series, No.8, October 2016.

Poverty is a well-established social determinant of health, including psychological health (Marmot, 2005). Persistent poverty plays a demonstrable role in increasing levels of psychological distress (Figure 34).

**Figure 34** Persistent poverty and psychological distress



Source: BANKWEST CURTIN ECONOMICS CENTRE | Reproduction of slide in Bankwest Curtin Economics Centre, 'Child Poverty: Prevalence and Progress', WACOSS Community Relief and Resilience Conference, Perth Zoo, 26 July 2017.

# The effects of the minimum wage and underemployment on inequality

Conversations on poverty in developed countries typically involve discussions on the minimum wage. The national minimum wage is currently set at \$18.29 per hour which translates to \$694.90 before tax of a 38 hour week. Table 21 shows OECD data on the minimum (hourly) wage for Australia and other member countries. The wage data are expressed in US dollars fixed at 2015 prices. In 2016, Australia has the second highest minimum wage behind France.

**Table 21** Hourly minimum wages, 2015 US dollars, 2012 to 2016

Country	2012		2013		2014		2015		2016	
	\$/hour	Rank								
Australia	10.80	3	10.83	3	10.86	3	10.99	3	11.12	2
Belgium	10.35	4	10.44	4	10.41	4	10.35	4	10.15	5
Canada	7.73	9	7.78	9	7.83	9	7.95	10	8.07	10
Chile	2.50	26	2.70	26	2.80	27	2.80	28	3.00	28
Czech Republic	3.50	21	3.52	21	3.61	21	3.91	22	4.15	22
Estonia	2.84	25	3.05	23	3.39	24	3.74	23	4.12	23
France	10.97	1	11.02	1	11.08	2	11.17	2	11.22	1
Germany	..	..	..	..	..	..	10.30	5	10.25	4
Greece	4.65	15	4.54	17	4.60	17	4.68	19	4.72	19
Hungary	3.76	20	3.90	20	4.04	20	4.17	21	4.39	21
Ireland	8.64	6	8.60	7	8.58	7	8.61	8	9.11	8
Israel	5.17	13	5.27	13	5.25	13	5.60	14	5.85	14
Japan	7.02	11	7.12	11	7.07	11	7.16	12	7.35	11
Korea	4.56	17	4.78	16	5.06	15	5.38	16	5.76	16
Latvia	2.97	23	2.92	25	3.27	25	3.66	24	3.75	25
Luxembourg	10.88	2	11.00	2	11.28	1	11.22	1	11.00	3
Mexico	0.86	30	0.87	30	0.86	31	0.88	32	0.91	32
Netherlands	9.76	5	9.64	5	9.69	5	9.70	6	9.86	6
New Zealand	8.50	7	8.60	6	8.73	6	9.05	7	9.30	7
Poland	4.63	16	4.89	15	5.14	14	5.40	15	5.74	17
Portugal	4.16	19	4.15	19	4.20	19	4.31	20	4.50	20
Slovak Republic	3.46	22	3.46	22	3.46	22	3.46	27	3.46	27
Slovenia	6.81	12	6.87	12	6.90	12	6.96	13	6.96	13
Spain	4.98	14	4.94	14	4.95	16	5.00	17	5.06	18
Turkey	4.36	18	4.44	18	4.50	18	4.82	18	5.79	15
United Kingdom	8.00	8	7.94	8	8.00	8	8.23	9	8.44	9
United States	7.48	10	7.38	10	7.26	10	7.25	11	7.16	12
Colombia	2.30	27	2.40	27	2.40	28	2.40	29	2.40	29
Costa Rica	..	..	..	..	3.40	23	3.60	26	3.70	26
Lithuania	2.89	24	2.96	24	3.12	26	3.64	25	3.92	24
Brazil	1.90	28	2.00	28	2.00	29	2.00	30	2.00	30
Russian Federation	1.39	29	1.47	29	1.46	30	1.35	31	1.31	31

Note: Data expressed in 2015 constant price USD (PPP).  
Source: BANKWEST CURTIN ECONOMICS CENTRE | OECD.

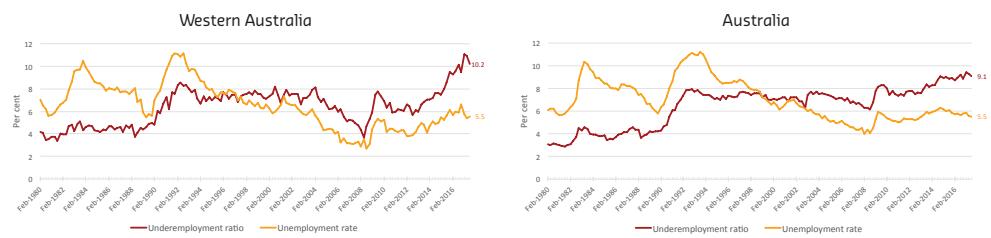
Australia and Western Australia have maintained a comparatively high minimum wage level. This has historically had a strong redistributive effect, mitigating the growth of inequality within our society. However, in recent years this impact has been undermined by a combination of low wage growth and growing underemployment (in contrast to growing rates of return on capital and the disconnect between productivity growth and wages). This combination of circumstances now means that,

According to OECD data Australia's hourly minimum wage has been between 2nd and 3rd highest over the past 5 years.

despite our minimum wage settings remaining comparatively high, we have seen growing inequality within our community linked to under-employment and precarious work.

The nature of work within our community has changed dramatically in the last two decades, with increasing levels of short-term and insecure employment, increasing uncertainty in hours worked and income received from week to week, and increasing levels of underemployment. Over the last ten years, Western Australia has seen a significant increase in levels of underemployment, reaching a seasonally adjusted rate of 11.1 per cent in February 2017 before falling to the current level of 10.2 per cent (Figure 35).

**Figure 35 Trends in underemployment and unemployment rates, WA and Australia, 1980 to 2017**



Note: Seasonally adjusted.

Source: BANKWEST CURTIN ECONOMICS CENTRE | ABS cat no 6202.0, Sep 2017.

The Western Australian labour market has seen a shift away from full-time to part-time employment, with full-time employment growth declining since the end of the mining boom, and a rise in the part-time employment growth rate to a recent high of 9.3 per cent in 2015-16, before witnessing a modest decrease of 0.5 per cent in 2016-17 (refer to Duncan *et al.*, 2016 for a comprehensive discussion of employment and the future of WA's economy). This trend has been particularly pronounced in WA's female labour force, where the growth in part-time work is outpacing the rest of Australia.

On releasing this data the ABS commented that: 'In recent years Australia's unemployment rate has been trending downwards while the underemployment rate has been trending upwards. This rise in the underemployment rate has led to a growing sentiment that the level of slack in Australia's labour market is not wholly represented by the unemployment rate, and that it is increasingly important to consider additional measures of labour underutilization like the underemployment rate. Since February 2015 there has been increasing divergence between the rates. While the unemployment rate has decreased 0.5 percentage points to 5.7 per cent, the underemployment rate has remained at 8.5 per cent, a series high.'

Western Australia is also seeing both a faster and greater growth in the share of casual employees than the rest of Australia, rising to 22.5 per cent in 2014.

Historically, Australia's strong minimum wage settings have meant that anyone who is gainfully and substantially employed would expect to be able to maintain a modest but decent standard of living, keep ahead of changes in the cost of living and have some resilience on the face of financial hardship. The changing nature of employment, with higher rates of underemployment and precarious employment, and more frequent transitions in and out of work, has reduced financial resilience, putting more working individuals and families at risk of poverty or financial hardship, and leading to increasing inequality within our community (as discussed below).

The 2012 Employment Outlook for Australia by the OECD Division for Employment Analysis focused specifically on their concerns with this growing trend of underemployment. They concluded that an underlying international trend towards underemployment had been greatly exacerbated by domestic policy settings. In effect, we are reporting higher employment and participation rate outcomes at the expense of underemployment.

Studies have shown that underemployment, like unemployment, can lead to poor mental health outcomes as a result of a financial hardship and a lack of a sense of mastery and social support. The lack of adequate employment can lead to high levels of distress, which may in turn hinder employment and educational opportunities (Crowe *et al.*, 2016).

The link between minimum wage levels and rates of unemployment and underemployment is contested, with employer organisations claiming that increasing minimum wages will lead to job losses (CCIWA, 2017). The Low Pay Commission in the United Kingdom recently reported research conducted over the last 15 years demonstrated that increases in the minimum wage in the UK have had no significant effect on employment or hours at an aggregate level (Low Pay Commission, 2016). It is worth noting that this period included introduction of a minimum wage setting mechanism in the UK resulting in comparatively large increases in minimum wage settings, coming off a very low base. An Australian study of youth labour markets also found that there was no evident correlation between youth unemployment rates and minimum wage rises in Australia (Junankar, 2015).

# The negative impact of inequality on growth

## A 2015 OECD report found:

'Drawing on harmonised data covering the OECD countries over the past thirty years, the econometric analysis suggests that income inequality has a sizeable and statistically significant negative impact on growth, and the achieving greater equality in disposable income through redistributive policies has no adverse impact on growth.' (OECD, 2015)

In fact, the OECD reported that between 1985 and 2005 income inequality rose by more than 2 Gini points on average across 19 OECD countries, which is estimated to have resulted in cumulative growth between 1990 and 2010 being 4.7 percentage points lower.

This study reinforces the findings by Ostry *et al.* (2014) from the International Monetary Fund's (IMF) Research Department, who released a significant report on the topic of inequality in 2014. Titled *Redistribution, Inequality, and Growth*, one of the report's key conclusions is that 'lower net inequality is robustly correlated with faster and more durable growth, for a given level of redistribution.'

'Inequality continues to be a robust and powerful determinant both of the pace of medium-term growth and of the duration of growth spells, even controlling for the size of redistributive transfers'

# Financial stress, exclusion and resilience

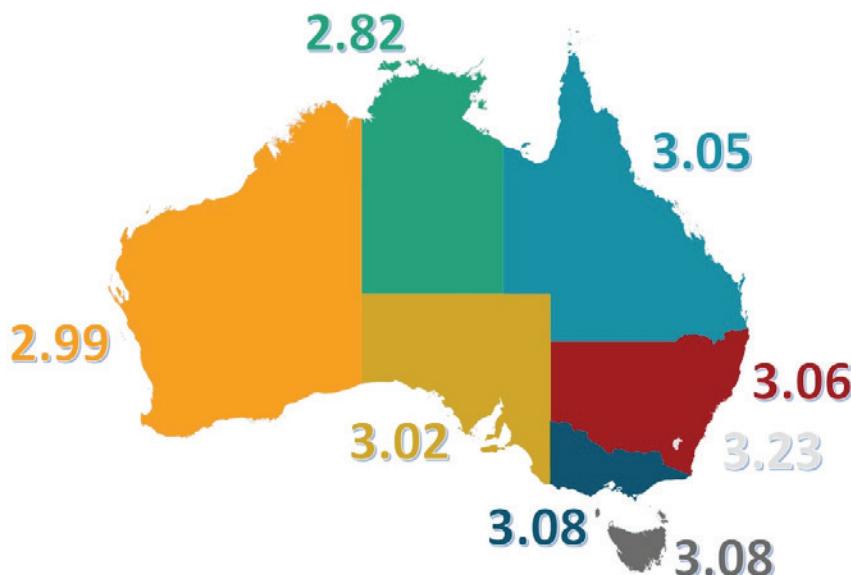
Despite an unprecedented two decades of continuous growth in the Australian economy, an increasing number of Australians report high levels of financial stress and more Australian households are considered to be in a precarious financial position. In 2016, 2.4 million Australian adults were financially vulnerable and experienced high or severe financial stress (close to 13%) and less were considered financially secure (35.7 to 31.2%) (Centre for Social Impact, 2017). Almost 1 in 5 could not raise \$2,000 in a week to deal with an emergency, and almost one in three adults had no savings or were just two pay packets away from serious financial stress if they lost their job.

*'Financial stress'* can refer both to the objective consideration of the proportion of disposable income taken up to meet essential living costs and service debt, and to the subjective experience of worrying about making difficult financial decisions to make ends meet from week to week. Analysis of expenditure patterns can tell us the proportion of the weekly budget taken up by housing, food or utilities costs (i.e. measures of 'housing stress' or 'food stress'), but it is by surveying the views of the community and experiences of individual households that we get an insight into the extent to which the stress of balancing the weekly budget or servicing ongoing debts is actually impacting on psychological well-being (Centre for Social Impact, 2017).

*'Financial resilience'* is defined as 'the ability to access and draw on internal capabilities and appropriate acceptable and accessible external resources and supports in financial adversity' whereas *'financial exclusion'* is defined as 'a lack of access to appropriate and affordable financial services and products' (Connolly, 2014 and Muir *et al.*, 2016).

On a scale of 1 to 4, with 1 being severe financial stress and 4 being financial security, Australia has an overall financial resilience mean of 3.06. WA, however, not only has a lower level of financial resilience than the overall mean, but in fact has the second lowest level out of every state and territory (Figure 36, Muir *et al.*, 2016).

**Figure 36** Financial resilience, states and territories, 2015



**Note:** Numbers indicate the mean financial resilience scores for each state and territory.  
**Source:** BANKWEST CURTIN ECONOMICS CENTRE | Reproduction of Figure 38 in Muir *et al.* (2016).

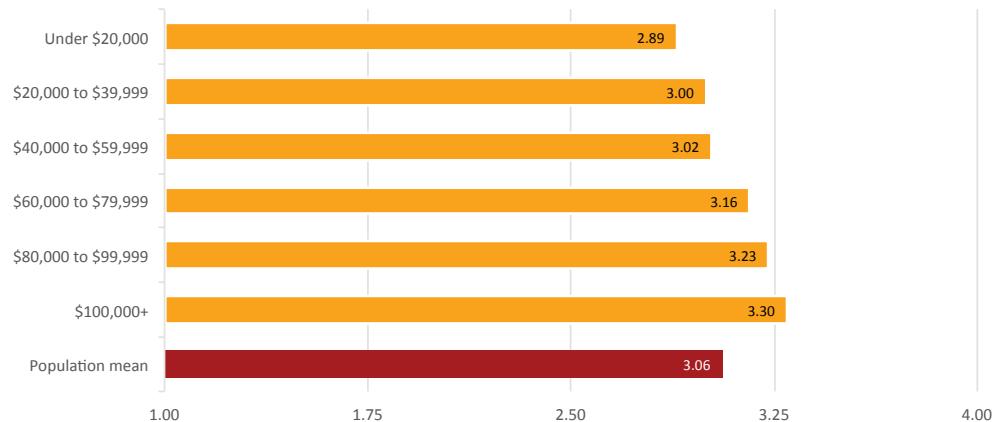
Poor financial resilience for low income households can mean that just one emergency or crisis could find them facing severe financial shock and becoming over-indebted.

Poor financial resilience for low income households can mean that just one emergency or crisis, such as crises related to their health, employment or living situation, could find them facing severe financial shock and becoming over-indebted.

Financial resilience also provides an indication of a household's workforce responsiveness. Those who are unable to draw upon resources and supports in a time of financial adversity have a lower capacity to weather periods of unemployment or underemployment, or to have enough financial independence to be able to effectively seek a new job.

As can be seen in Figure 37, those on the lowest incomes across Australia have higher levels of financial stress and vulnerability.

**Figure 37** Financial stress versus income, Australia, 2015



**Note:** Numbers indicate the overall mean financial resilience scores for six personal income brackets.

**Source:** BANKWEST CURTIN ECONOMICS CENTRE | Reproduction of Figure 41 in Muir *et al.* (2016).

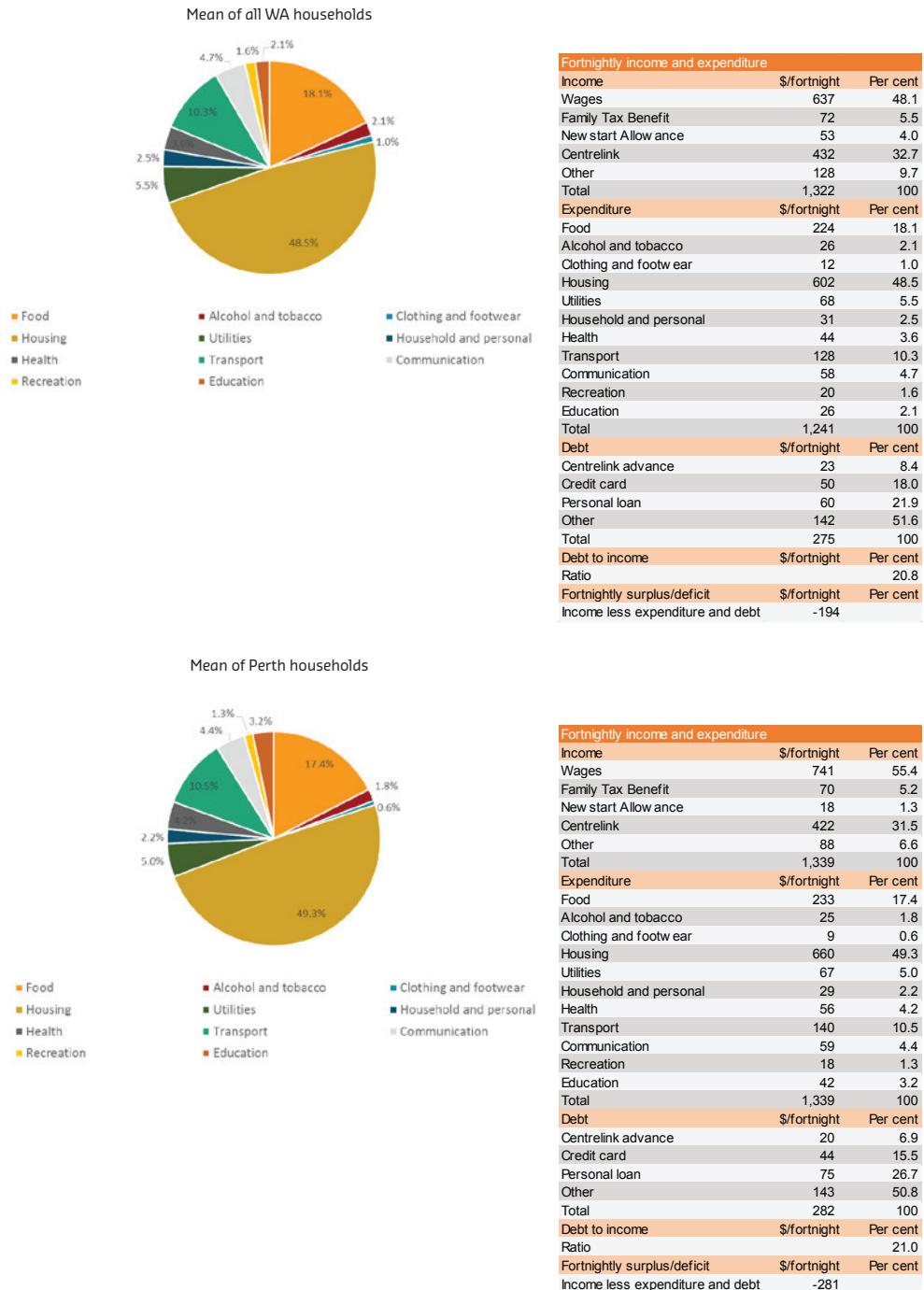
## Analysis of households experiencing financial hardship

Households experiencing severe financial stress who find themselves in circumstances where they face mounting personal debt and are unable to meet their basic weekly living costs can seek the assistance of a not-for-profit community-based financial counselling service. A qualified financial counsellor will work through their weekly household income and expenditure with them to provide expert advice on how to tackle their financial challenges, producing a weekly budget. Certified financial counsellors are also able to contact their creditors to halt or defer debt-recovery proceedings, negotiate debt waivers or reductions and put in place a payment plan. They may also be able to provide access to emergency relief in the form of charitable donations or food parcels to help them through an immediate crisis.

This section compares the weekly income and expenditure data of 265 households who sought the assistance of the WA Financial Counselling Network during the week of the 2017 WA State Budget (4 to 10 September 2017) to household expenditure patterns captured by the 2016 ABS Household Expenditure Survey. This is the first time that this type of analysis has been undertaken, and the results provide some important insights into the key factors and cost of living pressures leading to financial hardship. Of the 265 returns, 100 are from Perth and its surrounds and 165 from regional WA.

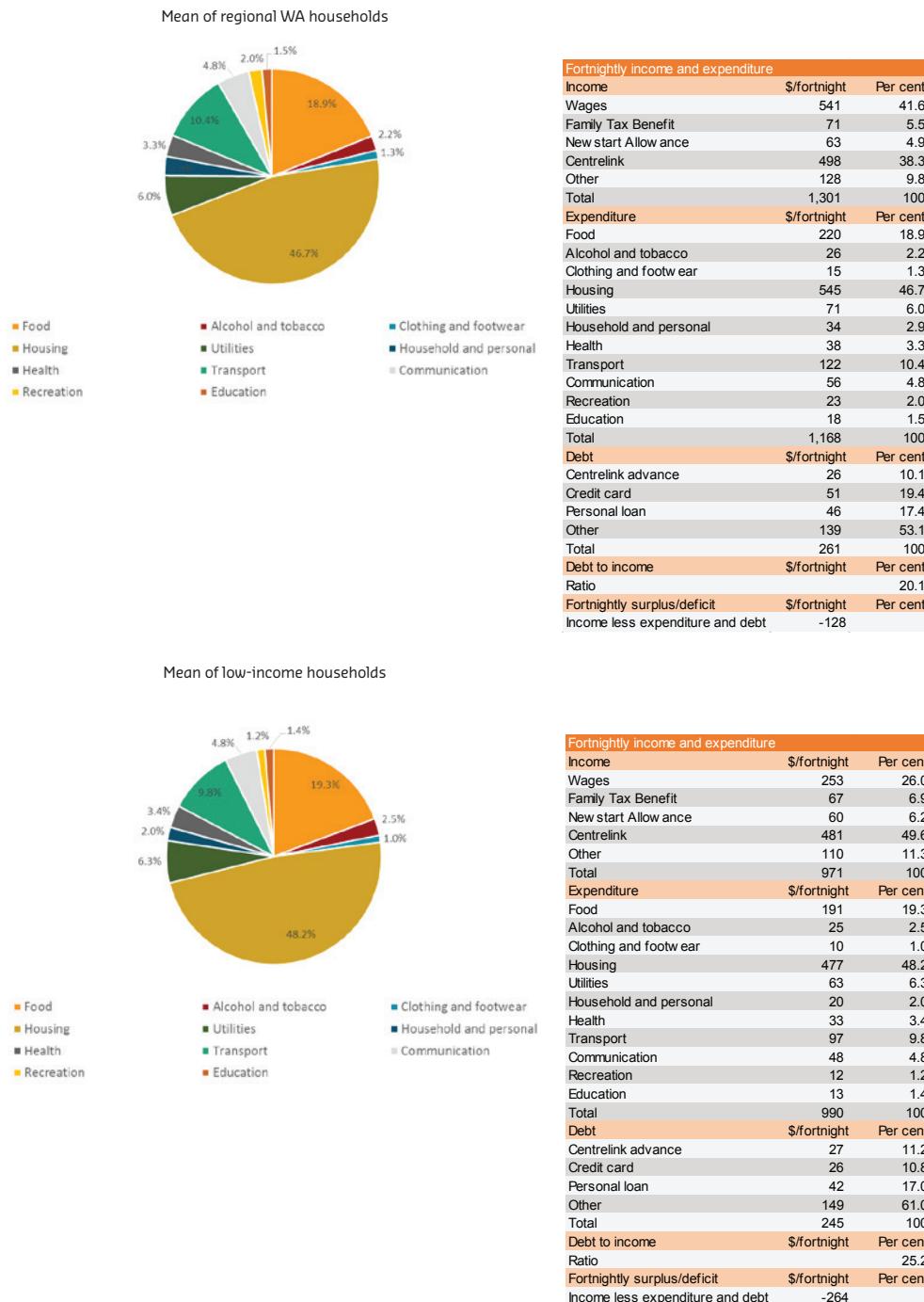
Figure 38 provides a summary of the income, expenditure and debt profiles of the 265 total returns, and sub-groups thereof, comprising Perth only households, regional WA households, low-income households calculated using the Henderson (50% of median income) principle, households with wages as their only source of income, and finally households where Centrelink payments and Newstart allowances are the primary source of income.

**Figure 38 Fortnightly expenditure of households who sought financial counselling, 2017**



**Note:** Low-income households calculated as the average of all households below the Henderson definition (50% of median income) of the WA median gross income, which is \$1,791 per fortnight.

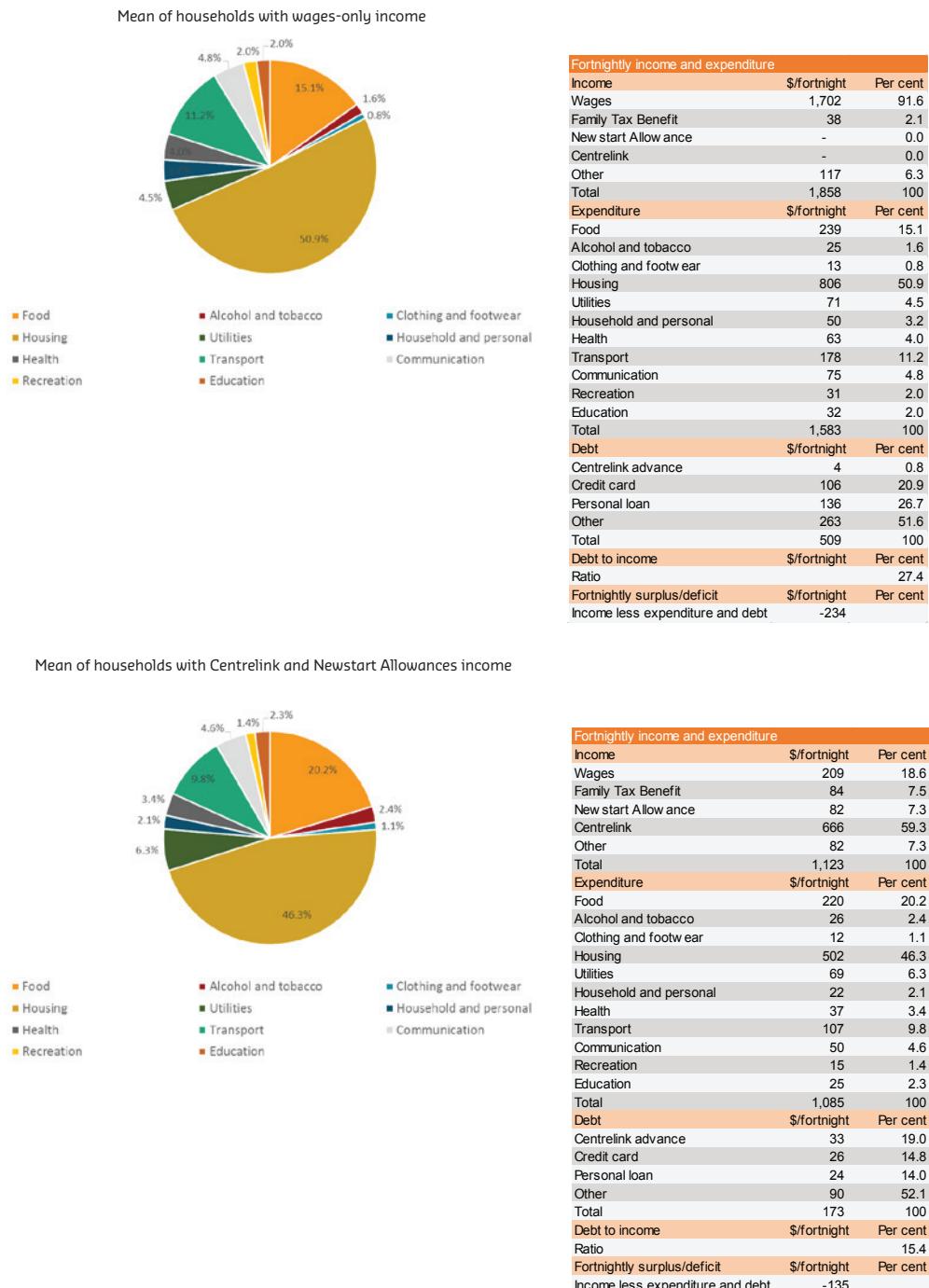
**Source:** BANKWEST CURTIN ECONOMICS CENTRE | WA Financial Counselling Network, BCEC analysis.

**Figure 38** Fortnightly expenditure of households who sought financial counselling, 2017

Note: Low-income households calculated as the average of all households below the Hendersen definition (50% of median income) of the WA median gross income, which is \$1,791 per fortnight.

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**Figure 38 Fortnightly expenditure of households who sought financial counselling, 2017**



Note: Low-income households calculated as the average of all households below the Hendersen definition (50% of median income) of the WA median gross income, which is \$1,791 per fortnight.

Source: BANKWEST CURTIN ECONOMICS CENTRE | WA Financial Counselling Network, BCEC analysis.

**Figure 39** Balance sheet for Perth households who sought financial counselling, 2017

<b>Summary of income and expenditure: Households in Perth</b>		<b>FORTNIGHTLY INCOME &amp; EXPENDITURE</b>	
<b>FINANCIAL COUNSELLING SERVICE</b>		<b>Name: Mean values for households in Perth, WA</b>	
<b>INCOME</b>		<b>Date: Fortnight encompassing Budget week 2017</b>	
<b>Income</b>			
Wages (after tax)		<u>Personal expenditure</u>	
\$ 741.35		Haircuts	\$ 3.46
Family Tax Benefit	\$ 69.76	Pet expenses	\$ 8.63
New start allowance	\$ 17.70	Birthdays and Christmas	\$ 3.05
Centrelink payments	\$ 421.92	Other personal expenditure	\$ 13.99
Tenant/board	\$ 26.95	<b>TOTAL</b>	<b>\$ 29.13</b>
Other income	\$ 61.34		
	<b>TOTAL</b>		
<b>EXPENDITURE</b>		<b>Sport and recreation</b>	
<u>Accommodation</u>		Sport/Recreation	\$ 7.26
Rent	\$ 273.93	Entertainment	\$ 9.49
Mortgage payments	\$ 311.43	Other sport/recreation	\$ 0.82
Council rates	\$ 27.55	<b>TOTAL</b>	<b>\$ 17.57</b>
Water rates and bills	\$ 24.97		
Home and contents insurance	\$ 17.02	<u>Education</u>	
Other accommodation	\$ 5.36	Fees/Books	\$ 11.93
	<b>TOTAL</b>	General school exp.	\$ 15.64
<u>Utilities</u>		Other education	\$ 14.77
Electricity	\$ 45.59	<b>TOTAL</b>	<b>\$ 42.34</b>
Gas	\$ 21.85		
Other utilities	\$ -	<u>Health</u>	
	<b>TOTAL</b>	Health supplies	\$ -
<u>Household</u>		Med/dent/chemist	\$ 27.11
Phone/internet/mobile	\$ 59.41	Medication	\$ 2.43
Other household exp	\$ -	Health/Life/Funeral insurance	\$ 21.52
	<b>TOTAL</b>	Other health	\$ 4.68
<u>Food and non-alcoholic bev</u>		<b>TOTAL</b>	<b>\$ 55.75</b>
Groceries	\$ 221.27	<u>Transport</u>	
Other food	\$ 11.71	Car registration and insurance	\$ 41.68
	<b>TOTAL</b>	Car running expense	\$ 74.33
<u>Alcohol and tobacco</u>		Services	\$ 4.30
Alcohol	\$ 13.23	Public transport	\$ 10.39
Cigarettes	\$ 11.35	Parking	\$ 1.79
	<b>TOTAL</b>	Other transport	\$ 7.96
<u>Clothing and footwear</u>		<b>TOTAL</b>	<b>\$ 140.44</b>
Clothing and footwear	\$ 8.62	<u>Debt</u>	
	<b>TOTAL</b>	Centrelink advance	\$ 19.52
<u>Client's signature</u>		Credit card	\$ 43.70
		Personal loan	\$ 75.26
		Other loans	\$ 5.84
		Fines	\$ 6.30
		Vehicle loan	\$ 66.19
		Other debt	\$ 64.94
		<b>TOTAL</b>	<b>\$ 281.74</b>
<b>SURPLUS/DEFICIT</b>			
INCOME		<b>\$ 1,339.01</b>	
LESS EXPENDITURE		<b>\$ 1,620.25</b>	
BALANCE		<b>-\$ 281.24</b>	
<b>DEBT TO INCOME RATIO</b>		<b>21.0%</b>	

Note: The Expenditure value in this balance sheet includes debt and therefore differs from that in Figure 37.  
 Source: BANKWEST CURTIN ECONOMICS CENTRE | WA Financial Counselling Network, BCEC analysis.

**Figure 40** Balance sheet for regional WA households who sought financial counselling, 2017

<b>Summary of income and expenditure: Households in regional WA</b>		<b>FORTNIGHTLY INCOME &amp; EXPENDITURE</b>	
<b>FINANCIAL COUNSELLING SERVICE</b>		<b>Name: Mean values for households in regional WA</b>	
<b>INCOME</b>		<b>Date: Fortnight encompassing Budget week 2017</b>	
<b>Income</b>			
Wages (after tax)		\$ 540.76	
Family Tax Benefit		\$ 70.98	
New start allowance		\$ 63.14	
Centrelink payments		\$ 498.45	
Tenant/board		\$ 32.16	
Other income		\$ 95.53	
TOTAL		\$ 1,301.02	
<b>EXPENDITURE</b>			
<u>Accommodation</u>			
Rent		\$ 251.29	
Mortgage payments		\$ 239.32	
Council rates		\$ 11.03	
Water rates and bills		\$ 17.67	
Home and contents insurance		\$ 13.67	
Other accommodation		\$ 11.93	
TOTAL		\$ 544.92	
<u>Utilities</u>			
Electricity		\$ 45.84	
Gas		\$ 19.70	
Other utilities		\$ 4.99	
TOTAL		\$ 70.54	
<u>Household</u>			
Phone/internet/mobile		\$ 55.34	
Other household exp		\$ 1.00	
TOTAL		\$ 56.34	
<u>Food and non-alcoholic bev</u>			
Groceries		\$ 214.41	
Other food		\$ 5.99	
TOTAL		\$ 220.40	
<u>Alcohol and tobacco</u>			
Alcohol		\$ 5.20	
Cigarettes		\$ 20.88	
TOTAL		\$ 26.08	
<u>Clothing and footwear</u>			
Clothing and footwear		\$ 15.46	
TOTAL		\$ 15.46	
<b>Client's signature</b>			
<b>SURPLUS/DEFICIT</b>			
<b>INCOME</b>		\$ 1,301.02	
<b>LESS EXPENDITURE</b>		\$ 1,429.02	
<b>BALANCE</b>		-\$ 128.00	
<b>DEBT TO INCOME RATIO</b>			
20.1%			

Note: The Expenditure value in this balance sheet includes debt and therefore differs from that in Figure 37.  
Source: BANKWEST CURTIN ECONOMICS CENTRE | WA Financial Counselling Network, BCEC analysis.

As the single largest living cost for WA households, housing is also the biggest contributor to financial hardship and the biggest risk factor for financial crisis for those on low and fixed incomes.

Analysis of the data provided by Western Australian financial counselling services through the Financial Counselling Network indicates that households who are experiencing severe financial hardship and have sought the assistance of a not-for-profit financial counselling service have significantly higher housing costs as a proportion of weekly expenditure. As shown in Table 22, households who have sought financial counselling spend on average 48.5% of their household budget on housing costs as compared to an average of 19.2% across all HES households.

**Table 22 Comparison of Financial Counselling and ABS Household Expenditure Survey data**

Expenditure group	Financial Counselling data, Budget week 2017							
	All	Perth	Rest of WA	Lowest quintile	Income: Centrelink and NSA only	Income: Wages only	Housing: Rent only	Housing: Mortgage only
Current housing costs	48.5	49.3	46.7	48.2	46.3	50.9	44.2	55.2
Food and non-alcoholic beverages	18.1	17.4	18.9	19.3	20.2	15.1	20.5	15.0
Transport	10.3	10.5	10.4	10.4	9.8	11.2	10.4	9.9
Utilities	5.5	5.0	6.0	6.3	6.3	4.5	6.4	4.3
Communication	4.7	4.4	4.8	4.8	4.6	7.6	5.1	4.1
Health	3.6	4.2	3.3	3.4	3.4	6.4	3.5	3.5
Personal care	2.5	2.2	2.9	2.0	2.1	5.1	2.7	2.3
Education	2.1	3.2	1.5	1.4	2.3	3.2	2.0	2.0
Recreation	1.6	1.3	2.0	1.2	1.4	3.2	1.5	1.5
Clothing and footwear	1.0	0.6	1.3	1.0	1.1	1.3	1.1	0.7

Source: BANKWEST CURTIN ECONOMICS CENTRE | BCEC analysis using data from the Financial Counselling Network.

One thing to note is that those households in financial hardship whose income is derived solely from wages are spending more than half (50.9%, or an average of \$806.20 per week) of their disposable income on housing costs – the highest proportion of all of the household types seeking financial counselling support. By comparison, those reliant on Centrelink income support payments such as Newstart Allowance are spending a lower proportion on housing (46.3%, or \$501.96 per week).

Regional comparisons show that the housing costs of those in financial hardship eat into a larger share of household budgets in Perth than regional WA. Perth households in financial hardship are spending 49.3 per cent on housing and regional households in hardship 46.7 per cent.

Comparison between those households in financial hardship who have a mortgage and those only paying rent strongly suggests that the size of their mortgage is likely to be the reason the former group are in financial trouble, given they are spending well over half (55.2%) of their weekly budget on housing alone (as opposed to 44.2% for renters in financial hardship). For some households, this may be an indication that their circumstances have changed, a loss of employment and a reduction of income may have placed them in circumstances where they are struggling to keep hold of their home and could be forced to sell it if their circumstances do not improve or if interest rates rise.

Expenditure on utilities are slightly higher for households in financial hardship than for an average household.

While expenditure on food is the second largest ongoing weekly commitment for all household types (see Figure 21), the patterns of expenditure on food between average households and those in financial hardship do not vary that significantly. This reflects the fact that a certain unavoidable level of expenditure on food is essential for daily life.

By comparison, rates of expenditure on utilities are slightly higher for households in financial hardship (5.5% versus around 3% for an average household in Figure 21). Those in hardship on the lowest incomes and reliant on income support payments spend proportionately even more (both 6.3%).

This suggests that higher utility costs may contribute to financial hardship overall, but nowhere near the extent that housing costs do. However, examination of the distribution of fortnightly electricity charges highlights a sub-set of households that have abnormally high electricity bills (rates of \$150 up to \$288 compared to an average of \$45 per fortnight), indicating severe rates of utility hardship in some households. This may include some instances where households are servicing historic energy debts as well as paying for (comparatively high) ongoing energy usage. The most likely causes of disproportionately high consumption are poor quality housing (lack of thermal efficiency), inefficient appliances, and a poor understanding of energy usage requiring behavioural change.

It is important to note that the regional financial counselling data represents 165 households in regional centres in the Southwest, Wheatbelt and Great Southern regions (including Albany, Bunbury, Busselton, Collie, Esperance, Manjimup, Merriwa and Rockingham). This analysis does not include households in the Kimberley, Pilbara, Midwest and Goldfields where more extreme climactic conditions result in heavier reliance on air conditioning and proportionately higher utility bills and rates of utility hardship.

Data on average household electricity consumption supplied by Horizon Power and Synergy for regional areas highlights significantly higher energy consumption in the north west (Table 23), with average consumption in the Pilbara twice that for the metropolitan and southwest regions. Households living in poor quality rental or public housing with old and inefficient air conditioning may be consuming and paying significantly more.

**Table 23** Average yearly electricity consumption, WA regions, 2017

	SWIS	Esperance	Gascoyne/ Mid West	West Kimberley	NWIS (Pilbara)
Average use (kW hour)	5,444	4,821	6,405	9,833	10,890
Average cost	\$1,618	\$1,453	\$1,873	\$2,780	\$3,060

Note: Average cost = (Average consumption) x A1 tariff (\$0.2647) + Daily supply charge rate (\$0.4860) x 365.

Source: Bankwest Curtin Economics Centre | BCEC analysis using data from Horizon Power and Synergy.

A recent report 'Heatwaves, homes and health: Why household vulnerability to extreme heat is an electricity policy issue' by the Centre for Urban Research at RMIT (Nicholls *et al.*, 2017) highlights the significant risk posed to vulnerable households by the increasing prevalence of extreme heat, particularly in our tropical northerly climactic regions. It raises concerns about policy initiatives in the National Electricity Market (which does not include Western Australia or the Northern Territory) that aim to reduce peak electricity demand via 'price signals' which would make energy significantly more expensive during heatwaves, indicating significant risks to the health and well-being of vulnerable population groups (including seniors, infants and those with medical conditions such as thermo-regulatory dysfunction).

Research currently being conducted by Bankwest Curtin Economics Centre, WACOSS and Horizon Power (Houghton and Twomey, 2017) analyses the responses of vulnerable households to proposed electricity tariff structures ('power plans' with a peak consumption rate allowance, similar to mobile phone contracts) designed to encourage reduced peak consumption. The product links smart meter data to a mobile phone app to send an alert to consumers when they are approaching their peak consumption rate allowance, prompting them to reduce consumption or risk losing a financial reward. The trials suggested that, while the majority of consumers including vulnerable consumers could benefit from this approach, there was a third of vulnerable customers who struggled to maintain reduced consumption and would be financially worse off. It also highlighted increased anxiety among some vulnerable consumers, and the risk that some may suffer excessive discomfort in an effort to stay within their peak allowance, potentially putting their health and wellbeing at risk.

In both examples discussed above it is clear that it is important to balance the desire to reduce peak electricity consumption rates (to avoid the need for additional generation capacity and reduce the overall cost of electricity), against the essential service it delivers to maintain the health and well-being of vulnerable consumers in the face of climactic extremes. Households living in poor quality housing with inefficient appliances have limited capacity to reduce their exposure to extreme heat, and older households may underestimate their vulnerability to adverse health outcomes (Houghton and Twomey, 2017). It is likely that there is sufficient scope to achieve the desired electricity policy outcome of reducing peak consumption using pricing mechanisms if the majority of consumers are included and engaged, but vulnerable and concessionary households are excluded from adverse affordability impacts. Current medical cooling concessionary arrangements currently do not adequately address the health and financial risks for those reliant on air conditioning, and this situation will be exacerbated as our population ages and the number of extreme weather events continues to increase. Local communities should also consider initiatives to make available cool public places as 'heat refuges' where vulnerable citizens can congregate and achieve some relief (such as public libraries or public spaces in shopping malls).

To examine debt in more detail Figure 40 plots the debt to income ratios for all households, i.e. those who sought financial counselling. Debt here is distinguished between credit card and personal loans, and also for mortgage repayments. The aim is to understand the extent of these two types of debts (where credit card debt and personal loans can be considered more short-term in nature), as a percentage of income, across households of different income profiles. The debt to income ratios are presented by household income quintiles.

Analysis of the fortnightly debt to income ratio of households in financial hardship clearly indicates that households in the bottom quintile (1-20% of household incomes) incur more credit card, personal loan, mortgage and non-mortgage debts as a percentage of their income than the following quintile (i.e. 20-40%) which, in turn, is higher than that for the third quintile (i.e. 40-60%).

Across all forms of debt, the first quintile is incurring considerably more debt per fortnight than the other quintiles, despite possessing the least accessibility to financial offerings and the least capacity to pay the debt back. This data suggests that households in the lower quintiles may be turning to payday loans and other fringe financial lending to help resolve short-term financial problems, only to result in increasing levels of longer term financial stress. These households are least able to secure standard lower-interest rate loans and are to some degree 'forced' into borrowing funds from questionable short-term lenders to deal with immediate financial crises, exacerbating their financial hardship.

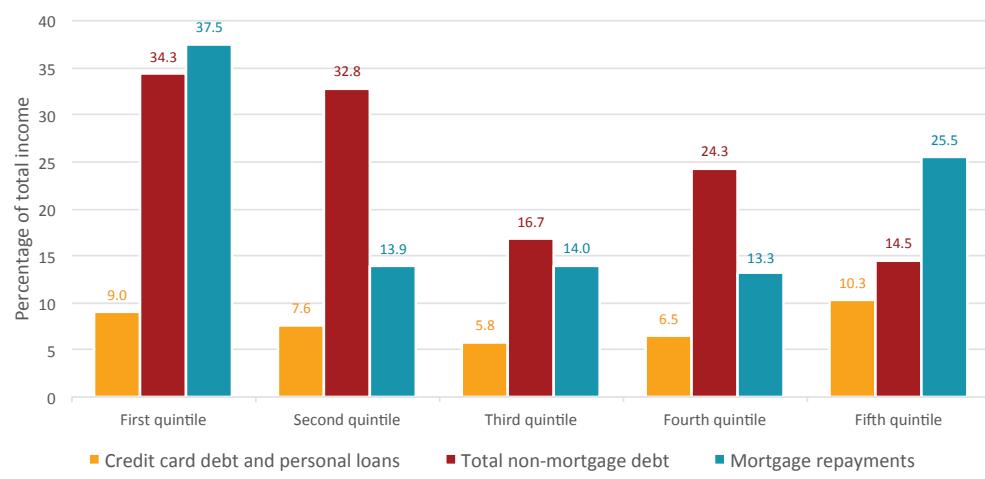
Households pursuing this type of credit simply to resolve other debts and cover everyday expenses pay a significant premium for access to instant-cash and may be vulnerable to misleading and predatory lending practices that can lead to further spiralling debt (SACOSS Consumer Credit Legal Service Scoping Study p.15). These households are also more susceptible to being burdened with non-mortgage debts accumulated through traffic fines, court fines, rent and bills, Centrelink debt and

more. A lack of financial literacy increases their vulnerability, and high levels of stress puts them at greater risk of poor decision making.

Those of the lowest quintile of households who have a mortgage are also challenged with the highest relative mortgage repayments with 37.5 per cent of weekly expenditure spent solely on servicing the mortgage, a clear indicator of housing stress.

Those households in financial hardship with wages only income have higher levels of debt to those with Centrelink only income (\$510 p/f vs \$173 p/f) with their sources of debt spread more or less evenly across credit cards (21%) personal loans (27%) vehicle loan (24%) and other debt (25%). By comparison, those with Centrelink income only generally have less credit card (15%) and personal loan (14%) debt, and higher levels of vehicle loan (23%) and other debt (23%).

**Figure 41** Fortnightly debt to income ratio by total household income quintiles, 2017

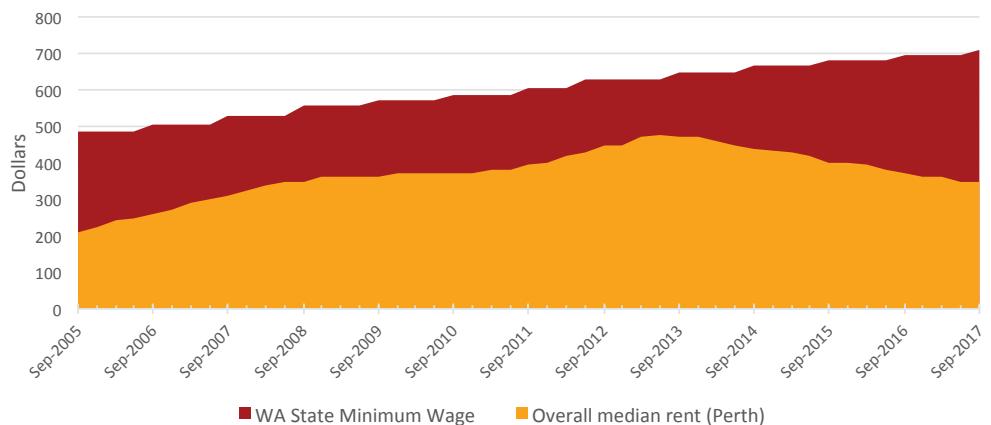


**Note:** Total income comprises wages, Family Tax Benefits, Newstart Allowances, Centrelink payments, tenant/board income and other income. Credit card debt and personal loans are a component of Total non-mortgage debt.

**Source:** BANKWEST CURTIN ECONOMICS CENTRE | WA Financial Counselling Network, BCEC analysis.

As can be seen in Figure 42, while the overall median rent does not now consume as much of the State minimum wage as it did during the peak of the economic boom 2013, it still accounts for over 51 per cent. For those households in the bottom 40 per cent of Australia's income distribution, they are considered to be in "housing stress" when their housing costs exceed 30 per cent of their income – meaning that if a household earning a minimum wage is in the bottom 40 per cent of equivalent disposable income and is paying 51 per cent of their income on rent, they will most certainly qualify as being in severe housing stress.

**Figure 42 State minimum wage versus overall median rent, 2005 to 2017**



Source: BANKWEST CURTIN ECONOMICS CENTRE | WA Department of Commerce, REIWA.

It is important to recognise that the median rental price is a measure of the amount paid for new rental contracts rather than ongoing ones. Many lower income earners are not in a position to negotiate their rents down due to a lack of experience and confidence or as a result of their precarious financial situation (that is, they report being fearful of indicating to their landlord they may have trouble paying the rent in the future as they might be perceived as a 'risky' tenant). Furthermore, many are unable to find available and affordable alternative rental options within their community, making the prospect of moving unfeasible and hence depriving them of a negotiating position.

The annual Anglicare Rental Affordability Snapshot takes a 'snapshot' on a given day of the rental market and examines whether the properties being advertised are affordable for a range of different low income types (Anglicare, 2017).

The 2017 WA Rental Affordability Snapshot found that a couple with two children in the Perth metropolitan area, where both parents were receiving the minimum wage and Family Tax Benefit Part A, were able to find 5,817 affordable and appropriate rental properties, which accounted to 46.8 per cent of those being advertised.

That number more than halves as soon as only one of the parents has access to the minimum wage, down to only 2,244 affordable and appropriate properties or only 18 per cent of those advertised.

For a single parent of two children on the minimum wage and receiving Family Tax Benefit Part A and B, their options are even fewer, with only 764 properties affordable and appropriate or only 6.1 per cent of those advertised. A single person on the minimum wage would only be able to find 124 or just 1 per cent of rental properties advertised that were affordable and appropriate, which included boarding houses or renting a room in a share house.

# Summary and conclusions



## Summary and conclusions

The cost of living is an issue of great interest to Western Australians, and continues to be a hot topic for political debate. Housing and energy costs, retail prices for food, clothing and communications, medical expenses, the price of travel, holidays and recreational activities, all have a fundamental role to play for many of us in providing a good standard of living for ourselves and our families.

Yet for perhaps too many households in financial stress or on low incomes, the issue is more about keeping a roof over their families' heads, and being able to afford the basic necessities of life on a day-to-day basis. Indeed, for some the choices that need to be made – not just on discretionary spending but between critical needs – can impact negatively on the most basic standard of living, and standards of dignity.

A better understanding of cost of living pressures requires a nuanced examination of price relativities and movements between Perth and other capital cities, and across urban and regional areas. Detailed analysis of the income and expenditure trends and patterns of different types of households provides us with some insights into the comparative well-being of families in different socio-economic circumstances, and helps us separate fact from fiction. These are the issues that form the core motivation for this tenth report in BCEC's *Focus on Western Australia* series.

Perth actually ranks relatively well on a broad comparison of living costs with other capital cities across Australia, counter to the popular perceptions that remain as a hangover from the resources boom. Perth also ranks moderately well on 'liveability' – defining us as a 'liveable' city and a desirable place to live.

Perth ranks fifth in Australia on an index of overall affordability, behind Sydney as Australia's most expensive city but also behind Melbourne, Brisbane and Adelaide. Sydney has the second-most expensive housing market internationally after Hong Kong, while Perth's housing costs – although still high – have been falling since the heat came out of the market post-resources boom.

Such broad rankings can be misleading, and tend to focus on the lifestyles and interests of those in comfortable financial circumstances. They provide less insights into the living cost pressures and essential needs of those on lower incomes.

BCEC analysis also shows that Perth ranks fifth on a measure of the costs of a typical 'basket of goods' in mid-prices retail stores, suggesting that independent retail outlets in the West deliver relatively good value to customers compared with other state capitals.

Interestingly, supermarket prices paid by shoppers in many East Coast capitals offer larger discounts than in Perth. A typical basket of goods in a Sydney supermarket is around 30 per cent cheaper than the same basket of goods in a mid-priced store in the NSW capital. Melbourne enjoys a similar 'supermarket discount', some 26 percent.

In comparison, the supermarket discounts in Perth are somewhat lower – around 10 percent – which indicates that the fierce competition following the advent of cut-price supermarket outlets on the East Coast are yet to take full hold in Western Australia. However, this does indicate that the growing retail competition in the supermarket sector in Perth could drive prices down further.

Consideration of a range of cost of living indexes highlights some of the variation in cost pressures and spending patterns across the country in different areas of our economy. Brisbane and Darwin residents are traditionally big spenders on transport,

while Adelaide has consistently recorded the lowest per-capita spending on health. Perth has seen an increase in spending on clothing and footwear since 2009, and a big reduction in housing costs in the past four years coming off the back of significant cost growth during the resources boom.

While average West Australian households are experiencing lower cost of living pressures, with growth in wages keeping well ahead of the rise in goods and services, increasing financial inequality has meant a sub-group of our community are continuing to struggle to make ends meet. Income from private sector wages is clearly more volatile and responsive to prevailing economic conditions, while public sector wages tend to lag economic conditions and be upwardly sticky. Income from benefits and pensions tends to be more stable, falling behind the big upswings in the economy, but staying relatively steady during the downturns.

Modelling of the living costs of a range of low income household types has highlighted the crucial role of housing affordability in the cost of living and quality of life of vulnerable groups within our community. The circumstances facing typical working families have improved slightly in recent years with steady income and falling housing costs. However, to remain resilient into the future requires that they can maintain access to regular wages in the face of increasingly precarious employment.

Single-parent households are especially exposed to rising living costs, and have little financial resilience against real reductions in income. This highlights the importance of protections afforded to single parents through government support payments to cover childcare costs, and through adequacy in welfare payments generally. In this regard, the cancellation of the School Kids Bonus in the coming year creates extra vulnerabilities for single parents. The plight of an unemployed single person is more stark, with their income continuing to fall behind the cost of a basic standard of living and forcing them to make difficult decisions about what to go without from week to week.

Analysis of the comparative living costs of a couple on the aged pension has highlighted the crucial role of home ownership as a buffer against financial hardship in retirement. A retired couple who own their own home can afford to run a small car and still have around \$230 to spend each week after they've met their essential living costs. In contrast, a similar couple still living in private rental housing cannot afford a car and have very little to spare at the end of the week (\$12) once they've met their basic living costs.

New BCEC analysis of the recently released Household Expenditure Survey (HES) for 2015-16 shows that spending on housing and food as a share of total household expenditure has been rising consistently over the last six years since the previous HES survey in 2009-10. This is particularly the case for single parent families on middle incomes, and couples with children over the full income range.

On average, nearly 70 per cent of the spending of households in financial hardship is devoted to the basic necessities of life – housing, fuel and power, and food. This figure has risen by some 17 percentage points over the last six years. In fact, analysis of spending patterns shows that low-income households and those in financial stress are cutting back significantly on health spending, transport and recreational activities in order to keep afloat, spending less in these areas than they have in the past, and much less than the average household.

The share of households who report that they spend some money on gambling has fallen substantially over the last decade – down from 43 per cent in 2003-04 to 27 per cent in 2015-16. The two mining states of Queensland and WA show the greatest prevalence of gambling expenditure, at 30 per cent, with average gambling expenditure in Western Australia rising 38 per cent in real terms to \$21.98 in 2015/16.

In a recent speech, John Durkan, Managing Director of the Coles supermarket chain, suggested that high living costs, especially fuel costs, were forcing consumers to compromise on healthy food options by buying less fresh food, and more cheaper options. What support do we see for this claim?

New analysis in this report shows that spending on fresh food is broadly comparable between the full population of households in WA and those in the lowest income quintile. However, households under financial stress spend far more on fast foods – some 5 per cent of their total spending – and less on fresh foods than the average expenditure share for typical households.

Unique analysis by BCEC of data from local financial counselling services in Western Australia confirms these findings. The data provide weekly budget breakdowns for households in financial crisis, and again throw a spotlight onto the role of high housing costs in financial hardship – with many households locked into spending at least half of their income on housing. This is the first time this analysis has been undertaken in Australia, and the results reinforce the pressing need for affordable housing options to relieve the cost of living pressures faced by low income households in particular.

Rising prices affect us differently depending on our circumstances, where we live, the sources and reliability of our income, and our spending decisions (whether out of choice or necessity). Essential living costs all contribute to our quality of life, financial resilience and risk of hardship. Most Australian and Western Australian households have continued to do reasonably well in recent years, with incomes rising much faster than living costs. Income growth has slowed in recent times, but average Australian families are still pretty lucky.

Yet the same is clearly not true for some vulnerable groups within our community – those on low and fixed incomes have struggled to keep up with the cost of living in recent years. As our society has become more unequal the number of households in financial stress has increased.

The cost of housing emerges as the greatest single living cost for most Australian households and the most critical factor in the risk of financial hardship for those on low and fixed incomes. Policy makers need to tackle the vexed issue of housing affordability if they wish to have an impact on poverty and financial resilience within our community and ensure fewer vulnerable members of our community are left behind.

# Appendix



# Appendix: Mid-range prices for commonly consumed goods and services

March 2017 AUD prices	Perth	Adelaide		Brisbane		Sydney		Melbourne	
Food	\$	\$	Diff. Perth	\$	Diff. Perth	\$	Diff. Perth	\$	Diff. Perth
White bread, 1 kg	5.00	5.00	0.00	4.29	-0.71	4.67	-0.33	4.29	-0.71
Butter, 500 g	2.73	4.60	1.87	8.51	5.78	4.60	1.87	5.78	3.05
Margarine, 500g	2.99	3.30	0.31	3.30	0.31	2.99	0.00	3.29	0.30
White rice, 1 kg	3.45	3.00	-0.45	2.16	-1.29	2.69	-0.76	2.74	-0.71
Spaghetti, 1 kg	3.40	4.90	1.50	3.90	0.50	4.47	1.07	5.40	2.00
Flour, white, 1 kg	2.55	3.00	0.45	1.50	-1.05	3.00	0.45	3.29	0.74
Sugar, white, 1 kg	1.85	2.30	0.45	1.80	-0.05	2.15	0.30	2.15	0.30
Cheese, imported, 500 g	12.55	27.48	14.93	16.80	4.25	30.00	17.45	32.25	19.70
Cornflakes, 375 g	2.82	4.24	1.42	2.75	-0.07	3.79	0.97	3.33	0.51
Yoghurt, natural, 150 g	0.73	1.50	0.77	1.44	0.71	1.65	0.92	1.83	1.10
Milk, pasteurised, 1 l	1.35	1.99	0.64	2.05	0.70	1.99	0.64	2.15	0.80
Olive oil, 1 l	12.50	17.33	4.83	18.67	6.17	15.80	3.30	17.32	4.82
Peanut or corn oil, 1 l	3.15	6.99	3.84	6.99	3.84	4.76	1.61	7.47	4.32
Potatoes, 2 kg	6.40	5.00	-1.40	8.00	1.60	7.00	0.60	8.00	1.60
Onions, 1 kg	2.85	2.80	-0.05	3.99	1.14	3.95	1.10	2.90	0.05
Mushrooms, 1 kg	11.99	12.93	0.94	11.00	-0.99	14.99	3.00	13.95	1.96
Tomatoes, 1 kg	5.99	6.99	1.00	5.27	-0.72	7.90	1.91	6.90	0.91
Carrots, 1 kg	1.99	1.89	-0.10	2.20	0.21	2.99	1.00	2.50	0.51
Oranges, 1 kg	3.28	3.55	0.27	3.93	0.65	4.99	1.71	3.80	0.52
Apples, 1 kg	5.99	4.50	-1.49	5.00	-0.99	7.99	2.00	4.90	-1.09
Lemons, 1 kg	2.99	8.00	5.01	7.45	4.46	7.99	5.00	6.40	3.41
Bananas, 1 kg	4.00	3.10	-0.90	3.00	-1.00	4.79	0.79	3.50	-0.50
Lettuce, one	2.85	2.50	-0.35	2.90	0.05	3.40	0.55	3.43	0.58
Eggs, 12	4.99	6.99	2.00	5.00	0.01	7.24	2.25	5.90	0.91
Peas, canned, 250 g	1.53	1.09	-0.44	0.92	-0.61	1.13	-0.40	1.18	-0.35
Tomatoes, canned, 250 g	0.88	0.88	0.00	0.88	0.00	0.99	0.11	1.10	0.22
Peaches, canned, 500 g	3.42	2.44	-0.98	2.12	-1.30	2.70	-0.72	3.14	-0.28
Sliced pineapples, canned, 500 g	3.32	3.07	-0.25	2.82	-0.50	3.28	-0.04	3.57	0.25
Beef: filet mignon, 1 kg	28.00	41.99	13.99	39.99	11.99	56.99	28.99	44.90	16.90
Beef: steak, entrecote, 1 kg	23.00	28.00	5.00	33.00	10.00	30.99	7.99	30.00	7.00
Beef: stewing, shoulder, 1 kg	12.55	15.99	3.44	20.00	7.45	24.99	12.44	16.99	4.44
Beef: roast, 1 kg	16.85	12.99	-3.86	15.99	-0.86	19.47	2.62	16.99	0.14
Beef: ground or minced, 1 kg	16.00	14.99	-1.01	15.00	-1.00	16.99	0.99	15.00	-1.00
Veal: chops, 1 kg	18.00	21.99	3.99	23.99	5.99	26.99	8.99	19.99	1.99
Veal: fillet, 1 kg	28.00	22.99	-5.01	22.99	-5.01	23.99	-4.01	25.00	-3.00
Veal: roast, 1 kg	17.45	33.99	16.54	16.99	-0.46	33.99	16.54	28.99	11.54
Lamb: leg, 1 kg	22.85	19.00	-3.85	10.00	-12.85	18.99	-3.86	23.00	0.15
Lamb: chops, 1 kg	15.99	21.50	5.51	19.99	4.00	23.46	7.47	26.00	10.01
Lamb: Stewing, 1 kg	12.85	10.50	-2.35	13.00	0.15	29.99	17.14	26.99	14.14
Pork: chops, 1 kg	15.55	20.99	5.44	19.00	3.45	20.99	5.44	21.00	5.45
Pork: loin, 1 kg	12.99	16.00	3.01	9.00	-3.99	20.47	7.48	22.90	9.91
Ham: whole, 1 kg	16.00	20.00	4.00	24.00	8.00	16.99	0.99	22.00	6.00
Bacon, 1 kg	15.00	14.99	-0.01	12.00	-3.00	18.20	3.20	18.75	3.75
Chicken: frozen, 1 kg	7.45	5.99	-1.46	5.58	-1.87	7.99	0.54	6.30	-1.15
Chicken: fresh, 1 kg	11.85	6.67	-5.18	5.50	-6.35	10.99	-0.86	12.20	0.35
Frozen fish fingers, 1 kg	8.55	9.88	1.33	9.00	0.45	10.75	2.20	14.93	6.38
Fresh fish, 1 kg	25.00	29.90	4.90	35.99	10.99	44.99	19.99	44.95	19.95
Instant coffee, 125 g	7.96	7.83	-0.13	7.83	-0.13	7.83	-0.13	7.83	-0.13
Ground coffee, 500 g	11.99	23.00	11.01	15.00	3.01	24.98	12.99	32.93	20.94
Tea bags, 25 bags	3.11	1.35	-1.76	2.15	-0.96	2.00	-1.11	2.00	-1.11
Cocoa, 250 g	3.99	3.24	-0.75	6.01	2.02	3.56	-0.43	5.95	1.96
Drinking chocolate, 500 g	5.10	5.60	0.50	5.80	0.70	5.60	0.50	6.20	1.10
Coca-Cola, 1 l	2.20	2.32	0.12	2.28	0.08	2.28	0.08	2.28	0.08
Tonic water, 200 ml	0.47	0.55	0.08	0.86	0.39	0.38	-0.09	0.83	0.36
Mineral water, 1 l	2.60	4.00	1.40	3.00	0.40	4.07	1.47	4.48	1.88
Orange juice, 1 l	3.13	2.25	-0.88	2.40	-0.73	3.66	0.53	3.35	0.22

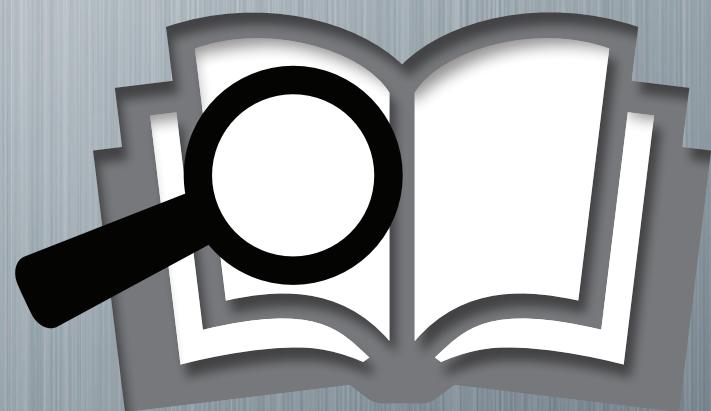
March 2017 AUD prices	Perth	Adelaide	Diff. Perth	Brisbane	Diff. Perth	Sydney	Diff. Perth	Melbourne	Diff. Perth
Alcohol and tobacco	\$	\$		\$		\$		\$	
Wine, common table, 750 ml	13.00	18.99	5.99	10.99	-2.01	25.95	12.95	24.95	11.95
Wine, superior quality, 750 ml	28.00	32.99	4.99	15.00	-13.00	42.95	14.95	39.95	11.95
Wine, fine quality, 750 ml	125.00	95.00	-30.00	98.10	-26.90	120.00	-5.00	98.00	-27.00
Beer, local brand, 1 l	7.67	10.13	2.46	7.11	-0.56	9.87	2.20	8.87	1.20
Beer, top quality, 330 ml	4.45	4.25	-0.20	3.00	-1.45	3.67	-0.78	4.20	-0.25
Scotch whisky, six years old, 700 ml	34.00	41.30	7.30	42.00	8.00	52.50	18.50	55.95	21.95
Gin, Gilbey's or equivalent, 700 ml	35.00	42.00	7.00	42.00	7.00	47.95	12.95	45.00	10.00
Vermouth, Martini & Rossi, 1 l	14.67	17.00	2.33	18.00	3.33	18.00	3.33	18.19	3.52
Cognac, French VSOP, 700 ml	78.00	95.00	17.00	86.00	8.00	89.00	11.00	90.00	12.00
Liqueur, Cointreau, 700 ml	48.00	59.00	11.00	57.00	9.00	62.95	14.95	64.20	16.20
Cigarettes, Marlboro, pack of 20	25.00	29.50	4.50	23.96	-1.04	25.95	0.95	26.50	1.50
Cigarettes, local brand, pack of 20	24.00	22.42	-1.58	22.83	-1.17	23.80	-0.20	24.85	0.85
Pipe tobacco, 50 g	50.00	55.60	5.60	67.00	17.00	52.61	2.61	71.54	21.54
Clothing									
Socks, wool mixture	19.00	21.95	2.95	32.95	13.95	29.95	10.95	26.95	7.95
Child's jeans	60.00	89.95	29.95	69.95	9.95	89.00	29.00	139.00	79.00
Child's shoes, dresswear	65.00	134.95	69.95	69.98	4.98	139.95	74.95	139.95	74.95
Child's shoes, sportswear	65.00	84.95	19.95	79.95	14.95	149.95	84.95	89.00	24.00
Girl's dress	55.00	115.95	60.95	59.95	4.95	189.95	134.95	229.95	174.95
Boy's jacket, smart	65.00	99.95	34.95	89.95	24.95	189.95	124.95	189.95	124.95
Boy's dress trousers	55.00	109.00	54.00	54.95	-0.05	114.95	59.95	169.95	114.95
Man's business suit, two piece, medium weight	985.00	1,299.00	314.00	1,695.00	710.00	1,299.00	314.00	899.00	-86.00
Man's business shirt, white	95.00	149.00	54.00	169.95	74.95	199.00	104.00	119.00	24.00
Man's shoes, business wear	140.00	299.00	159.00	439.00	299.00	379.00	239.00	459.00	319.00
Man's raincoat, Burberry type	450.00	479.00	29.00	699.00	249.00	799.00	349.00	1,099.00	649.00
Woman's dress, ready to wear, daytime	240.00	389.00	149.00	929.00	689.00	385.00	145.00	579.00	339.00
Woman's shoes, town	145.00	299.00	154.00	474.95	329.95	449.00	304.00	370.00	225.00
Woman's cardigan sweater	185.00	249.00	64.00	109.95	-75.05	279.00	94.00	479.00	294.00
Woman's raincoat, Burberry type	399.00	369.00	-30.00	800.00	401.00	799.00	400.00	1,495.00	1,096.00
Woman's tights, panty hose	17.00	15.95	-1.05	14.95	-2.05	16.95	-0.05	22.95	5.95
Housing rents									
Furnished residential apartment: 1 bedroom	800	2,340	1,540	2,080	1,280	4,290	3,490	3,250	2,450
Furnished residential apartment: 2 bedrooms	950	2,820	1,870	3,033	2,083	4,810	3,860	4,330	3,380
Unfurnished residential apartment: 2 bedrooms	950	2,600	1,650	2,687	1,737	6,250	5,300	2,900	1,950
Unfurnished residential apartment: 3 bedrooms	950	3,680	2,730	3,900	2,950	8,230	7,280	5,630	4,680
Unfurnished residential apartment: 4 bedrooms	1,500	3,800	2,300	3,683	2,183	8,620	7,120	5,200	3,700
Furnished residential house: 3 bedrooms	1,900	3,900	2,000	3,337	1,437	7,800	5,900	6,500	4,600
Unfurnished residential house: 3 bedrooms	1,800	2,900	1,100	4,116	2,316	7,780	5,980	6,500	4,700
Unfurnished residential house: 4 bedrooms	2,400	3,680	1,280	4,550	2,150	12,570	10,170	7,580	5,180
Utilities									
Telephone line, monthly rental	55.00	47.00	-8.00	32.00	-23.00	44.00	-11.00	47.00	-8.00
Telephone, charge per local call from home, 3 mins	0.48	0.30	-0.18	0.30	-0.18	0.33	-0.15	0.33	-0.15
Electricity, monthly bill for family of four	285.00	157.59	-127.42	390.00	105.00	374.85	89.85	255.17	-29.84
Gas, monthly bill for family of four	112.50	69.58	-42.93	280.00	167.50	237.15	124.65	208.55	96.05
Water, monthly bill for family of four	95.00	163.50	68.50	94.00	-1.00	104.36	9.36	236.73	141.73
Household supplies									
Soap, 100 g	1.65	1.08	-0.57	0.85	-0.80	0.79	-0.86	0.79	-0.86
Laundry detergent, 3 l	25.65	26.75	1.10	33.00	7.35	26.25	0.60	30.00	4.35
Toilet tissue, two rolls	3.85	2.00	-1.85	1.83	-2.02	1.67	-2.18	1.94	-1.91
Dishwashing liquid, 750 ml	6.30	5.79	-0.51	5.63	-0.67	5.79	-0.51	6.65	0.35
Insect-killer spray, 330 g	8.15	11.59	3.44	9.24	1.09	9.98	1.83	7.79	-0.36
Light bulbs, two, 60 watts	10.50	8.80	-1.70	8.97	-1.53	7.39	-3.11	7.92	-2.58
Batteries, two, size D/LR20	5.55	6.25	0.70	6.13	0.58	5.49	-0.06	6.97	1.42
Frying pan, Teflon or good equivalent	33.00	69.95	36.95	20.50	-12.50	52.95	19.95	69.95	36.95
Electric toaster, for two slices	22.00	129.00	107.00	50.00	28.00	84.95	62.95	69.00	47.00
Laundry, one shirt	17.50	6.40	-11.10	5.50	-12.00	10.00	-7.50	8.00	-9.50
Dry cleaning, man's suit	29.00	27.00	-2.00	35.00	6.00	29.15	0.15	19.00	-10.00
Dry cleaning, woman's dress	30.00	18.00	-12.00	24.30	-5.70	20.00	-10.00	15.50	-14.50
Dry cleaning, trousers	15.00	13.20	-1.80	15.40	0.40	15.50	0.50	9.90	-5.10

March 2017 AUD prices	Perth	Adelaide		Brisbane		Sydney		Melbourne	
	\$	\$	Diff. Perth	\$	Diff. Perth	\$	Diff. Perth	\$	Diff. Perth
<b>International schools, health and sports</b>									
American /English school: annual tuition, ages 5-12	20,500	18,095	-2,405.00	17,447	-3,053.00	17,850	-2,650.00	22,871	2,371.25
American/English school: annual tuition, ages 13-17	26,200	24,185	-2,015.00	19,698	-6,502.00	23,375	-2,825.00	28,878	2,578.00
American/English school: extra costs, ages 5-12	2,650.00	4,462.50	1,812.50	3,548.00	898.00	2,300.00	-350.00	1,899.00	-751.00
American/English school: extra costs, ages 13-17	6,000.00	4,930.00	-1,070.00	4,022.00	-1,978.00	2,350.00	-3,650.00	3,610.00	-2,390.00
American/English school: kindergarten annual fees	1,625.00	9,440.00	7,815.00	15,976.00	14,351.00	15,750.00	14,125.00	16,137.00	14,512.00
Routine checkup at family doctor	105.00	92.00	-13.00	76.50	-28.50	77.50	-27.50	85.00	-20.00
One X-ray at doctor's office or hospital	202.50	120.00	-82.50	94.28	-108.23	114.50	-88.00	117.50	-85.00
Visit to dentist (one X-ray and one filling)	235.00	247.50	12.50	451.50	216.50	170.00	-65.00	275.00	40.00
Green fees on a public golf course	65.00	32.00	-33.00	40.00	-25.00	32.50	-32.50	218.10	153.10
Hire of tennis court for one hour	25.00	26.00	1.00	21.00	-4.00	22.50	-2.50	39.00	14.00
Cost of six tennis balls eg Dunlop, Wilson	31.00	22.98	-8.02	22.47	-8.54	30.45	-0.56	47.80	16.80
Entrance fee to a public swimming pool	6.93	7.60	0.68	5.40	-1.53	7.15	0.23	6.15	-0.77
<b>Personal care</b>									
Aspirins, 100 tablets	6.25	17.92	11.67	17.50	11.25	22.00	15.75	26.50	20.25
Razor blades, five pieces	13.85	28.13	14.28	18.89	5.04	24.38	10.53	28.13	14.28
Toothpaste with fluoride, 120 g	4.25	4.42	0.17	2.25	-2.00	3.57	-0.68	4.42	0.17
Facial tissues, box of 100	3.74	2.11	-1.63	2.48	-1.26	2.51	-1.23	1.66	-2.08
Hand lotion, 125 ml	4.09	6.11	2.02	8.69	4.60	6.67	2.58	8.75	4.66
Shampoo & conditioner in one, 400 ml	12.55	9.99	-2.56	7.91	-4.64	6.25	-6.30	15.71	3.16
Lipstick, deluxe type	39.00	53.00	14.00	53.00	14.00	53.00	14.00	53.00	14.00
Man's haircut, tips included	31.00	42.50	11.50	39.00	8.00	85.00	54.00	65.00	34.00
Woman's cut & blow dry, tips included	64.00	76.00	12.00	87.48	23.48	89.00	25.00	85.00	21.00
<b>Transport</b>									
Low priced car, 900-1299 cc	20,895	23,965	3,070	22,571	1,676	23,340	2,445	17,990	-2,905
Compact car, 1300-1799 cc	26,990	28,340	1,350	22,778	-4,213	37,705	10,715	35,245	8,255
Family car, 1800-2499 cc	63,995	58,645	-5,350	68,436	4,441	99,128	35,133	70,350	6,355
Deluxe car, 2500 cc upwards	236,000	213,515	-22,485	237,282	1,282	274,028	38,028	270,335	34,335
Yearly road tax or registration fee	745.00	861.00	116.00	723.40	-21.60	429.00	-316.00	771.60	26.60
Cost of a tune up (but no major repairs)	387.50	372.50	-15.00	577.50	190.00	575.00	187.50	610.00	222.50
Annual premium for car insurance	860.00	1,995.00	1,135.00	1,203.14	343.14	3,620.00	2,760.00	3,355.00	2,495.00
Regular unleaded petrol, 1 l	1.32	1.24	-0.08	1.28	-0.04	1.33	0.01	1.32	-
Taxi: initial meter charge	5.85	3.70	-2.15	2.90	-2.95	3.60	-2.25	3.20	-2.65
Taxi rate per additional kilometre	2.55	1.84	-0.71	2.17	-0.38	2.19	-0.36	1.62	-0.93
Taxi: airport to city centre	65.00	24.00	-41.00	52.00	-13.00	55.00	-10.00	96.00	31.00
<b>Recreation</b>									
Compact disc album	22.50	25.99	3.50	17.00	-5.50	31.45	8.96	27.45	4.96
Television, colour, 66 cm	1,052.50	1,048.00	-4.50	924.00	-128.50	1,072.00	19.50	947.00	-105.50
Personal computer, 64 MB	1,449.00	2,048.00	599.00	1,874.50	425.50	1,747.50	298.50	1,747.50	298.50
Cost of developing 36 colour pictures	18.00	14.95	-3.05	20.90	2.90	14.99	-3.01	16.65	-1.35
International foreign daily newspaper	6.85	7.50	0.65	-	-6.85	8.50	1.65	8.50	1.65
Daily local newspaper	1.80	1.50	-0.30	1.50	-0.30	2.70	0.90	2.20	0.40
International weekly news magazine (Time)	7.85	8.00	0.15	8.00	0.15	8.00	0.15	8.00	0.15
Paperback novel, at bookstore	35.00	29.99	-5.01	24.99	-10.01	34.99	-0.01	34.95	-0.05
Three-course dinner at top restaurant for four people	775.00	575.00	-200.00	644.34	-130.67	865.00	90.00	775.00	0.00
Four best seats at theatre or concert	835.00	731.57	-103.43	563.28	-271.73	1,079.60	244.60	642.34	-192.67
Four best seats at cinema	130.00	61.00	-69.00	63.00	-67.00	86.00	-44.00	81.00	-49.00
<b>Domestic help</b>									
Hourly rate for domestic cleaning help	35.00	20.50	-14.50	39.85	4.85	28.00	-7.00	22.00	-13.00
Maid's monthly wages, full time	2,600.00			3,271.00	671.00	2,500.00	-100.00	1,850.00	-750.00
Babysitter's rate per hour	32.00	18.00	-14.00	38.00	6.00	24.00	-8.00	20.00	-12.00
<b>Business trip costs</b>									
Business trip, typical daily cost	675.05	601.80	-73.25	660.00	-15.05	792.10	117.05	841.60	166.55
Hilton-type hotel, single room, one night including breakfast	320.00	360.00	40.00	335.00	15.00	467.00	147.00	450.00	130.00
Moderate hotel, single room, one night including breakfast	265.00	170.00	-95.00	239.00	-26.00	208.00	-57.00	279.00	14.00
One drink at bar of first class hotel	13.50	18.50	5.00	25.50	12.00	22.00	8.50	22.00	8.50
Two-course meal for two people	260.00	225.00	-35.00	227.50	-32.50	287.50	27.50	330.00	70.00
Simple meal for one person	65.00	60.00	-5.00	92.50	27.50	107.50	42.50	94.00	29.00
Fast food snack: hamburger, fries and drink	5.50	9.50	4.00	9.95	4.45	9.70	4.20	7.90	2.40
Hire car, weekly rate	480.00	808.00	328.00	586.09	106.09	796.91	316.91	770.66	290.66
Regular unleaded petrol, 1 l	1.29	1.23	-0.06	1.28	-0.01	1.33	0.04	1.31	0.02
Taxi: initial meter charge	5.85	3.70	-2.15	2.90	-2.95	3.60	-2.25	3.20	-2.65
Taxi rate per additional kilometre	2.55	1.84	-0.71	2.17	-0.38	2.19	-0.36	1.62	-0.93
Taxi: airport to city centre	65.00	24.00	-41.00	52.00	-13.00	55.00	-10.00	96.00	31.00
International foreign daily newspaper	6.85	7.50	0.65	0.00	-6.85	8.50	1.65	8.50	1.65
Daily local newspaper	1.80	1.50	-0.30	1.50	-0.30	2.70	0.90	2.20	0.40
International weekly news magazine (Time)	7.85	8.00	0.15	8.00	0.15	8.00	0.15	8.00	0.15
One good seat at cinema	32.50	15.25	-17.25	15.75	-16.75	21.50	-11.00	20.25	-12.25

Note: Prices are mid or average prices from the Economist Intelligence Unit's source dataset. Where only Low and High prices are available the average is reported.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Economist Intelligence Unit.

# Glossary



# Glossary

## Cost of living indicators

Theoretical indicators that seek to measure the expenses required for individuals or households to maintain a specified standard of living.

## Consumer price index (CPI)

An index with the value of 100 in the base period that measures the aggregate price level in the economy. The price level is track for a constant group or 'basket' of goods and services. To ensure that the constant basket is representative of the expenditure of households they are weighted with expenditure patterns from the Household Expenditure Survey. The CPI is constructed at the capital city level and data for Australia is a weighted-average of the eight capital cities.

## Household Expenditure Survey (HES)

A sixth-yearly survey of households on their expenditure patterns. The survey collects at a detailed level information about the expenditure, income, assets, liabilities and household characteristics of resident Australian households.

## Median multiple

Often used in the context of housing affordability it is the ratio of the median property price to median household income. Higher values indicate lower affordability. It is sometimes known as the Price-Income ratio.

## Quintile, Income

A quintile in statistical reporting is 20 per cent of a surveyed group. Quintile distribution data are typically presented as first (bottom 20%), second, third (includes the median), fourth and fifth (upper 20%) of the data. Income quintiles, as used in this report, are household income data arranged in quintiles.

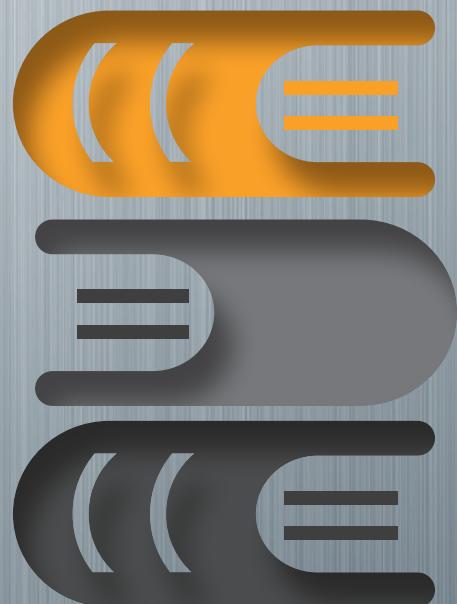
## Poverty rate

The ratio of the number of people (in a particular age group) whose income falls below the poverty line, usually taken as 50 per cent of median household income.

## Terms of trade

The ratio of an aggregate index measure of a country's export prices to its import prices. In the context of the report, the terms of trade is used to depict the rise in commodity (particularly iron ore) prices before, during and post the mining boom.

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## Contact

**Bankwest Curtin Economics Centre**

Tel: +61 8 9266 1744

Email: [bcec@curtin.edu.au](mailto:bcec@curtin.edu.au)

**[bcec.edu.au](http://bcec.edu.au)**



# Cost of Living

2018



*Ways to make a difference*

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ABN: 32 201 266 289

City West Lotteries House, 2 Delhi Street, West Perth WA 6005

P: 08 9420 7222 | F: 08 9486 7966 | [info@wacoss.org.au](mailto:info@wacoss.org.au) | [wacoss.org.au](http://wacoss.org.au)

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## About WACOSS

The Western Australian Council of Social Service (WACOSS) represents 300 community service organisations and individuals, and more than 500 organisations involved in the provision of community services to the people of Western Australia.

The work of WACOSS is underpinned by seven core values which lead our strategic direction: collaboration, Indigenous culture, diversity, ethics, innovation, human rights, and recognition.

WACOSS is one of nine peak councils of social service, collaborating across Australia to bolster the united strength and weight of the work of each peak body, working collectively on campaigns of national significance.

The organisation is committed to genuine engagement, authentic collaboration, and building trusted relationships with members, communities, and governments. WACOSS is non-partisan and free from private interests, which allows the organisation to play a unique and objective role with the sector.

WACOSS tackles difficult issues, systems, behaviours, and attitudes that contribute to inequality and exclusion, and develops evidence-based social policy and research to inform and influence government policy to change the lives of those facing adversity.

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## Introduction

Has WA finally turned a corner since the end of the mining boom?

We hear reports that consumer confidence is high, the State's credit rating is stable, a budget surplus is predicted for 2019/20, unemployment is down and speculation abounds that a lithium boom is on the horizon.

Hidden by these positive developments, however, is a very different story.

That stable credit rating was in part the result of large-scale redundancies and wage growth 'restraint' for public sector workers. In an effort to improve the government's balance sheet, state-imposed household fees and charges have been dramatically increased in the last two budgets. These increases impact disproportionately on those on low and fixed incomes – at a time they can least afford it.

While the overall full-time employment figure may have grown, so has the precariousness of employment and the unemployment rate for women.

More and more Western Australians are seeking assistance to pay their power bills and to put food on the table. Sustained low wage growth has meant that even those who secure work can struggle to meet their daily living costs.

Housing remains the single largest expense for households. Median rents across Perth have continued to fall, though the rate of decline appears to have slowed and rents in some regional areas have seen increases. Despite this, affordable and appropriate rental housing has remained difficult to access for those on the lowest incomes, particularly single parents and people on fixed incomes, such as retirees and those currently unemployed.

The data provided by financial counsellors around the state shows households experiencing hardship and stress are encumbered by mounting debts and loan repayments that are preventing them from being able to reach a position of financial security.

This is why it is never enough to rely on upswings in the overall economy to support those experiencing hardship. Direct government intervention is essential to improve their wellbeing, address poverty and break the cycle of intergenerational disadvantage. Whether it is increases to social security payments, reforms to industrial relations that put more power back into the hands of workers, improving the state concession system, reforming tax policy to better support provision of low-income affordable rentals, or investing in public and community housing, action is needed across all levels of government.

Without these kinds of initiatives, improvements in the economy continue to leave those doing it hardest behind. Poverty is an unnecessary evil in a society as wealthy as ours. Depriving children growing up in low-income households of the essentials of life undermines their development, reduces their life opportunities, and ultimately leaves us all poorer as a society. We all have a role to play in achieving an inclusive, just and equitable society in Western Australia.

## Key findings of the 2018 Cost of Living Report

Improvements in the financial position of the model households has been driven by the continued decline in median rental costs in the Perth metropolitan area, though this is not indicative of the availability of appropriate affordable housing for real-life households. Food expenditure has also declined slightly, while utility costs have seen sizeable increases. For those households that own a car, transport costs have decreased slightly, though households dependant on public transport have seen an increase. Increases in costs for utilities and public transport places particular pressure on the fixed income households of the unemployed single and the renting age pensioners.

### Weekly income and expenditure of our model households

	Income	Expenditure	Net Position
Single Parent Family (Parenting Payment Single)	\$983.20	\$876.01	\$107.19
Working Family	\$1,456.62	\$1,227.77	\$228.75
Unemployed Single	\$308.25	\$321.53	-\$13.27
Age Pensioners (Renters)	\$791.40	\$700.35	\$91.05
Age Pensioners (Home Owners)	\$728.56	\$527.76	\$200.81

- VV The single parent family has \$107.19 left after meeting their estimated basic living costs. The decline in government income supplements, particularly the cancellation of the Schoolkids Bonus, has resulted in very low income growth for the household.
- VV The income of our working family surpasses their estimated basic living costs by \$228.75 per week. With their access to two sources of wages, they remain in the best position of the model households.
- VV The weekly income of our model unemployed single remains inadequate to meet basic living costs, with a gap of \$13.27 between income support provided and a basic standard of living in line with community expectations.
- VV The renting age pensioner has a higher level of income due to receiving rent assistance, but has dramatically larger expenditure. While the home-owning age pensioner comes out \$200.81 ahead, the renting age pensioner has only \$91.05 after meeting their basic living costs.

The 2017/18 data supplied by Western Australian financial counsellors provides an insight into the real-life living cost pressures being faced by households across Western Australia who are experiencing financial hardship and stress.

**Fortnightly mean income and expenditure of households who sought financial counselling**

	Income	General Expenditure	Debt Payments	Surplus/Deficit	Debt to Income Ratio
All WA	\$1,740.29	\$1,591.25	\$290.78	-\$141.74	16.7%
Perth	\$1,837.08	\$1,720.43	\$287.89	-\$171.24	15.7%
Regional	\$1,770.34	\$1,525.21	\$329.51	-\$84.39	18.6%
Low-income	\$1,120.39	\$1,071.30	\$240.57	-\$191.48	21.5%

- VV Housing was on average the most significant cost for all households who received financial counselling in 2017/18, comprising 45.5 per cent of their general expenditure.
- VV Wages comprised 79.4 per cent of the average incomes of Perth households who received financial counselling in 2017/18. At \$1,457.72 per fortnight, this was \$39.92 more than the minimum wage in that financial year.
- VV Regional households in financial hardship were on average more reliant on social security payments, with wages making up less than half of their average income.
- VV Though the average debt levels of the low-income households who received financial counselling were lower than the mean of all the households, they had a higher debt to income ratio at 21.5 per cent compared to 16.7.

## Methodology

WACOSS has produced its Cost of Living Report annually since 2007. The first reports simply investigated the changes in basic living expenses such as housing, transport, fuel, food and other essentials in WA over the preceding year. In 2009 we developed a model comparing the adequacy of income against the costs of living for a low-income family in Western Australia, which was subsequently picked up by other states. In 2012 we revised and expanded our Cost of Living Report, to model two families and a single person, representing different at-risk household types on low incomes. The 2017 report introduced two age pensioner models, with one couple homeowners and the other renters.

The *2018 Cost of Living Report* uses the same methodology as our 2012 and subsequent reports.<sup>1</sup> It models the income and expenditure of five household types during the 2017/18 financial year in comparison to the two preceding financial years (2015/16 and 2016/17).

Doing so allows us to analyse relative changes in living costs and understand their likely impacts on current and future levels of deprivation and need. Every household and family in WA is different, and so it would be unrealistic to expect these models to be a precise reflection of all living costs or household expenditures.

WACOSS is, however, confident that the conservative assumptions underpinning each model (clearly considered and referenced in Appendix 1 of the 2012 report) ensure the conclusions drawn reflect the real-life experiences of low-income households in WA. They provide a window into the pressures of changing living costs on their everyday lives that can guide policy and decision-making.

The report includes analysis of 404 household budgets collated by financial counsellors across Western Australia during 2017/18. The analysis of this data includes breakdowns examining clients in metropolitan and regional areas, as well as those living below the poverty line.

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<sup>1</sup> The [2012 Cost of Living Report](#) provides a more detailed account of the methodology.

## Our model households

The key assumptions for our households' income and expenditure are described below:

	Single Parent Family	Working Family	Unemployed Single	Age Pensioners
Household members	Single mother with two dependent children.	Working family with two school aged children.	Single, unemployed female.	Couple, retired.
Age	34 years old, with two children aged 7 and 8.	Two adults aged 40 and 38 years, with two children aged 11 and 13.	44 years old.	Two adults aged 67 and 69 years.
Income source	Mother – works 18 hours a week for 39 weeks a year at minimum wage + casual loading. Eligible for government payments.	One works full (minimum wage + 33%); the other casual (16 hours per week at minimum wage with casual loading). Eligible for government payments.	Newstart Allowance only.	Age Pension and supplements only.
Housing	Rents a unit (85% median unit rental)	Rents a house (85% median house rental)	Shares a house with two other adults (paying one third of 85% median house rental).	<i>Renters:</i> Rent a unit (85% median unit rental)  <i>Owners:</i> Own a house
Education	Both children attend a public primary school.	Both children attend a public primary school.	N/A	N/A
Transport	Owns a small car.	Own a small car and uses public transport for five round trips per week.	Public transport is only mode of transport (five round-trips per week).	<i>Renters:</i> Public transport is only mode of transport (five round-trips per week, on and off peak).  <i>Owners:</i> Own a small car
Health	No private health insurance.	Has basic private health insurance.	No private health insurance.	No private health insurance.

## Determining household income

Each of our three households' income has been estimated by using:

- VV Department of Human Services' Payment and Service Finder;<sup>2</sup>
- VV The Department of Social Services' *Guide to Social Security Law*;<sup>3</sup>
- VV The WA Industrial Relations Commission's 2017 *State Wage Case* decision;<sup>4</sup> and
- VV The Australian Taxation Office's online tax calculator.<sup>5</sup>

## Determining household expenditure

Household expenditure in the *2018 Cost of Living Report* has been calculated using up-to-date and publicly available sources that reflect the average price and usage of products and services by Perth residents wherever possible. Where such figures are not readily available, we have modelled costs based on the Australian Bureau of Statistics' (ABS) *2015/16 Household Expenditure Survey* (with relevant CPI applied), consistent with the way the model has been applied in previous years.

All estimates of cost and consumption are intentionally conservative and, as a result, likely understate the cost impacts on vulnerable households. Further detail on each of the essential costs in the household expenditure model is provided below:

- VV **Housing** — Expenditure is based on quarterly statistics of average house and unit rental prices advertised in the Perth metropolitan region published by the Real Estate Institute of Western Australia (REIWA). The models assume that our households have been able to acquire rental accommodation at 85 per cent of the median market rate.
- VV **Utilities** — Our households' consumption of electricity, gas and water are based on State Government estimates of average usage.<sup>6</sup> Prices were obtained directly from the utility providers for Perth residential households.
- VV **Food and beverages** — Food and beverage costs are based on the second quintile figures published in the ABS *Household Expenditure Survey 2015/16* (with CPI applied), and vary depending on household size.
- VV **Transport** — Two of our households are assumed to own and use a small inexpensive car, travelling 12,000 km per year. The costs are based on the RAC WA annual Car Running Costs guide.<sup>7</sup> The car used in this report is a late model Mitsubishi Mirage manual hatchback.
- VV **Other household and living costs** — Other essential household costs, such as education, communication, and household services have been calculated based on the ABS *Household Expenditure Survey 2015/16* (with CPI applied).

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<sup>2</sup> Department of Human Services (2018) [Online Estimators](#)

<sup>3</sup> Department of Social Services (2018) [Guide to Social Security Law](#)

<sup>4</sup> WA Industrial Relations Commission (2017) [State Wage Order Pursuant To Section 50a of the Act](#)

<sup>5</sup> Australian Tax Office (2018) [Income Tax Estimator](#)

<sup>6</sup> Government of Western Australia (2018) *State Budget 2018/19*, [Budget Paper No. 3](#)

<sup>7</sup> RAC WA (2018) *Vehicle Running Costs Guide* <https://rac.com.au/car-motoring/info/buying-a-car/running-costs>

## Household Analysis

### Single Parent Family

Our single parent family is comprised of a single parent with two primary school aged children. The parent works part-time, rents a unit, and owns a small car. The parent in this household is assumed to already be working 18 hours per week for 39 weeks of the year while their children attend school. Our calculations assume that she or he is unable to work during school holidays when they must care for the children. In reality, this kind of work pattern is difficult to maintain, which is why single parents have one of the highest rates of movement in and out of part-time work.

Our single parent remains eligible to receive Parenting Payment Single (rather than being shifted to the much lower Newstart Allowance) due to one of the children being below the age of eight years.<sup>8</sup>

Single parent family (Parenting Payment Single) - WEEKLY INCOME					
	2015/16	2016/17	2017/18	% increase 2016/17 to 2017/18	\$ increase 2016/17 to 2017/18
Wage (gross)	\$402.56	\$410.25	\$419.81	2.33%	\$9.56
Parenting payment	\$245.27	\$247.57	\$250.92	1.35%	\$3.35
Other regular Government Benefits	\$318.15	\$319.27	\$320.81	0.48%	\$1.54
Government supplements (one off payments, converted to weekly amount)	\$54.25	\$46.00	\$38.24	-16.86%	-\$7.76
Tax paid	\$48.23	\$50.13	\$52.58	4.9%	\$2.46
<b>Total household income/week</b>	<b>\$978.00</b>	<b>\$978.96</b>	<b>\$983.20</b>	<b>0.4%</b>	<b>\$4.24</b>

The income of the single parent household has increased 0.4 per cent (\$4.24) over the last 12 months. Despite increases to the parent's wage of \$9.56, the reduction in government supplements, principally as the result of the cessation of the Schoolkids Bonus, and an increase in tax paid sees little extra income in the single parent's pocket at the end of the week.

As described in more detail in our *2013 Cost of Living Report*, a casual employee (like our single parent) typically does not have sick leave or annual leave entitlements. This puts them in a precarious financial situation, especially when either they or their children become sick (requiring time off work), or during times when business may be slow. Increases in the unemployment and

<sup>8</sup> In the 2013 Cost of Living Report we undertook a comparison of the income of a single parent eligible for Parenting Payment Single, and a parent only eligible for Newstart. The single parent family's income was reduced considerably (-\$77.12 per week) as a result of being shifted to Newstart when the youngest child reached 8 years of age. For more information, refer to: WACOSS (2013) [2013 Cost of Living Report](#).

underemployment rate put them at further risk. Unpredictable pay can also result in difficulties in reporting income to Centrelink, particularly when income moves above and below key thresholds.

Single parent family - WEEKLY EXPENDITURE						
	2015/16	2016/17	2017/18	% increase 2016/17 to 2017/18	\$ increase 2016/17 to 2017/18	
Rent	\$324.06	\$289	\$274.83	-4.9%	-\$14.17	
Food and beverage	\$203.52	\$204.52	\$203.82	-0.69%	-\$0.34	
Utilities	\$33.64	\$34.58	\$36.53	5.64%	\$1.95	
Transport	\$110.05	\$108.10	\$102.73	-4.97%	-\$5.37	
Other - household and living costs	\$256.56	\$256.50	\$258.09	0.6%	\$1.59	
<b>Total household expenditure/week</b>	<b>\$927.83</b>	<b>\$892.70</b>	<b>\$876.01</b>	<b>-1.87%</b>	<b>-\$16.69</b>	

Expenditure as whole has decreased, with a decline in the CPI for food and non-alcoholic beverages, and a reduction in the costs associated with operating a car. It should be noted that the modelling uses the costs of owning and running a new car and it is likely that low-income households would be reliant on less fuel efficient vehicles with higher maintenance costs. The continued decreases in median rents has continued to have the biggest impact on the expenditure level, dropping \$14.17. Utility costs, up 5.64 per cent, as well as other household and living costs such as health, telecommunications, recreation and education, have seen an increase from 2016/17.

Single parent family (Parenting Payment Single) - WEEKLY DIFFERENCE			
	2015/16	2016/17	2017/18
Total weekly income	\$978.00	\$978.96	\$983.20
Total expenditure	\$927.83	\$892.70	\$876.01
<b>Difference</b>	<b>\$50.16</b>	<b>\$86.26</b>	<b>\$107.19</b>

In 2017/18, the single parent family's weekly income surpassed their basic living costs by \$107.19. Despite continuing to see improvement in their financial position, it is important to remember that these calculations make little allowance for the family to save, for the single parent to undertake training in order to improve their employment prospects, or to enable the family to be able to respond to an unexpected cost or crisis (if the fridge or car breaks down). It also assumes they are able to secure sufficient part-time work during the school term (and/or affordable care arrangements during holidays), but the casual nature of their work means they may be at increased financial risk.

## Working Family

The working family consists of one parent working full time, one in part-time casual employment and two school-aged children. They rent a house, own a small car and use public transport for five round trips a week.

Working family - WEEKLY INCOME					
	2015/16	2016/17	2017/18	% increase 2016/17 to 2017/18	\$ increase 2016/17 to 2017/18
Combined wages (gross)	\$1,247.68	\$1,271.42	\$1,301.32	2.35%	\$29.89
Regular government benefits	\$262.42	\$262.99	\$259.40	-1.37%	-\$3.59
Government supplements (one off payments, converted to weekly figures)	\$59.33	\$47.02	\$35.15	-25.24%	-\$11.86
Tax paid	\$143.85	\$131.40	\$139.35	6.05%	\$7.95
<b>Total household income/week</b>	<b>\$1,425.59</b>	<b>\$1,450.04</b>	<b>\$1,456.52</b>	<b>1.72%</b>	<b>\$6.48</b>

The wages of the working family have increased by \$29.89 or 2.35 per cent in 2017/18. As with the single parent family, reductions in government payments and an increase in tax paid sees very low growth for the weekly total household income at just 1.72 per cent.

Working family - WEEKLY EXPENDITURE					
	2015/16	2016/17	2017/18	% increase 2016/17 to 2017/18	\$ increase 2016/17 to 2017/18
Rent	\$344.25	\$316.63	\$301.63	-4.7%	-\$14.88
Food and beverage	\$314.72	\$316.27	\$294.34	-0.25%	-\$0.73
Utilities	\$51.80	\$53.30	\$57.37	7.65%	\$4.08
Transport	\$143.23	\$141.76	\$139.27	-1.76%	-\$2.49
Other - household and living costs	\$429.33	\$431.80	\$435.03	0.75%	\$3.23
<b>Total household expenditure/week</b>	<b>\$1,262.22</b>	<b>\$1,238.55</b>	<b>\$1,227.77</b>	<b>-0.87%</b>	<b>-\$10.78</b>

Our working family's weekly expenditure on basic living costs has decreased by 0.87 per cent or \$10.78 per week over the last 12 months. As with our single parent, the largest decrease in expenditure is in housing, which outweighs the increased cost of utilities, and other household and living costs.

Working family - WEEKLY DIFFERENCE			
	2015/16	2016/17	2017/18
Total weekly income	\$1,425.59	\$1,450.04	\$1,456.52
Total expenditure	\$1,262.22	\$1,238.55	\$1,227.77
<b>Difference</b>	<b>\$163.36</b>	<b>\$211.49</b>	<b>\$228.75</b>

In 2017/18, the family's weekly income surpassed their basic living costs by \$228.75 per week (up from \$211.49 in 2016/17). This continued improvement to their position provides some allowance for the family to save, or to have some money to cover unexpected or non-essential expenditure. It should be noted, however, that if either of the couple had lost their job or had their hours reduced during this period, their financial position would be very different.

## Unemployed Single

Our unemployed single person's only income comes from government allowances and benefits. She or he is currently looking for work, lives in shared accommodation, and relies on public transport to get to appointments (e.g. with Centrelink, job interviews, doctor), to visit friends or family, and to reach the supermarket or local library (to access the internet).

Unemployed single – WEEKLY INCOME					
	2015/16	2016/17	2017/18	% increase 2016/17 to 2017/18	\$ increase 2016/17 to 2017/18
Newstart Allowance	\$261.83	\$265.21	\$270.03	1.82%	\$4.83
Rent assistance	\$42.80	\$35.37	\$33.83	-4.35%	-\$1.54
Energy supplement	\$4.39	\$4.39	\$4.39	0%	\$0
Tax paid	\$0	\$0	\$0	0%	\$0
<b>Total household income/week</b>	<b>\$309.02</b>	<b>\$304.97</b>	<b>\$308.25</b>	<b>1.07%</b>	<b>\$3.29</b>

The weekly income of the unemployed single increased by just 1.07 per cent in 2017/18. In real terms, this means they only have an additional \$3.29 per day to try to make ends meet. They saw a decrease in the amount of Commonwealth Rent Assistance that they received as a result of the lower rent they are paying and the rent assistance thresholds.

Unemployed single - WEEKLY EXPENDITURE					
	2015/16	2016/17	2017/18	% increase 2016/17 to 2017/18	\$ increase 2016/17 to 2017/18
Rent	\$114.75	\$105.54	\$100.58	-4.7%	-\$4.96
Food and beverage	\$90.10	\$90.55	\$90.52	-0.03%	-\$0.03
Utilities	\$15.81	\$16.27	\$17.21	5.76%	\$0.94
Transport	\$13.26	\$13.80	\$14.94	8.26%	\$1.14
Other - household and living costs	\$98.41	\$98	\$98.28	0.29%	\$0.28
<b>Total household expenditure/week</b>	<b>\$332.34</b>	<b>\$324.16</b>	<b>\$321.53</b>	<b>-0.81%</b>	<b>-\$2.63</b>

In 2017/18, our unemployed person was receiving government benefits totalling around 43 per cent of the WA State Minimum Wage while searching for work.<sup>9</sup> As the calculations below show,

<sup>9</sup> In 2017/18 the WA State Minimum Wage full time weekly rate for adults was \$708.90

despite the decrease in weekly expenditure, unemployment benefits do not meet a basic standard of living and may present significant barriers to a job-seeker's ability to find work.

The unemployed person's weekly expenditure on basic living costs has decreased by 0.81 per cent (or \$2.63 per week) over the last 12 months. As with the other households, this is principally the result of declining median rents, as well as a reduction in food costs. Unlike with the other households, these decreases have been more strongly counteracted by the increases in utility costs and public transport fares. It should also be noted that the housing calculations assume that our unemployed person can find shared accommodation where they pay one-third rent of a house at 85 per cent of the Perth median house price.

Unemployed single - WEEKLY DIFFERENCE			
	2015/16	2016/17	2017/18
Total weekly income	\$309.02	\$304.97	\$308.25
Total expenditure	\$332.34	\$324.16	\$321.53
<b>Difference</b>	<b>-\$23.31</b>	<b>-\$19.20</b>	<b>-\$13.27</b>

The gap between the unemployed person's income and expenditure means they will have to make some very tough choices about which basic costs of living are most essential in any week. The ongoing, negative difference between income and expenditure is a clear indication that this person is struggling to meet a basic standard of living in WA and facing significant financial hardship.

These calculations make no allowance for our unemployed single to be able to save any money, to pay for any unexpected medical expenses, to purchase or contribute towards the cost of new white goods, to pay for training to increase their employment options, or to spend on any non-essential items or service debt. It is entirely reasonable to assume that they would need to go into debt if any of these circumstances were to occur.

## Age Pensioners

The Age Pensioner households are composed of retired couples aged 67 and 69. As retirees, the couple's only income is from the Age Pension and supplements. Two housing scenarios are provided: one where the couple rents a unit (at 85 per cent of the median unit rental cost), and the other where the couple owns a house.

The assumptions around their expenditure are very conservative, with the renters choosing a unit rather than a house as just mentioned, neither household having private health insurance, and the renters travelling exclusively by public transport.

Age Pensioners (Renters) – WEEKLY INCOME				
	2016/17	2017/18	% increase 2016/17 to 2017/18	\$ increase 2016/17 to 2017/18
Age Pension	\$603.16	\$615.23	2%	\$12.07
Rent assistance	\$61.70	\$62.84	1.84%	\$1.13
Energy supplement	\$10.57	\$10.57	0%	\$0
Pension supplement	\$98.50	\$100.26	1.79%	\$1.77
Cost of Living Rebate	\$2.45	\$2.50	1.75%	\$0.05
<b>Total household income/week</b>	<b>\$776.39</b>	<b>\$791.40</b>	<b>1.93%</b>	<b>\$15.01</b>

The weekly income of the renting Age Pensioners increased by 1.93 per cent in 2017/18. The Age Pension is their largest source of income, followed by the Pension Supplement and Rent Assistance.

Age Pensioners (Renters) – WEEKLY EXPENDITURE				
	2016/17	2017/18	% increase 2016/17 to 2017/18	\$ increase 2016/17 to 2017/18
Rent	\$289	\$274.83	-4.0%	-\$14.17
Food and beverage	\$181.10	\$181.04	-0.03%	-\$0.06
Utilities	\$37.92	\$40.39	6.5%	\$2.47
Transport	\$6.90	\$7.47	1.75%	\$0.05
Other - household and living costs	\$188.40	\$189.15	0.4%	\$0.75
<b>Total household expenditure/week</b>	<b>\$703.32</b>	<b>\$692.88</b>	<b>-1.48%</b>	<b>-\$10.44</b>

The renting Age Pensioners have seen increases in their utility, transport, and other household and living costs, but these have been more than offset by the 4 per cent reduction in their rent.

Age Pensioners (Renters – WEEKLY DIFFERENCE)		
	2016/17	2017/18
Total weekly income	\$776.39	\$791.40
Total expenditure	\$703.32	\$692.88
<b>Difference</b>	<b>\$73.07</b>	<b>\$98.52</b>

While their total weekly income comes out ahead of their expenditure, these calculations do not provide much allowance should the couple face a medical emergency or need to replace a household appliance. The couple does not have private health insurance, life insurance or funeral cover, and could potentially face expensive medical costs should something occur.

Age Pensioners (Home Owners) – WEEKLY INCOME				
	2016/17	2017/18	% increase 2016/17 to 2017/18	\$ increase 2016/17 to 2017/18
Age Pension	\$603.16	\$615.23	2%	\$12.07
Energy supplement	\$10.57	\$10.57	0%	\$0
Pension supplement	\$98.50	\$100.26	1.79%	\$1.77
Cost of Living Rebate	\$2.45	\$2.50	1.75%	\$0.05
<b>Total household income/week</b>	<b>\$714.69</b>	<b>\$728.56</b>	<b>1.94%</b>	<b>\$13.88</b>

The income of the home owner couple is lower than the renters as they are not receiving Rent Assistance. The renting couple, however, is dedicating nearly 35 per cent of their income to covering their rental costs. In comparison, the home owners only need to dedicate 3.7 per cent of their income to pay the council rates and other charges they are liable for as a result of owning their home. The home owners do not have a mortgage and so do not have any other ongoing costs associated with home ownership.

Age Pensioners (Home Owners) – WEEKLY EXPENDITURE				
	2016/17	2017/18	% increase 2016/17 to 2017/18	\$ increase 2016/17 to 2017/18
Rates and Charges	\$25.51	\$27.01	5.47%	\$1.40
Food and beverage	\$181.10	\$181.04	-0.03%	-\$0.06
Utilities	\$39.78	\$42.29	6.3%	\$2.51
Transport	\$91.36	\$88.27	-3.38%	-\$3.09
Other - household and living costs	\$188.40	\$189.15	0.39%	\$0.84
<b>Total household expenditure/week</b>	<b>\$526.24</b>	<b>\$527.76</b>	<b>0.3%</b>	<b>\$1.51</b>

As they do not benefit from declining median rental prices, the Age Pensioner home owners are the only household to have seen an increase in their expenditure, though only of 0.3 per cent or \$1.51 per week.

Age Pensioners (Home Owners) – WEEKLY DIFFERENCE		
	2016/17	2017/18
Total weekly income	\$714.69	\$728.56
Total expenditure	\$526.24	\$527.76
<b>Difference</b>	<b>\$188.44</b>	<b>\$200.81</b>

The home owner has \$102.29 more than the renter after expenses. Their expenditure has remained very stable, unlike the renters who are deeply impacted by changes in the rental market. This suggests that home ownership is critical to the financial resilience of retirees, particularly those reliant on the age pension. With an ongoing trend of fewer households owning their home on retirement, we are likely to see an increased risk of poverty and financial hardship in age over time.

## The Cost of Living in Regional WA

Limitations of the data on detailed household expenditure patterns in the ABS Household Expenditure Survey mean there is insufficient detail to confidently extend the WACOSS household models to individual regions within WA. The data below accurately reflects the differences in costs of essential items, but we recognise that low income households living in these regions will change their actual expenditure patterns to compensate so they can balance their weekly budget.

Analysis of rental costs for the four WACOSS model households based on REIWA data is included in the table below. It is important to note that availability can become an even more critical factor in regional areas with smaller housing markets and a more limited range of choice. While our analysis reflects the costs for the type of appropriate housing assumed in the four models, real households may not be able to secure appropriate housing in some regional centres and so would be forced to compromise on either the appropriate dwelling size for their household makeup or on affordability.

Weekly Expenditure across the Regions - RENT										
	Perth	Gascoyne	Goldfields Esperance	Great Southern	Kimberley	Mid West	Peel	Pilbara	South West	Wheat-belt
Single parent & Age pensioners	\$274.83	\$191.25	\$234.81	\$250.75	\$324.06	\$159.38	\$224.83	\$257.13	\$250.75	\$191.89
Working family	\$301.75	\$261.38	\$300.69	\$298.78	\$461.76	\$242.89	\$267.75	\$394.83	\$281.56	\$240.13
Unemployed person	\$100.58	\$87.13	\$100.23	\$99.59	\$153.92	\$80.96	\$89.25	\$131.61	\$93.85	\$80.04

Source: Calculations based on REIWA data

The Mid West is the most affordable region to rent in for the single parent and age pensioner model households, with rental costs nearly 42 per cent lower (\$155.18 less per week) for those household types than in Perth. The Wheatbelt is slightly more affordable than the Mid West for the working family and unemployed person households as a result of slightly lower median rental costs for houses in the region, but higher costs for renting units. The Kimberley is significantly more expensive for all household types than any other region, including Perth. Analysis of the REIWA quarterly market data shows particularly high median rents advertised during the December and June quarters, which can be assumed to be the result of the tourism seasons, though rents are consistently higher than those recorded in other regions across the entire year.

Examining the changes from 2016/17 in the regions shows a very different rental experience for the model households compared to the Perth metropolitan area.

Weekly Difference from 2016/17 across the Regions - RENT										
	Perth	Gascoyne	Goldfields Esperance	Great Southern	Kimberley	Mid West	Peel	Pilbara	South West	Wheat-belt
Single parent & Age pensioners	-\$14.17 -4.90%	-\$144.50 -43.04%	-\$5.32 -2.21%	\$12.96 5.45%	\$21.67 7.17%	-\$15.94 -9.09%	-\$10.63 -4.51%	\$3.62 1.43%	-\$5.95 -2.32%	-\$55.67 -22.49%
Working family	-\$14.88 -4.70%	-\$158.32 -37.72%	\$2.13 0.71%	-\$4.04 -1.33%	\$1.91 0.42%	-\$0.42 -0.17%	-\$4.89 -1.79%	\$60.99 18.27%	-\$7.02 -2.43%	-\$11.91 -4.72%
Unemployed person	-\$4.96 -4.70%	-\$52.77 -37.72%	\$0.71 0.71%	-\$1.35 -1.33%	\$0.64 0.42%	-\$0.14 -0.17%	-\$1.63 -1.79%	\$20.33 18.27%	-\$2.34 -2.43%	-\$3.97 -4.72%

Source: Calculations based on REIWA data

The rental market appears much more volatile, with significantly larger swings in either direction, in large part because the number of residential rental arrangements being entered into are much fewer than in Perth. What can be observed is a particular increase in median rents for units in the Kimberley and Great Southern, with a sizeable increase in advertised rents for houses in the Pilbara as well. Advertised rents in the Gascoyne were also clearly considerably lower in 2017/18 than in the previous year.

Weekly Expenditure across the Regions – FOOD AND BEVERAGES										
	Perth	Gascoyne	Goldfields Esperance	Great Southern	Kimberley	Mid West	Peel	Pilbara	South West	Wheat-belt
Single parent	\$202.07	\$219.24	\$219.65	\$201.87	\$227.13	\$215	\$201.06	\$222.88	\$203.89	\$210.76
Working family	\$290.84	\$315.56	\$316.14	\$290.55	\$326.90	\$309.45	\$289.38	\$320.79	\$293.46	\$303.34
Unemployed person	\$88.85	\$96.40	\$96.58	\$88.76	\$99.87	\$94.54	\$88.41	\$98.00	\$89.65	\$92.67
Age pensioners	\$177.54	\$192.63	\$192.98	\$177.36	\$199.55	\$188.90	\$176.65	\$195.82	\$179.14	\$185.17

Source: Calculations based on ABS 2015/16 HES, 2018 CPI and 2017 RPI data

The cost of food and beverages is also highest in the Kimberley, followed closely by the Pilbara. Food prices in Peel, the Southwest and Great Southern regions are all comparable to Perth metropolitan prices, with prices in the Mid West and Gascoyne higher than those areas, but still lower than in the Kimberley and Pilbara.

Weekly Expenditure across Network Areas - ELECTRICITY					
	SWIS	NWIS	West Kimberley	Gascoyne/ Mid-West	Esperance
Single parent	\$15.71	\$47.79	\$38.55	\$22.17	\$18.00
Working family	\$33.04	\$70.78	\$59.51	\$40.63	\$35.65
Unemployed person	\$9.09	\$21.68	\$18.05	\$11.63	\$9.96
Age pensioners	\$23.32	\$55.41	\$46.16	\$29.78	\$25.61

Source: Calculations. Usage data supplied by Horizon Power and Synergy.

**Map: WA Network Areas**

All households are paying more for electricity in the Northwest Interconnected System (Pilbara), West Kimberley, Gascoyne/Mid-West and Esperance network areas than those in the Southwest Interconnected System (Perth, Peel, Southwest and Great Southern). The model household in the NWIS and West Kimberley in particular are on the receiving end of very considerable electricity bills.

As the Uniform Tariff Policy means that Horizon Power customers are charged for electricity at the same rate as Synergy customers, these divergences are the result of different levels of energy consumption. Climatic conditions outside of the SWIS have a significant impact on the amount of energy required to maintain temperatures in homes at a liveable and comfortable level.

The high level of energy consumption and the resultant size of the bills, combined with their seasonal and intermittent nature, mean that low-income households in regional areas can be at substantial risk of bill shock, and with the likelihood of falling into utility debt even higher during the peak summer period.



Weekly Expenditure across the Regions – WATER										
	Perth	Gascoyne	Goldfields Esperance	Great Southern	Kimberley	Mid West	Peel	Pilbara	South West	Wheat-belt
Single parent	\$7.52	\$9.07	\$7.77	\$5.04	\$12.05	\$7.77	\$6.57	\$12.27	\$7.37	\$7.12
Working family	\$9.13	\$10.67	\$4.83	\$6.21	\$14.84	\$9.43	\$8.01	\$15.10	\$8.96	\$8.66
Unemployed person	\$3.04	\$3.56	\$1.61	\$2.07	\$4.95	\$3.14	\$2.67	\$5.03	\$2.99	\$2.89
Age pensioners	\$3.76	\$4.53	\$3.89	\$2.52	\$6.03	\$3.89	\$3.28	\$6.14	\$3.69	\$3.56

Source: Cost calculations based on average regional residential usage data supplied by the Water Corporation

Households in the Great Southern Region are on average spending the least on water, followed by those in the Peel and Wheatbelt regions. Tariff cap policies mean that up to the first 300kL in ‘country south’ and 500kL in ‘country north’, residential water consumption charges are no more than metropolitan charges after which the charges reflect the cost of providing services in the different country schemes. The lower water expenditure in those regions is directly the result, as a consequence, of lower consumption.

Households in the Pilbara are consuming slightly less than double those in Perth and nearly two and half times as much as those in the Great Southern, seeing their average water expenditure the highest across the regions. The expenditure of these households is closely followed by those in the Kimberley.

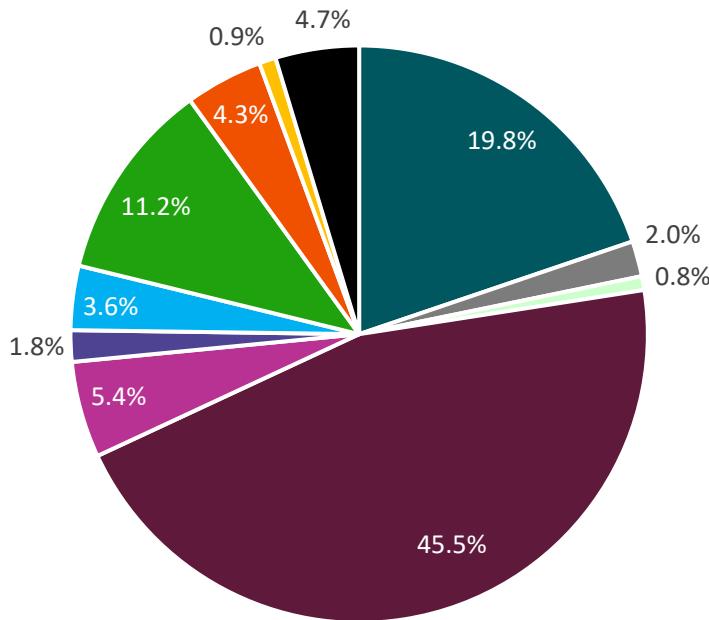
This may suggest that more action is needed to address water efficiency in those particular regions or that climatic conditions mean that the current block tariff structure is having an inequitable impact in WA’s north. It may also be the case that a smaller number of households with especially high water consumption (e.g. uncovered backyard pools) are resulting in higher averages in those areas.

## Financial Counselling Data

Financial counselling is a free and independent service to assist people who are experiencing financial difficulty. A qualified financial counsellor will work through a person's weekly household income and expenditure with them to provide expert advice on how to tackle their financial challenges, producing a weekly budget.

WACOSS has compiled income and expenditure data provided by financial counselling agencies of 404 households who accessed their services during 2017/18 to reveal the real-life living cost pressures being faced by households across Western Australia who are experiencing financial hardship and stress.

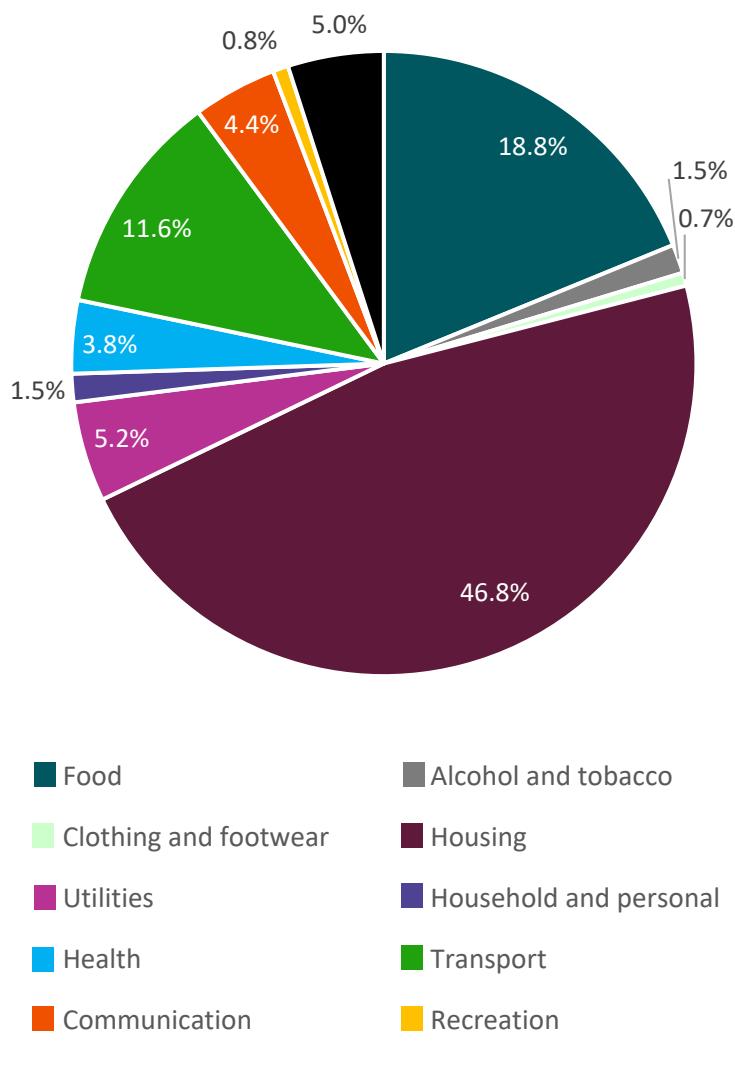
### Mean of all WA households



- Food
- Clothing and footwear
- Utilities
- Health
- Communication
- Education
- Alcohol and tobacco
- Housing
- Household and personal
- Transport
- Recreation

Fortnightly income and expenditure		
Income	\$/fortnight	Per cent
Wages	\$1,211.33	69.6
Family Tax Benefit	64.61	3.7
Newstart Allowance	36.04	2.1
Other Centrelink Payments	306.62	17.6
Other	121.42	6.9
<b>Total</b>	<b>1,740.29</b>	<b>100</b>
General Expenditure		
	\$/fortnight	Per cent
Housing	725.68	45.5
Food	314.50	19.8
Transport	178.24	11.2
Utilities	85.71	5.4
Communication	69.06	4.3
Health	57.13	3.6
Household and personal	27.95	1.8
Education	74.33	4.7
Alcohol/tobacco	31.48	2.0
Recreation	14.88	0.9
Clothing	12.28	0.8
<b>Total</b>	<b>1,591.25</b>	<b>100</b>
Debt Payments		
	\$/fortnight	Per cent
Centrelink advance	11.68	4.0
Credit card	50.91	17.5
Personal loan	62.70	22
Other	165.50	56.91
<b>Total</b>	<b>290.78</b>	<b>100</b>
Debt to income		
	\$/fortnight	Per cent
Ratio		16.7
Surplus/deficit		
	\$/fortnight	
<b>Total</b>	<b>-141.74</b>	

## Perth households

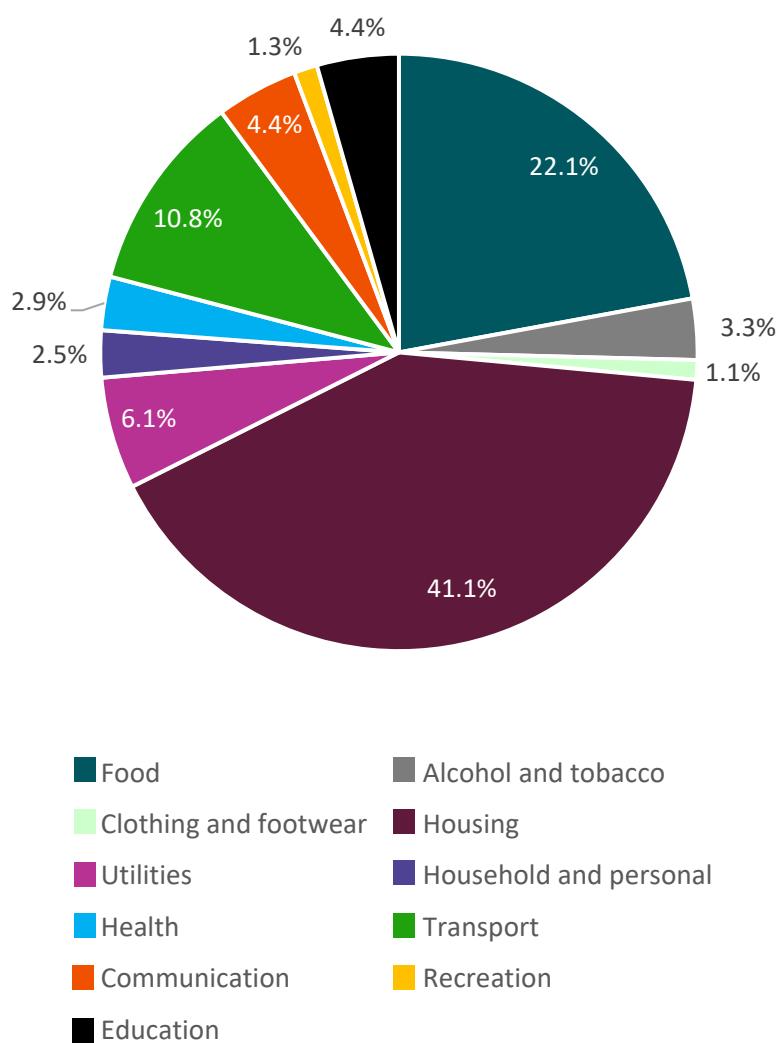


Fortnightly income and expenditure		
Income	\$/fortnight	Per cent
Wages	1,457.72	79.4
Family Tax Benefit	38.12	2.0
Newstart Allowance	14.20	0.7
Other Centrelink Payments	247.26	13.5
Other	79.78	4.3
<b>Total</b>	<b>1,837.08</b>	<b>100</b>
General Expenditure	\$/fortnight	Per cent
Housing	805.96	46.8
Food	323.68	18.8
Transport	199.76	11.6
Utilities	89.09	5.2
Communication	74.96	4.4
Health	65.16	3.8
Household and personal	25.28	1.5
Education	85.40	5.0
Alcohol/tobacco	25.74	1.5
Recreation	13.78	0.8
Clothing	11.63	0.7
<b>Total</b>	<b>1,720.43</b>	<b>100</b>
Debt Payments	\$/fortnight	Per cent
Centrelink advance	4.29	1.5
Credit card	61.98	21.5
Personal loan	62.72	21.8
Other	158.90	55.2
<b>Total</b>	<b>287.89</b>	<b>100</b>
Debt to income	\$/fortnight	Per cent
Ratio		15.7
Surplus/deficit	\$/fortnight	
<b>Total</b>	<b>-171.24</b>	

On average, wages comprised 79.4 per cent of the incomes of Perth households who received financial counselling in 2017/18. Sitting at \$1,457.72 per fortnight, they were receiving an average of \$39.92 more than the minimum wage. With 75.4 per cent of Perth households in the data set receiving some form of wage, this suggests that households in Perth were more likely to seek financial counselling if they were in employment. In part, this is undoubtedly due to the fact that for those on low fixed-incomes, no amount of financial counselling will be able to assist with the reality of simply having insufficient income to meet living costs.

Housing was the most significant cost for Perth households who received financial counselling in 2017/18, comprising 46.8 per cent of their general expenditure. This was followed by food at 18.8 per cent and transport at 11.6. On average, these households had a debt to income ratio of 15.7 per cent.

## Regional WA

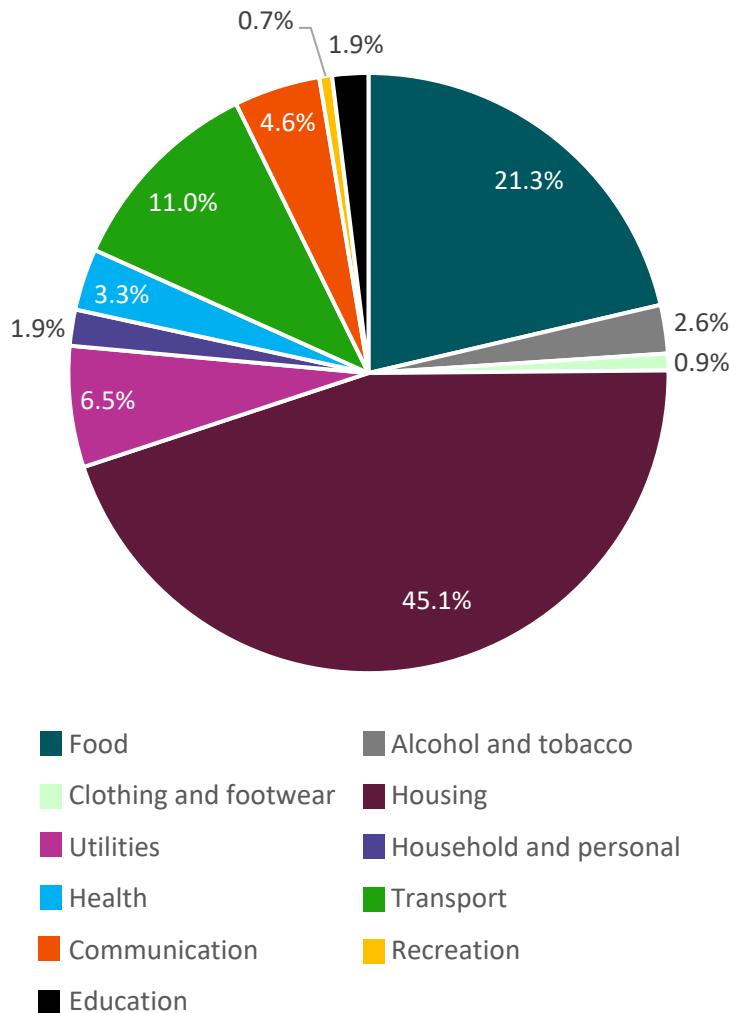


Fortnightly income and expenditure		
Income	\$/fortnight	Per cent
Wages	835.45	47.2
Family Tax Benefit	130.45	7.4
Newstart Allowance	89.30	5.0
Other Centrelink Payments	497.67	28.1
Other	217.47	12.3
<b>Total</b>	<b>1,770.34</b>	<b>100</b>
General Expenditure		
Expenditure	\$/fortnight	Per cent
Housing	627.05	41.1
Food	337.10	22.1
Transport	164.50	10.8
Utilities	92.54	6.1
Communication	67.53	4.4
Health	44.16	2.9
Household and personal	38.77	2.5
Education	67.66	4.4
Alcohol/tobacco	50.47	3.3
Recreation	19.31	1.3
Clothing	16.14	1.1
<b>Total</b>	<b>1,525.21</b>	<b>100</b>
Debt Payments		
Debt Payments	\$/fortnight	Per cent
Centrelink advance	29.47	8.9
Credit card	36.79	11.2
Personal loan	65.49	19.9
Other	197.76	60.0
<b>Total</b>	<b>329.51</b>	<b>100</b>
Debt to income		
Debt to income	\$/fortnight	Per cent
Ratio		18.6
Surplus/deficit		
Surplus/deficit	\$/fortnight	
<b>Total</b>	<b>-84.39</b>	

Regional households presenting to financial counsellors in 2017/18 were on average more reliant on social security payments, with wages making up less than half of their average income. While regional households were closer to breaking even than those in Perth, their debt burden was significantly higher with a debt to income ratio of 18.6 per cent.

Regional households were spending less than Perth households on housing, though this is by far their largest expenditure category as well. They were also spending less on health, education and transport, but more on food, utilities, recreation, clothing, household and personal expenditure (such as haircuts, birthdays and pets), and alcohol and tobacco.

## Low-income households



Fortnightly income and expenditure		
	Income \$/fortnight	Per cent
Wages	550.68	49.2
Family Tax Benefit	54.73	4.9
Newstart Allowance	50.31	4.5
Other Centrelink Payments	409.17	36.5
Other	55.49	5.0
<b>Total</b>	<b>1,120.39</b>	<b>100</b>
General Expenditure \$/fortnight		
Housing	483.59	45.1
Food	228.41	21.3
Transport	117.70	11.0
Utilities	69.82	6.5
Communication	49.69	4.6
Health	35.56	3.3
Household and personal	20.82	1.9
Education	20.78	1.9
Alcohol/tobacco	27.92	2.6
Recreation	7.35	0.7
Clothing	9.66	0.9
<b>Total</b>	<b>1,071.30</b>	<b>100</b>
Debt Payments \$/fortnight		
Centrelink advance	16.25	6.7
Credit card	24.90	10.4
Personal loan	25.57	10.6
Other	173.86	72.3
<b>Total</b>	<b>240.57</b>	<b>100</b>
Debt to income \$/fortnight		
Ratio		21.5
Surplus/deficit \$/fortnight		
<b>Total</b>	<b>-191.48</b>	

The fortnightly income and expenditure for 'low income households' has been calculated as the average of all the households in the data set below the poverty line (50 per cent of median income) relative to the WA median gross income.

As would be anticipated, this household type received a higher proportion of income support payments than the mean, with the average wages received just \$550.68. The percentage of their general expenditure assigned to housing was only slightly under the mean, while the percentage on utilities, food, and alcohol and tobacco were higher. The percentage of their expenditure going towards education at 1.9 per cent, was notably lower than the overall mean of 4.7.

Though the average debt levels of the low-income households were lower than the mean of all the households, they had a higher debt to income ratio at 21.5 per cent compared to 16.7.

## Wages vs Centrelink

Those who sought financial counselling assistance that only received wages were spending an average of \$130.06 in excess of their fortnightly income, while those whose income consisted entirely of, or was being supplemented by, some sort of government income support were on average spending \$149.34 more than their fortnightly income.

Wages vs Centrelink – Fortnightly income and expenditure				
Income	Wages-Only		Newstart & Centrelink	
	\$/fortnight	Per cent	\$/fortnight	Per cent
Wages	1,957.09	93.6	385.24	28.5
Family Tax Benefit	47.75	2.3	74.43	5.5
Newstart Allowance	-	-	84.17	6.2
Other Centrelink Payments	-	-	716.03	53.0
Other	85.42	4.4	90.74	6.7
<b>Total</b>	<b>2,090.27</b>	<b>100</b>	<b>1,350.61</b>	<b>100</b>
General Expenditure				
	\$/fortnight	Per cent	\$/fortnight	Per cent
Housing	902.48	48.0	531.25	41.2
Food	353.95	18.8	279.03	21.6
Transport	219.12	11.7	131.48	10.2
Utilities	94.99	5.1	77.28	6.0
Communication	84.85	4.5	52.26	4.0
Health	71.07	3.8	43.50	3.4
Household and personal	23.27	1.2	35.16	2.7
Education	86.84	4.6	63.18	4.9
Alcohol and tobacco	20.08	1.1	44.37	3.4
Recreation	15.86	0.8	13.62	1.1
Clothing	6.56	0.3	19.67	1.5
<b>Total</b>	<b>1,878.88</b>	<b>100</b>	<b>1,290.80</b>	<b>100</b>
Debt Payments				
	\$/fortnight	Per cent	\$/fortnight	Per cent
Centrelink advance	1.93	0.6	24.31	19.0
Credit card	71.74	21.0	26.43	14.8
Personal loan	90.18	26.4	28.05	14.0
Vehicle loan	63.44	18.5	28.86	13.8
Fines	7.34	2.1	9.47	4.5
Other	106.81	31.3	94.03	45.0
<b>Total</b>	<b>341.44</b>	<b>100</b>	<b>209.15</b>	<b>100</b>
Fortnightly surplus/deficit	\$/fortnight		\$/fortnight	
<b>Total</b>	<b>-130.06</b>		<b>-149.34</b>	

Those households receiving some form of income support spent proportionately less across all categories, except for household and personal expenses, clothing, and alcohol and tobacco. The wages-only households had substantially higher levels of debt, at an average of \$341.44 per fortnight, with nearly half (47.4 per cent) of that debt comprised of credit card and personal loan debts.

The difference in housing costs is likely the result of those only earning wages with mortgages (see discussion *Renters vs Mortgagees*), rather than an indication that there was a range of more affordable rental options open to the income support recipients. Though the expenditure in dollar terms was lower for the income support recipient households, food, education, recreation and utility expenses can be seen to constitute a larger proportion of those households' expenditure.

### Renters vs Mortgagees

On average, the income of those who reported having a mortgage was substantially higher than those renting and more reliant on wages. The expenditure of the mortgagees was similarly higher and they were on average \$102.24 more in deficit than those rental households that did not have a mortgage.

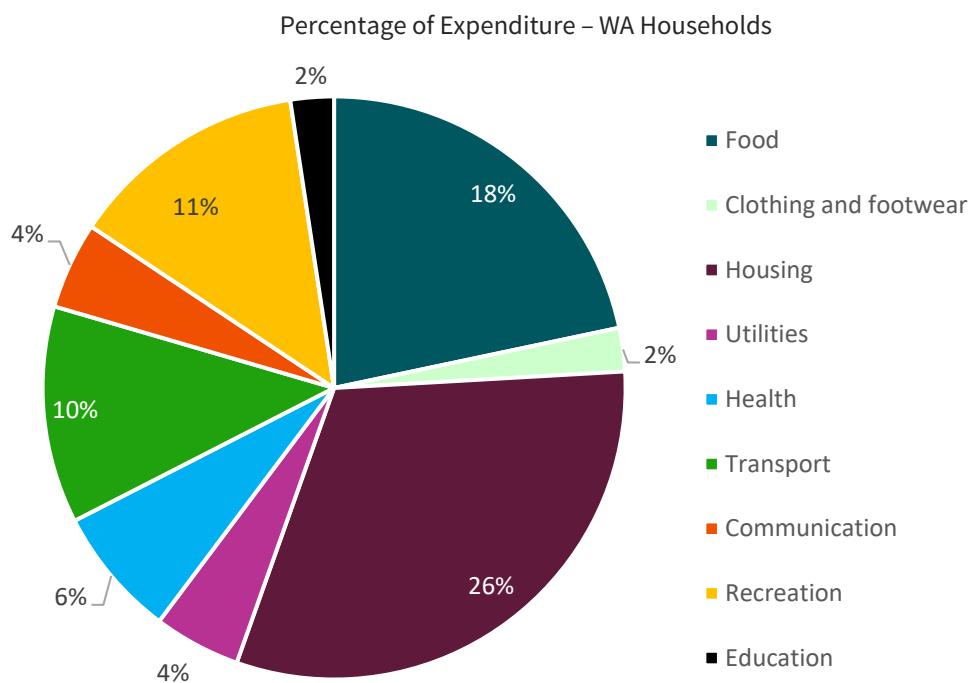
Renters vs Mortgagees – Fortnightly income and expenditure				
	Renters-Only		Mortgagees-Only	
Income	\$/fortnight	Per cent	\$/fortnight	Per cent
Wages	911.25	59.3	1,899.60	85.3
Family Tax Benefit	71.18	4.6	47.43	2.1
Newstart Allowance	35.29	2.3	23.48	1.1
Other Centrelink Payments	407.61	26.5	122.51	5.5
Other	111.22	7.2	132.81	5.7
<b>Total</b>	<b>1,536.55</b>	<b>100</b>	<b>2,225.83</b>	<b>100</b>
General Expenditure	\$/fortnight		\$/fortnight	Per cent
Housing	617.35	44.5	1,053.75	50.1
Food	289.91	20.9	359.67	17.1
Transport	146.44	10.6	237.01	11.3
Utilities	83.77	6.0	92.14	4.4
Communication	59.24	4.3	86.90	4.1
Health	43.76	3.2	81.52	3.9
Household and personal	25.20	1.8	31.25	1.5
Education	60.26	4.3	109.29	5.2
Alcohol and tobacco	35.80	2.6	22.11	1.1
Recreation	12.99	0.9	18.64	0.9
Clothing	12.94	0.9	11.35	0.5
<b>Total</b>	<b>1,387.65</b>	<b>100</b>	<b>2,103.63</b>	<b>100</b>
Debt Payments	\$/fortnight		\$/fortnight	Per cent
Centrelink advance	17.02	6.6	2.72	0.8
Credit card	21.95	8.5	96.21	28.8
Personal loan	66.05	25.5	64.35	19.2
Vehicle loan	72.11	27.9	36.69	11.0
Fines	10.14	3.9	4.98	1.5
Other	71.63	27.7	129.49	38.8
<b>Total</b>	<b>258.90</b>	<b>100</b>	<b>334.44</b>	<b>100</b>
Fortnightly surplus/deficit	\$/fortnight		\$/fortnight	
<b>Total</b>	<b>-110.00</b>		<b>-212.24</b>	

The renters and mortgagees were dedicating 44.5 per cent and 50.1 per cent of their overall general expenditure on housing costs, constituting 40.2 per cent of the renters' and 47.3 per cent of the mortgagees' incomes.

While the average debt levels for the renters was lower than the mortgagees, they reported spending more on personal and vehicle loans, as well as fines. A significant proportion of the mortgagee's debt burden came from credit cards.

### Household Expenditure Survey Comparison

Comparing this data to that 2016 ABS *Household Expenditure Survey* reveals the stark reality for household experiencing financial hardship.



Source: ABS (2017) Household Expenditure Survey

Financial counselling data reveals that those who sought assistance for financial hardship have substantially higher housing costs as a proportion of their fortnightly expenditure - on average 45.5 per cent of all their spending. In comparison, just 26 per cent of expenditure is dedicated to housing for the 'average' household in the HES. The percentage of expenditure on utilities is also slightly higher for the households experiencing financial hardship (at 5.4 for the mean and 6.5 for the low income households) than those in the HES dataset.

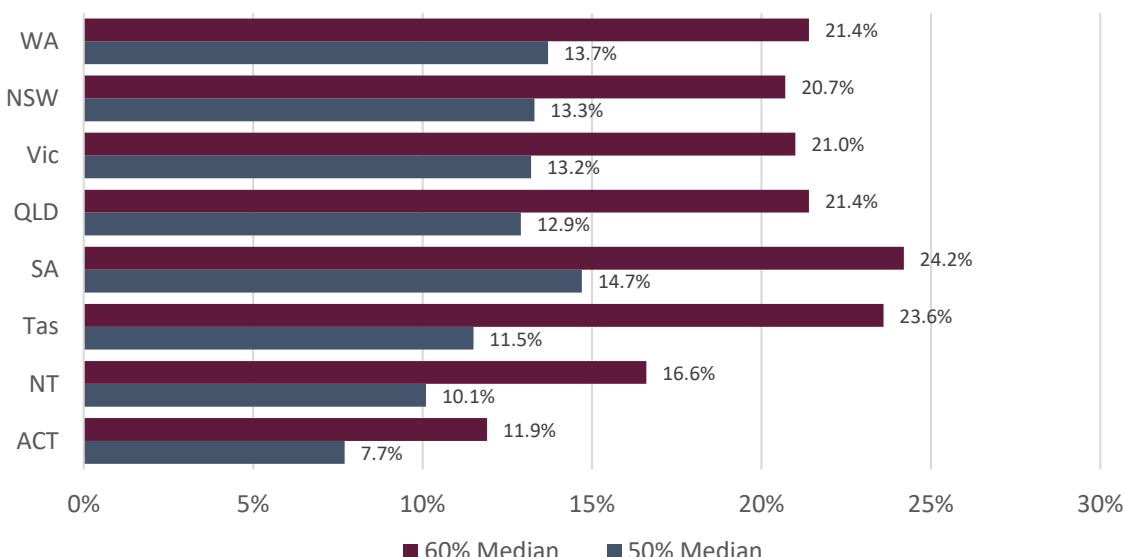
The percentages of expenditure on recreation and health are significantly lower for the households experiencing financial hardship than the average household in the HES. This suggests that households experiencing financial hardship are forced to cut back on spending in those areas in order to make ends meet, which will undoubtedly have an impact on their quality of life and personal wellbeing.

## Discussion and Analysis

### Income, Wealth and Poverty

Around 360,000 or 13.7 per cent of Western Australians live in poverty based on the most common international poverty line set at 50 per cent of median incomes. This is the second highest rate of poverty in the country, after South Australia, and higher than the national poverty rate of 13.2 per cent.<sup>10</sup> 150,000 more are at risk of poverty in the event of a crisis, such as a loss of work income, interest rate rise or serious accident.<sup>11</sup>

**Figure 1: Rate of poverty by location (% of people)**



Source: ACOS (2018) Poverty in Australia

The rate of Newstart, the main income support payment for those who are unemployed has not increased in real terms since 1994, when the payment rose by a paltry \$2.95 per week. It sits at \$273 per week currently and even with the maximum rate of Rent Assistance of \$66 per week, is totally inadequate to cover the cost of housing and other essentials. The inadequacy of Commonwealth income support shifts significant costs onto the States and Territories, impacting on the economic viability of social housing support systems, utility costs and the provision of community services and support.

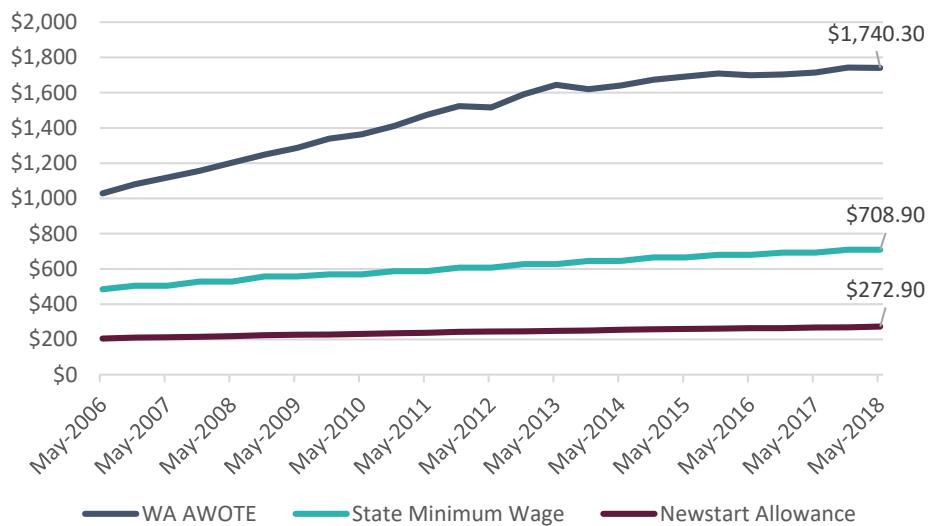
Newstart makes up just 15.6 per cent of the full-time average weekly ordinary time earnings<sup>12</sup> in Western Australia. The State Minimum Wage sits at a little over 40 per cent of the average weekly earnings.

<sup>10</sup> Australian Council of Social Service (2018) *Poverty in Australia*

<sup>11</sup> Bankwest Curtin Economics Centre (2017) *The Price is Right: An Examination of the Cost of Living in Western Australia*, Focus on Western Australia Report Series No. 10

<sup>12</sup> Weekly ordinary time earnings refers to one week's earnings of employees for the reference period, attributable to award, standard or agreed hours of work.

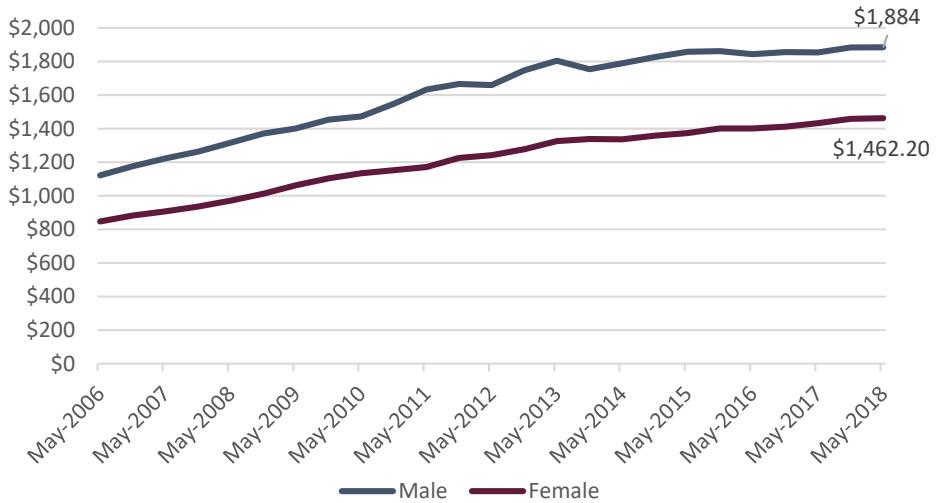
**Figure 2: WA Average Weekly Ordinary Time Earnings (Seasonally adjusted), State Minimum Wage and Newstart Allowance**



Source: ABS 6302.0, WA Department of Commerce, Australian Department of Human Services

Western Australia continues to have the largest gender pay gap in Australia at 22.4 per cent, compared to 14.6 per cent nationally.<sup>13</sup> The average weekly earnings data from the Australian Bureau of Statistics reveals that women are earning \$421.80 a week less than men.

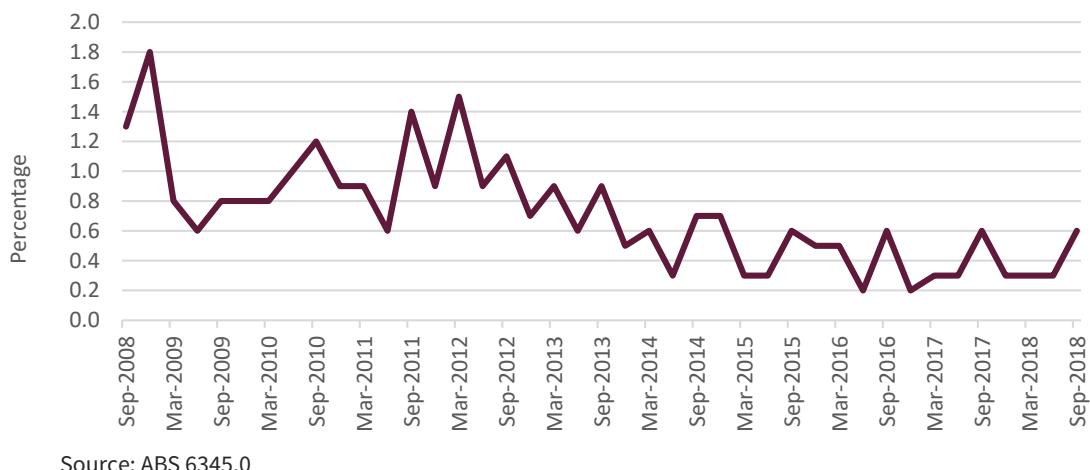
**Figure 3: WA Average Weekly Ordinary Time Earnings Gender Gap**



Source: ABS 6302.0

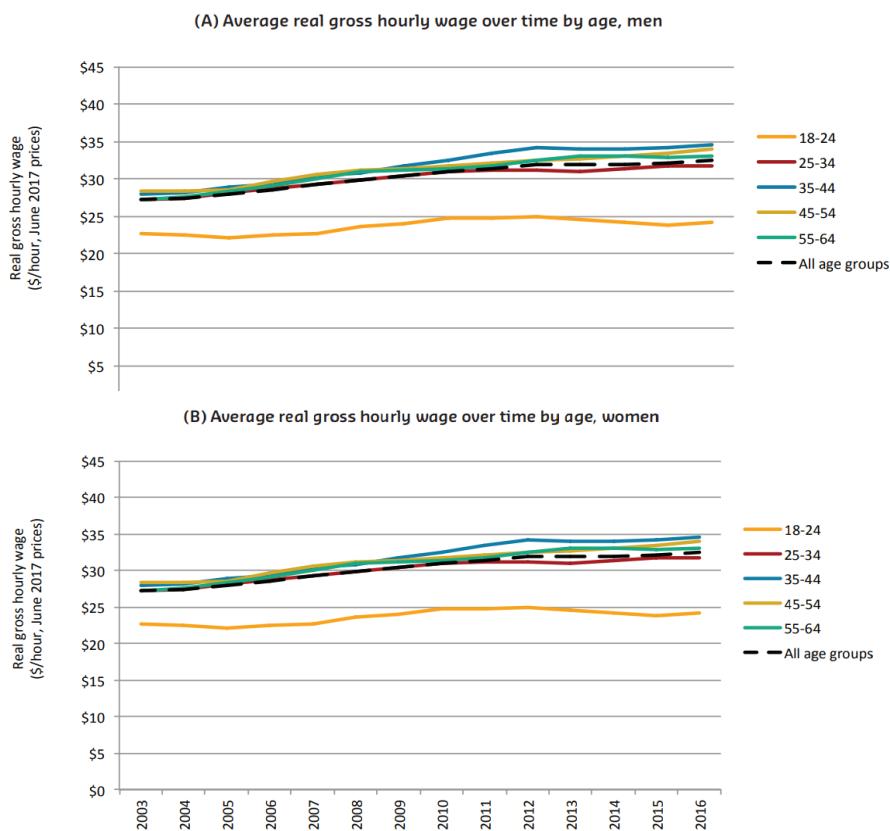
Wage growth in WA, and across Australia more broadly, has continued to be sluggish.

<sup>13</sup> Workplace Gender Equality Agency (2018) [Australia's Gender Pay Gap Statistics](#)

**Figure 4:** Quarterly percentage change in WA Wage Price Index

Source: ABS 6345.0

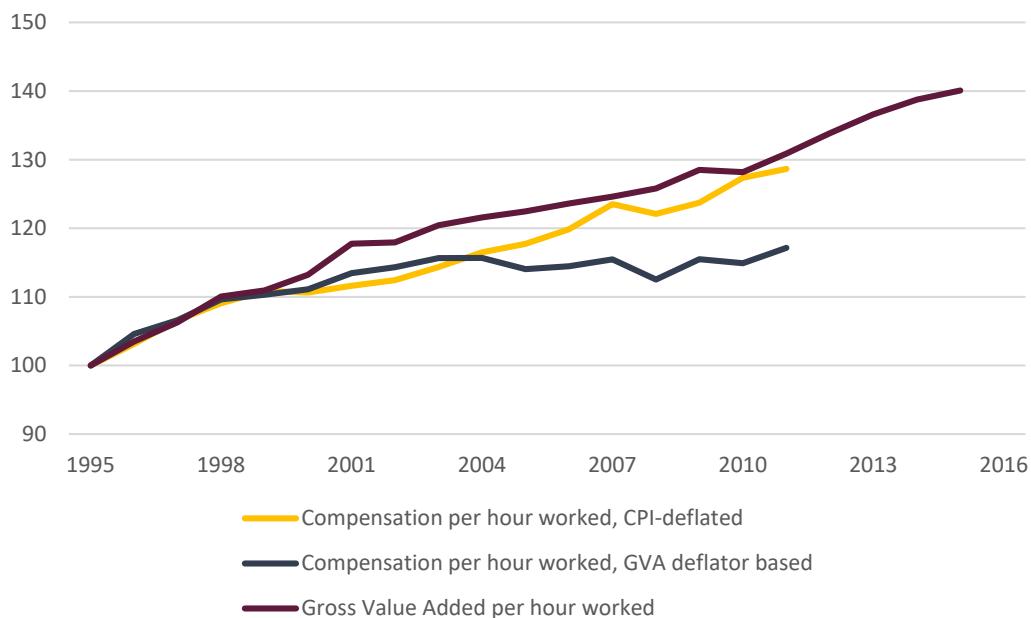
This has been particularly true for young workers, where wage growth has not maintained pace with the rest of the population. Using the wage data from the HILDA survey between 2003 and 2016, the Bankwest Curtin Economics Centre has demonstrated that there has been no progression in average pay rates for young men or women since the Global Financial Crisis, with the average real hourly pay for women having fallen by 2.6 per cent since 2010. The overall gap in pay between the youngest and oldest workers has widened by nearly 30 per cent since the start of the decade.

**Figure 5:** Trends in real gross hourly wage, by age and gender, 2003 to 2016Source: Bankwest Curtin Economics Centre (2018) *The Future of Work in Australia*

For those workers with a persistent history of casual employment, recent research suggests that it is associated with long-term wage penalties, with a wage penalty for men of just over 10 per cent and for women of 4 per cent.<sup>14</sup>

A pronounced break has also been observed to have developed in Australia between productivity growth and the income workers receive as compensation for their labour.

**Figure 6: Labour productivity and average labour compensation**



Source: OECD Compendium of Productivity Indicators 2017

This divergence has seen the Phillip Lowe, the Governor of the Reserve Bank of Australia, call for a faster rate of wage growth, which he deemed to be possible even if productivity growth did not shift from the average of recent years. According to Mr Lowe, this growth in wages would “boost household incomes and create a stronger sense of shared prosperity.”<sup>15</sup>

The relationship between income and wealth is an important one, as wealth can act in and of itself as a source of income, and income (where sufficient) can provide a means by which to accumulate wealth. Further wealth, in the form of accessible savings or liquid assets, can act as a buffer to enable greater workforce mobility and financial resilience, so that workers moving in and out of insecure employment or pursuing more promising future prospects have the capacity to be more mobile and financially secure. Similarly, provisions within our income support system that prevent those who become unemployed from retaining a meaningful level of savings undermines their financial resilience, leaving them less able to respond to an unexpected financial cost or personal crisis, more likely to incur transactional costs and be forced to rely on undesirable personal loans with high interest rates.

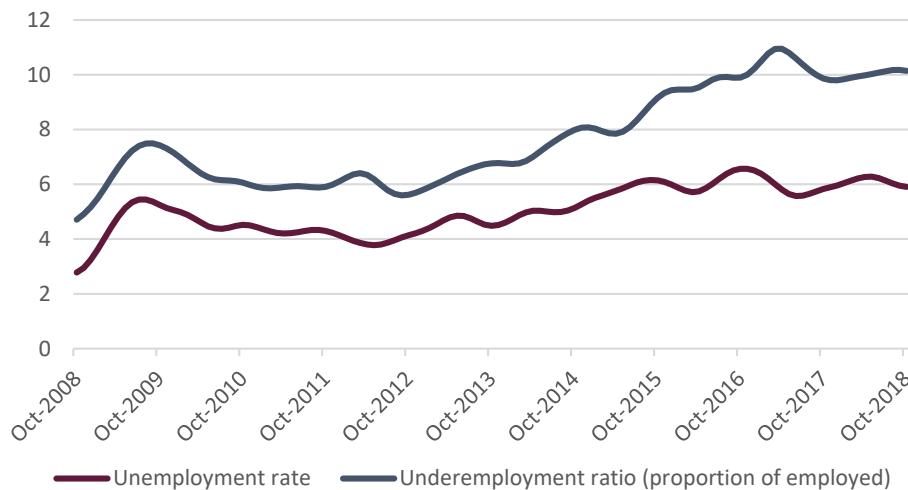
<sup>14</sup> Irma Mooi-Reci and Mark Wooden (2017) ‘Casual employment and long-term wage outcomes’ *Human Relations*, 70(9)

<sup>15</sup> Philip Lowe (2018) Remarks to A50 Dinner [www.rba.gov.au/speeches/2018/sp-gov-2018-02-08.html](http://www.rba.gov.au/speeches/2018/sp-gov-2018-02-08.html)

## Employment

The Western Australian labour market has seen some improvement over the last 12 months, with the unemployment rate on trend terms down to 5.9 per cent, though the underemployment ratio has increased to 10.1 per cent.

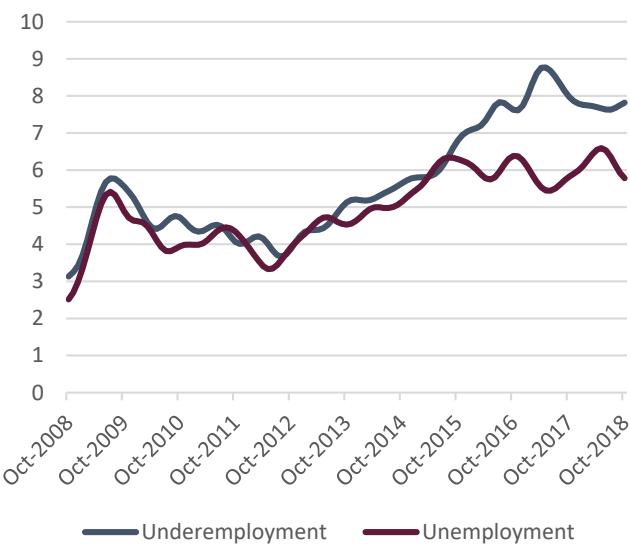
**Figure 7: WA Underemployment vs Unemployment**



Source: ABS 6202.0 Table 23. Trend values used.

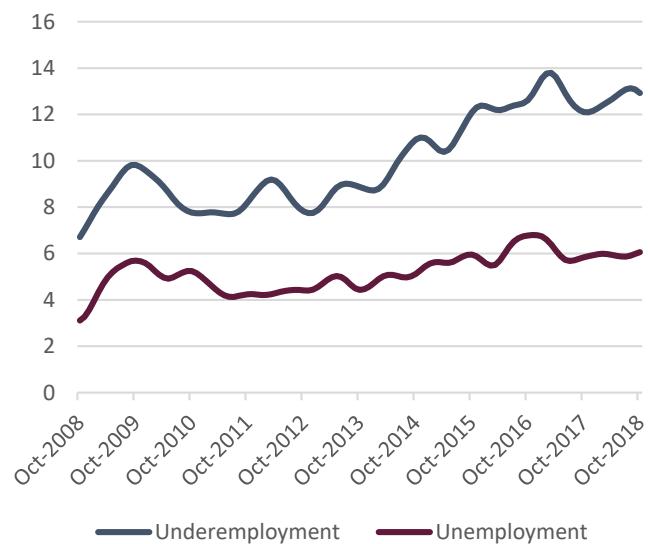
Underemployment continues to be significantly higher for women, with a current underemployment ratio of 12.9, while the male ratio is 7.8. The decrease in the overall unemployment number appears to be driven by a decrease in the male unemployment rate to 5.8, while the female unemployment rate increased to 6.1.

**Figure 8: WA Male Underemployment vs Unemployment**



Source: ABS 6202.0 Table 23. Trend values used.

**Figure 9: WA Female Underemployment vs Unemployment**



Source: ABS 6202.0 Table 23. Trend values used.

There has been a significant growth in full-time work, with 41,500 extra full-time jobs from October 2017 to October 2018. At the same time, part-time employment has decreased, having reached its highest point since October 2008, in April 2018 at 457,400 part-time jobs.

**Figure 10: WA Full-Time Employment**



Source: ABS 6202.0 Table 8

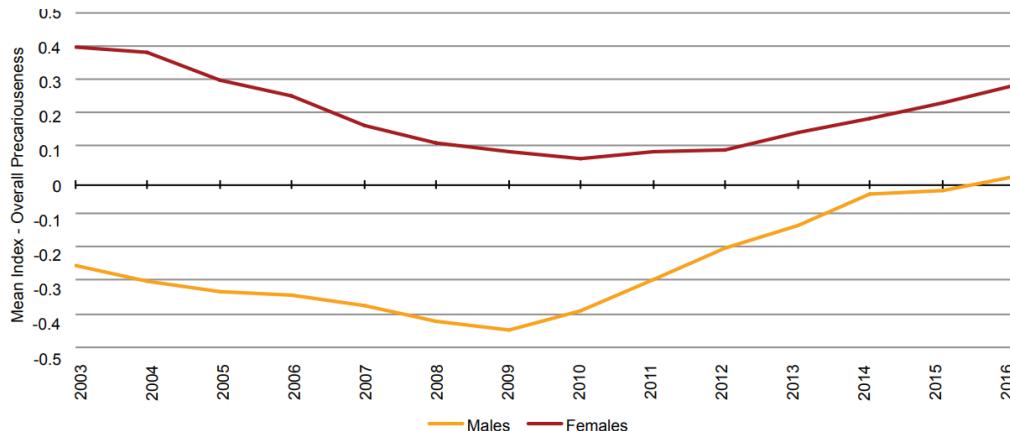
**Figure 11: WA Part-Time Employment**



Source: ABS 6202.0 Table 8

At the same time, however, concerns have been raised over the increasingly precarious nature of work in Australia. Using Principle Components Analysis, Bankwest Curtin Economics Centre has established an index based on the three domains of job insecurity, lack of control and working conditions to identify the level of precariousness a worker is experiencing.<sup>16</sup>

**Figure 12: Precariousness across genders, 2003 to 2016**



Source: Bankwest Curtin Economics Centre (2018). Calculations based on HILDA.

These findings indicate that women have consistently experienced higher levels of precarious work. Both men and women have seen significant increases in precarious employment since 2009, with the particularly rapid rise of precariousness for men substantially reducing the gap between

<sup>16</sup> Bankwest Curtin Economics Centre (2018) [Future of Work in Australia: Preparing for tomorrow's world, Focus on the States Report Series No. 6](http://www.bceconomics.com.au/reports/future-of-work-in-australia-preparing-for-tomorrows-world-focus-on-the-states-report-series-no-6)

the two. During the mining boom period, both men and women saw a decrease in the precariousness of their work.

**Figure 13:** Drivers of change in precariousness: by domain and occupation, 2010/11 to 2015/16



Source: Bankwest Curtin Economics Centre (2018). Calculations based on HILDA.

Across all three dimensions of precariousness, labourers score highly, with poor employment conditions, such as lack of access to sick and family leave, having the greatest impact, followed closely by insecure employment. Poor employment conditions and employment insecurity can also be seen to have a significant impact on the precariousness of employment for community and personal services workers as well.

Studies have shown that underemployment, like unemployment, can lead to poor mental health outcomes, as a result of a financial hardship and a lack of a sense of mastery and social support.

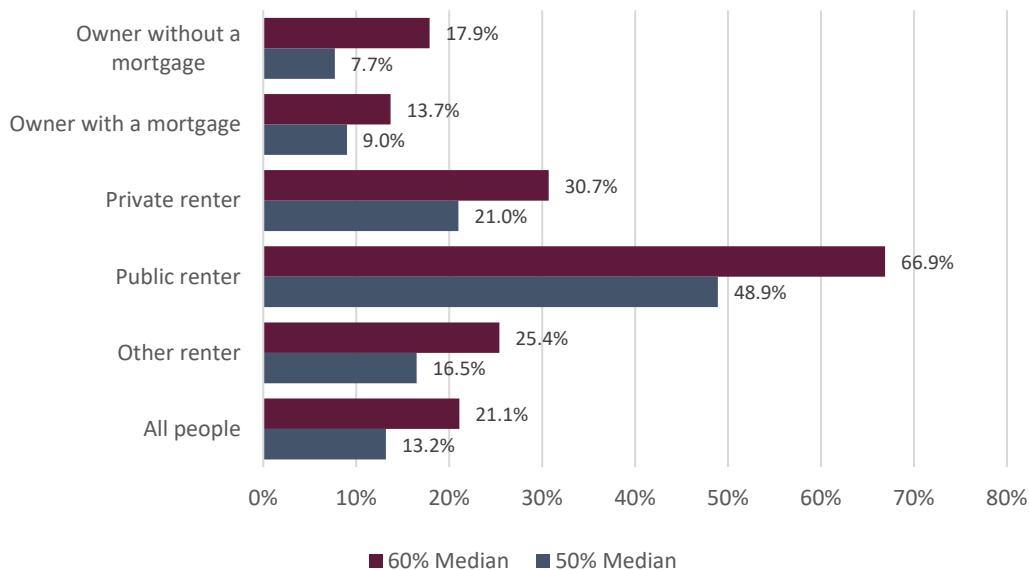
The lack of adequate employment can lead to high levels of distress, which may in turn hinder employment and educational opportunities.<sup>17</sup>

## Housing

Housing remains the single largest cost for households. The Department of Communities' Demand Model estimates that there is an unmet social and affordable housing need in Western Australia for approximately 61,000 very low, low, and moderate income households—consisting of over 28,000 very low income households and over 33,000 low or moderate income households.<sup>18</sup> Modelling published by the Australian Housing and Research Institute estimates that there are around 59,000 Western Australians unable to enter market housing and a further 73,000 requiring rent assistance to alleviate a position of rental stress.<sup>19</sup>

The risk of poverty is more than twice as high for households renting privately than home-owners with or without a mortgage. Poverty is the highest amongst public renters, though this is in part due to the fact that eligibility requirements for public housing means that this group has some of the lowest incomes.<sup>20</sup>

**Figure 14:** Rate of poverty by housing tenure in Australia (% of people)



Source: ACOSS (2018)

<sup>17</sup> Laura Crowe, Peter Butterworth, Liana Leach (2016) 'Financial hardship, mastery and social support: Explaining poor mental health amongst the inadequately employed using data from the HILDA survey' *SSM – Population Health* vol. 2, p. 408

<sup>18</sup> Julie Considine and Sarah Mewett (2017) *Estimating unmet housing demand and priority areas for public and affordable housing at the Local Government Area level – a housing practitioner's approach*, WA Department of Communities. Noting 'affordable' is defined as spending up to 30% of income for those in the bottom 40% of incomes (40/30 rule).

<sup>19</sup> Steven Rowley, Chris Leishman, Emma Baker, Rebecca Bentley, and Laura Lester (2017) 'Modelling housing need in Australia to 2025' *Australian Housing and Urban Research Institute*, AHURI Final Report 287

<sup>20</sup> ACOSS (2018) *Poverty in Australia*

There are 13,953 households on the public housing waitlist and 1,318 on the priority waitlist, where they wait on average for 139 weeks or nearly 3 years to be housed.<sup>21</sup> In Newman alone, it has been estimated that due to Martu population growth and inadequate investment in Parnngurr housing, the WA Government will need to procure 73 houses by 2028 to accommodate an additional 365 Martu people.<sup>22</sup>

Recent Australian Housing and Urban Research Institute (AHURI) research has found that much of the growth in Australian housing supply has been in the mid-to-high price segments. This increase in the supply in these segments is not creating a ‘trickle-down’ effect into the low price segments by freeing up established housing stock.<sup>23</sup>

This lack of trickle-down is reflected in the findings of the WA Housing Industry Forecasting Group, which noted that, despite historically high levels of rental stock, “for those on the lowest incomes, conditions have not changed.”<sup>24</sup> This has resulted from a long-term underinvestment in social housing and the treatment of private rental properties as investment vehicles for individuals.

The discrepancy between median rents and the lived experience of those on low incomes is what makes research such as the annual *Anglicare Rental Affordability Snapshot* so valuable. This report takes a ‘snapshot’ on a given day of the rental market and examines whether the properties being advertised are both affordable for a range of different low income types and whether those properties are appropriate for the composition of their household.

The 2018 *Snapshot* found that a couple on Newstart with two children, a single person on the age pension, or a single person earning the minimum wage, would only be able to find one per cent of advertised properties in the Perth metro area that were affordable and appropriate for their circumstances. For a single on youth allowance (including those looking for shared accommodation), or a single on Newstart (with or without children), they would not be able to find any properties at all that were affordable and appropriate in Perth.<sup>25</sup>

Out of the 10,490 rental properties in the Perth metro area advertised at the time of the snapshot, single parents receiving a parenting payment single allowance would only be able to find 27 rentals that were affordable or available if they had two children, and just 16 if they had one child.

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<sup>21</sup> Rethink Social Housing, Government of Western Australia, <http://www.rethinksocialhousing.com/The-Waitlist>

<sup>22</sup> Social Ventures Australia (2018) *A Cost Benefit Analysis of Investment in Very Remote Aboriginal Communities*, Discussion Paper – Implications for Housing

<sup>23</sup> Rachel Ong, Tony Dalton, Nicole Gurran, Christopher Phelps, Steven Rowley and Gavin Wood (2017) ‘Housing supply responsiveness in Australia: distribution, drivers and institutional settings’, *Australian Housing and Urban Research Institute*, AHURI Final Report 281

<sup>24</sup> Housing Industry Forecasting Group (2017) *Forecasting Dwelling Commencements in Western Australia 2017-2018*

<sup>25</sup> Anglicare WA (2018) *Rental Affordability Snapshot*

## Greater Metropolitan Perth WA

Household Type	Payment Type	Number Affordable & Appropriate	Percentage Affordable & Appropriate
Couple, two children (one aged less than 5, one aged less than 10)	Newstart Allowance (both adults)	155	1%
Single, two children (one aged less than 5, one aged less than 10)	Parenting Payment Single	27	0%
Couple, no children	Age Pension	432	4%
Single, one child (aged less than 5)	Parenting Payment Single	16	0%
Single, one child (aged over 8)	Newstart Allowance	0	0%
Single	Age Pension	78	1%
Single aged over 21	Disability Support Pension	3	0%
Single	Newstart Allowance	0	0%
Single aged over 18	Youth Allowance	0	0%
Single in share house	Youth Allowance	0	0%
Couple, two children (one aged less than 5, one aged less than 10)	Minimum Wage (both adults) + FTB A	5,116	49%
Single, two children (one aged less than 5, one aged less than 10)	Minimum Wage + FTB A & B	1,135	11%
Single	Minimum Wage	148	1%
Couple, two children (one aged less than 5, one aged less than 10)	Minimum Wage + Parenting payment (partnered) + FTB A&B	2,335	22%
<b>Total No of Properties</b>	<b>10,490</b>		

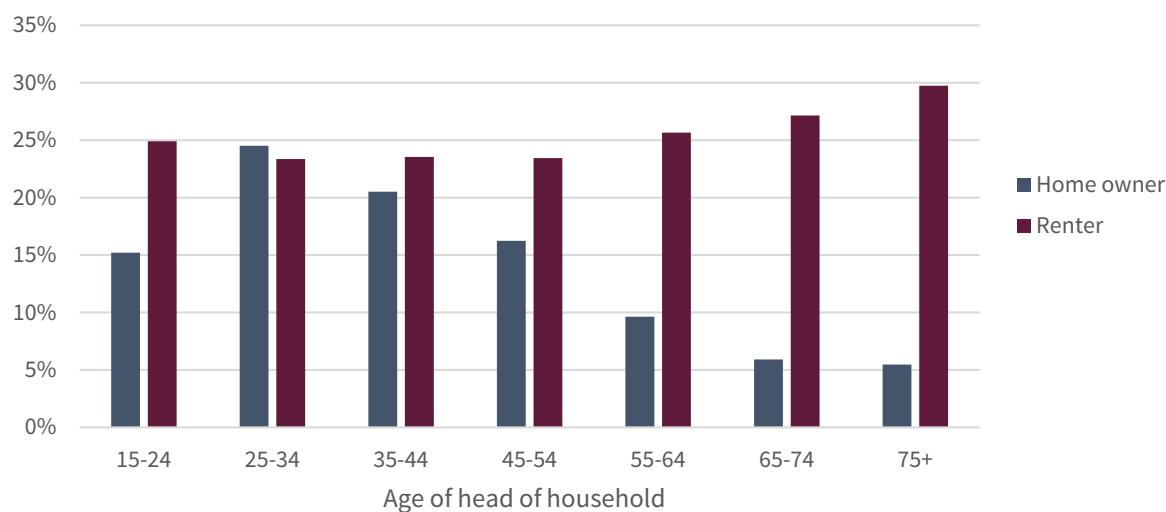
Source: Anglicare (2018) *Rental Affordability Snapshot*

A couple on the age pension were able to find 432 properties that were affordable and appropriate for them (around 4 per cent), though that number decreases significantly for a single on the age pension who is able to find only 78 or 1 per cent of properties that are affordable and appropriate.

Recent research from the Grattan Institute has shown that, while housing costs for home owners decrease substantially as a share of household disposable income as they approach retirement,

the opposite is true for renters. This makes it harder for a renter to maintain the same standard of living going into retirement as a home owner.<sup>26</sup>

**Figure 15:** Housing costs as a share of household disposable income by age and tenure type, 2015/16



Source: Grattan Institute (2018) *Money in retirement: more than enough*

Although around 79 per cent of households own their home at retirement, current ownership trends and population ageing suggest this will decline to 76 per cent by 2021 and to 73 per cent by 2033.<sup>27</sup>

## Utilities

The last two State Budgets have seen significantly increased fees and charges for essential services for WA households. While for the majority of households these increases have been painful but affordable, for a small but significant cohort already living at or below the poverty line, these rises were unaffordable and have caused unwarranted hardship and distress.

Mounting unpaid bills and utility disconnections can have a significant impact on people's wellbeing, from feelings of shame, the stress of trying to stretch their income as far as possible, and the difficult decisions they have to make as to what to prioritise, such as not eating or not cooling their homes during the heights of summer. It also impacts their ability to access affordable credit in future.

The average household saw an increase in household charges of \$438 per annum (or 7.7 per cent) in the first budget and a further \$292 per annum (or 4.8 per cent) in the second — with no provision made to protect or mitigate the impact on low-income households who could not afford these increased charges.

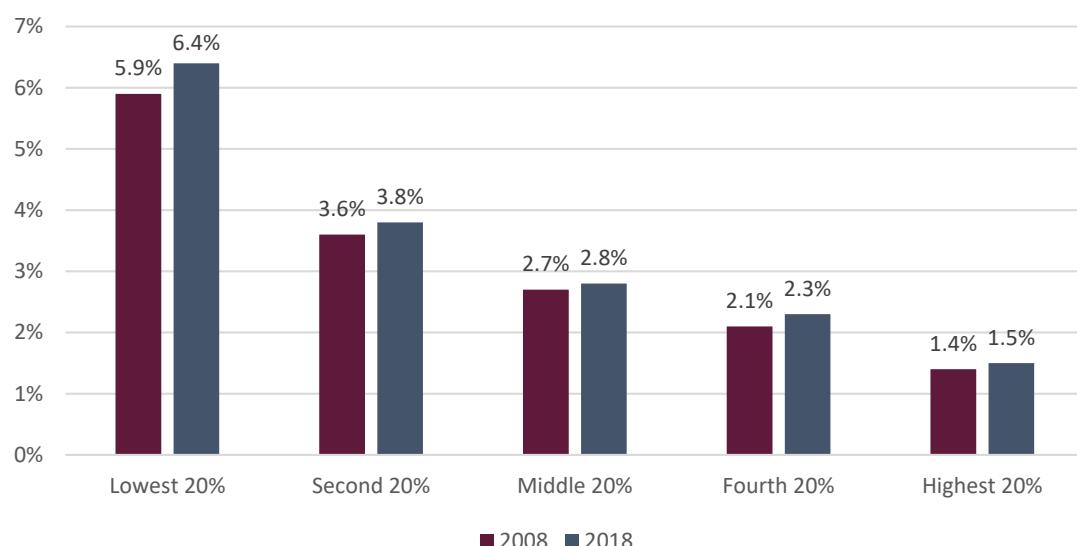
<sup>26</sup> Grattan Institute (2018) *Money in retirement: more than enough*

<sup>27</sup> Melek Cigdem, Gavin Wood & Rachel Ong (2015) *Australian demographic trends and their implications for housing subsidies*. AHURI position paper No 164

The 2017/18 State Budget increased water, sewerage and drainage fees by 6 per cent, (around \$96.92 for the representative household).<sup>28</sup> This was followed by a 5.5 per cent increase in the 2018/19 Budget (equivalent to \$91.04).<sup>29</sup>

The residential *fixed* charge paid by all households for electricity supply increased by 10.9 per cent in 2017/18, equivalent to a \$169 increase for the average household, followed by an increase of 7 per cent in electricity prices in the 2018/19 State Budget (equivalent to an additional \$120.57). The increasing cost of energy disproportionately impacts households on the lowest incomes, as they spend a higher percentage of their disposable income on energy bills and have little if any capacity to absorb additional costs.

**Figure 16:** Electricity and gas expenditure as a percentage share of income by disposable income quintiles (Australia-wide)



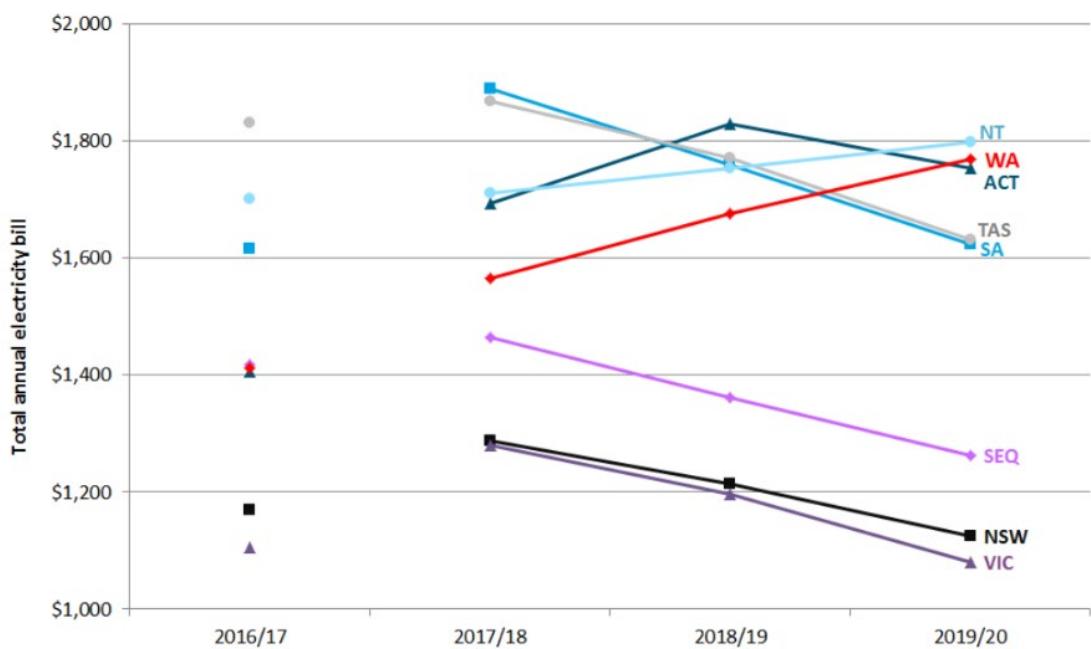
Source: ACOSS and the Brotherhood of St Laurence (2018)

As the 2017 increase was to the fixed charge, households such as age pensioners are unable to avoid it or mitigate its impact by reducing their electricity consumption.

These increases place Western Australia on the path to have some the highest electricity prices in the country, with the Australian Energy Market Commission predicting that the state will have second highest electricity bills after the Northern Territory by 2019/20.

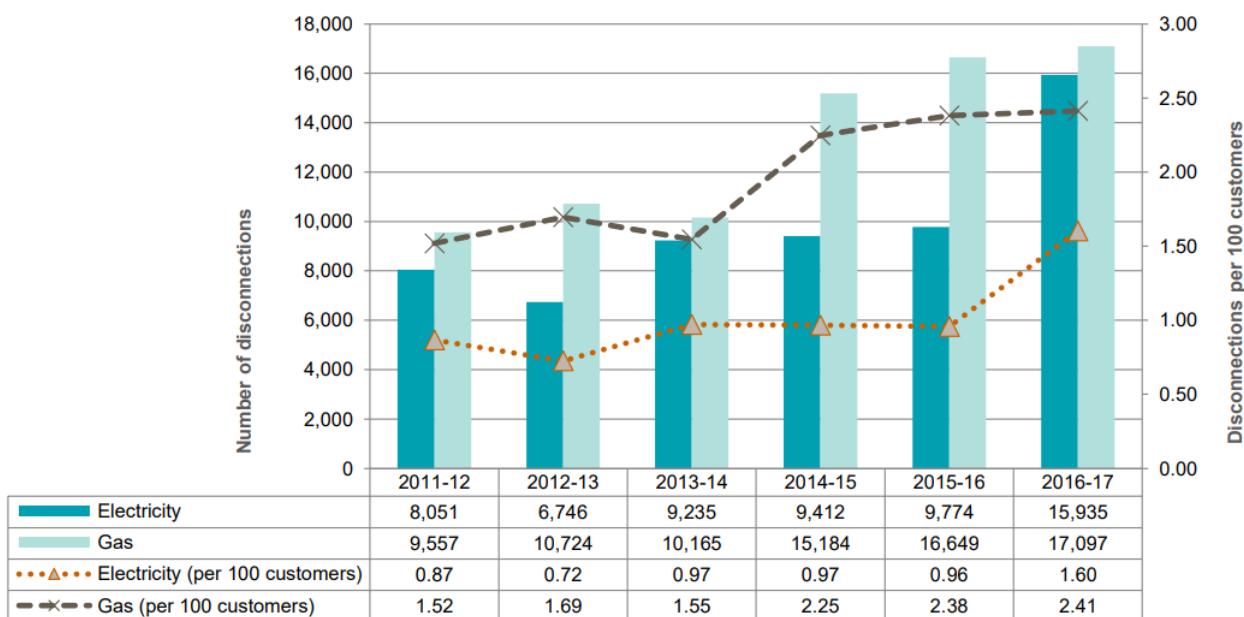
<sup>28</sup> WA State Budget 2017/18, Budget Paper 3, p 310

<sup>29</sup> WA State Budget 2018/19, Budget Paper 3

**Figure 17:** Trends in representative residential electricity bills across jurisdictions

Source: Australian Energy Market Commission 2017 Residential Electricity Price Trends

The 2016/17 financial year saw a dramatic increase in residential electricity disconnections from 9,774 in 2015/16 to 15,935 in 2016/17. Synergy's disconnections alone increased from 8,069 to 14,109 - the highest number of disconnections by Synergy since the Economic Regulation Authority (ERA) began reporting in 2007.<sup>30</sup> Residential gas disconnections also increased, from 16,649 in 2015-16 to 17,097 in 2016/17.

**Figure 18:** Residential customer disconnections

Source: Economic Regulation Authority 2017 Annual Performance Report – Energy Retailers

<sup>30</sup> Economic Regulation Authority (2017) Annual Performance Report – Energy Retailers

Residential disconnection information provided to the ERA by electricity retailers shows the correlation between the increase in customers seeking help to pay their bills and the rise in disconnections. 56.9 per cent were customers previously on an instalment plan, up from 43.9 per cent in 2015/16; and 18.9 per cent were customers who had previously been disconnected within the past 24 months, up from 17.7 per cent in 2015/16. The 2016/17 financial year saw a marked increase in customers needing to go on instalment plans due to difficulties in paying their energy bills.

**Figure 19:** Instalment plans for residential customers



Source: Economic Regulation Authority 2017 Annual Performance Report – Energy Retailers

Comparing the state-wide residential electricity and gas disconnection rates with those in other states shows that Western Australia had the highest disconnection rate for residential electricity customers (1.60 per 100 customers) and residential gas customers (2.41 per 100 customers) in Australia. Prior to 2016/17, Western Australian retailers had the lowest electricity disconnection rate.

Western Australia has, however, had the highest residential disconnection rate for gas for the past four years. In 2016/17 the Western Australian gas disconnection rate increased, while the disconnection rates in Victoria, New South Wales and South Australia fell.

Looking at the breakdown of the disconnection data shows that the growth in disconnections of customers previously on instalment plans is driven largely by Synergy, though Horizon Power and Kleenheat also disconnected a higher percentage of customers in that category as well. The number of concession card holders that were disconnected from electricity rose by seven per cent from 2015/16 to 2016/17.

## Residential disconnections by category

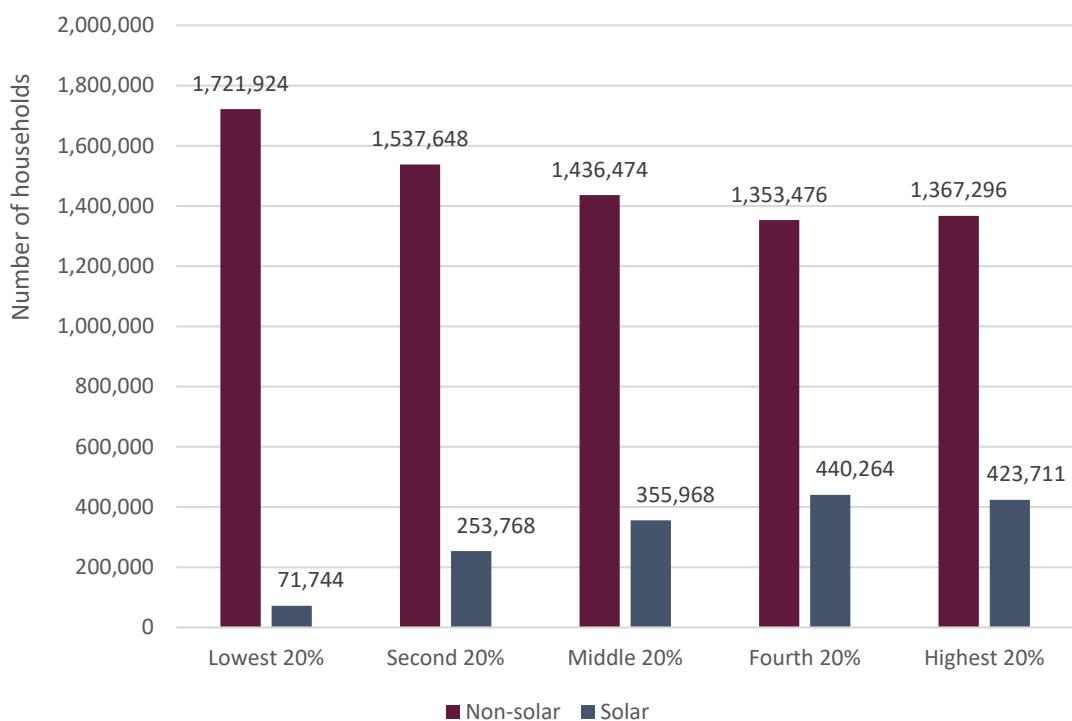
Retailer	Total disconnections		Customers previously on an instalment plan		Customers disconnected at the same supply address within the past 24 months		Concession card holders*	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
<b>Electricity</b>								
Horizon Power	1,705	1,826	36.2	39.9	27.9	53.8	12.6	24.7
Synergy	8,069	14,109	45.6	59.1	15.5	14.3	33.0	37.9
<b>Total</b>	<b>9,774</b>	<b>15,935</b>	<b>43.9</b>	<b>56.9</b>	<b>17.7</b>	<b>18.9</b>	<b>29.4</b>	<b>36.4</b>
<b>Gas</b>								
Alinta Energy	15,044	14,970	9.5	9.2	24.5	26.3	-	-
EGDC	5	6	0.0	0.0	0.0	16.7	-	-
Kleenheat	1,600	2,121	33.5	41.7	10.2	27.1	-	-
<b>Total</b>	<b>16,649</b>	<b>17,097</b>	<b>11.8</b>	<b>13.2</b>	<b>23.1</b>	<b>26.4</b>	-	-

\* At time of reporting, gas retailers do not know which customers are receiving a concession as government subsidies and concessions are paid through electricity bills

Source: Economic Regulation Authority 2017 Annual Performance Report - Energy Retailers

Western Australians have been embracing residential rooftop solar photovoltaics (PV) at an incredible rate, with around one in four households installing PV. The ability for households to access this technology is not equal, however, and for those on lower incomes or in rental housing there are few opportunities to benefit from solar through reduced consumption costs.

**Figure 20:** Solar panel households by wealth quintile Australia-wide



Source: ACOSS and the Brotherhood of St Laurence (2018) *Energy Stressed in Australia*

Nearly 17 per cent of Australian households have solar panels, reducing their energy bills by an average of \$400 per annum.<sup>31</sup> This risks the scenario that those who cannot afford or access solar will continue to pay more for their energy, while those who can will pay less, increasing energy and financial inequality. Government policy designed at reducing greenhouse gas emissions by incentivising PV use needs to be complemented by measures that address this inequity to ensure those who do not have the means or opportunity to benefit from public subsidies are not paying a larger share of energy infrastructure and generation costs, and as a result are significantly worse off.

While this inequity of access is a significant issue across Australia, Western Australia in particular has one of the lowest levels of solar PV installation on dwellings occupied by those experiencing the highest levels of socio-economic disadvantage in our community.

Shares of suitable WA dwellings with rooftop Solar PV installed: to June 2017, by state/ territory and level of socioeconomic disadvantage

Level of disadvantage	Share of suitable dwellings with rooftop Solar PV installations						
	NSW	Vic	QLD	SA	WA	Tas	NT
Decile 1 (most disadvantaged)	16.5%	0.0%	4.2%	29.7%	7.4%	21.2%	0.0%
Decile 2	20.6%	14.0%	36.1%	30.4%	16.0%	11.0%	12.7%
Decile 3	21.8%	18.5%	28.7%	34.7%	18.8%	13.7%	3.2%
Decile 4	21.0%	21.4%	30.3%	34.3%	21.1%	15.0%	5.5%
Decile 5	20.3%	18.5%	38.4%	33.0%	29.4%	15.6%	0.8%
Decile 6	16.4%	19.3%	26.2%	38.5%	28.7%	11.1%	7.3%
Decile 7	16.0%	16.8%	37.9%	31.8%	28.9%	14.4%	10.9%
Decile 8	12.0%	19.8%	35.5%	62.2%	28.9%	13.6%	18.1%
Decile 9	14.4%	13.6%	30.5%	31.6%	30.9%	15.4%	11.6%
Decile 10 (most advantaged)	11.6%	10.7%	0.7%	30.7%	21.5%	0.0%	5.8%
All	16.8%	16.2%	33.7%	33.2%	27.3%	14.0%	12.3%

Source: Bankwest Curtin Economics Centre (2017) *Power to the People*

The benefits of providing access to distributed energy for those on low incomes is clear. Some lower income households can have higher energy consumption, especially those in poor quality housing. These households may be more home-bound, including children, seniors, those with long-term health issues or people living with a disability, and so may be consuming more energy through the day.<sup>32</sup>

<sup>31</sup> ACOSS and Brotherhood of St Laurence (2018) *Energy Stressed in Australia*

<sup>32</sup> The South Australian Government is implementing a [Virtual Power Plant trial](#) that it plans to expand to all its 24,000 public housing properties.

## Food

Cost of living pressures play a significant role in food insecurity due to unexpected expenses or large bills. According to Foodbank's research, 49 per cent of people experiencing food insecurity said they had been unable to buy food due to an unexpected expense or large bill and 35 per cent due to having to pay rent or make a mortgage repayment. 43 per cent said they are unable to buy food because they were living on a low income or pension.<sup>33</sup>

As of 2018, more than 4 million Australians experienced food insecurity at least once in the preceding 12 months. One in four of these people go an entire day without eating at least once a week. In Western Australia, there was an increase of 39 per cent in the proportion of charities reporting an increase in the number of people seeking food relief since 2017, with more than 508,000 meals provided each month.

Almost three in five Australians living with food insecurity spend more than 20 per cent of their household income on food, more than double the proportion of average Australian households.<sup>34</sup> All of our model households are spending over 20 per cent of their household income on food and beverages, with the unemployed single spending over 28 per cent.

Skipping meals can have a profound impact on a person's wellbeing, their physical and mental health, social interactions, ability to function and, in the case of children, their growth and development. Further, many households facing food stress will make do by relying on cheaper, energy-dense foods with poor nutritional value—increasing the risks of future chronic diseases such as diabetes and obesity.

Recent research on the prevalence of food insecurity amongst regional and remote Western Australian children, found that 20.1 per cent of those children were food insecure. More than one in five were concerned that food would run out before their family could afford to buy more.<sup>35</sup>

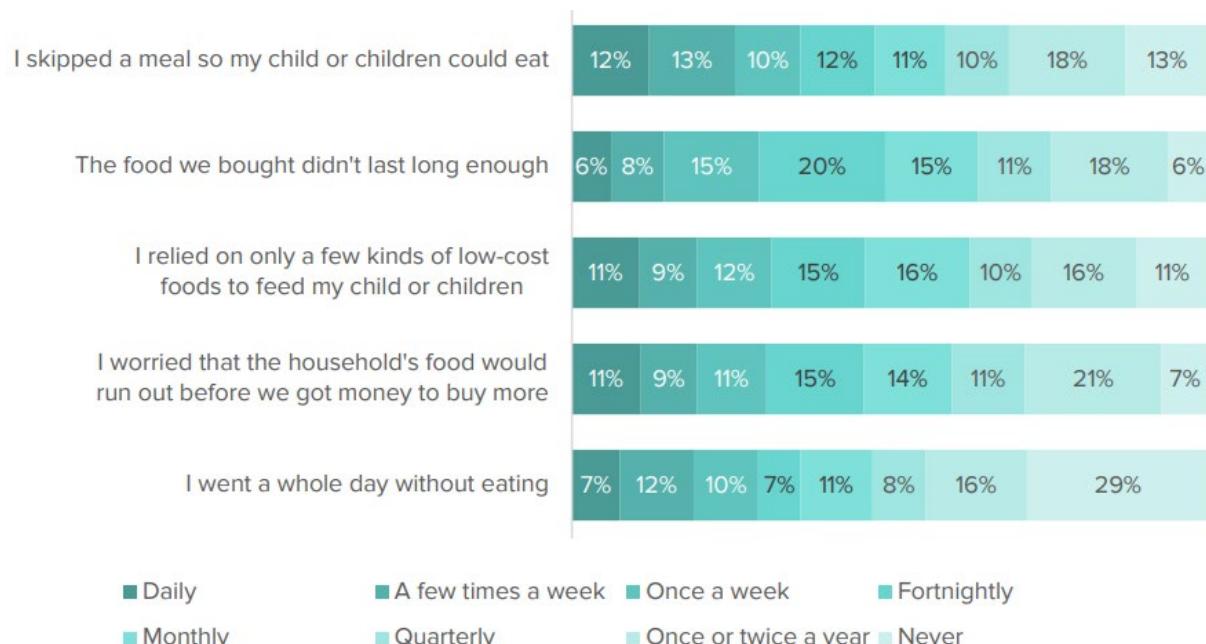
Foodbank's recent [\*Rumbling Tummies: Child Hunger in Australia 2018\*](#) report found that 32 per cent of parents living in food insecure households are employed full-time, with a further 17 per cent employed part-time. The largest share of report's survey respondents experiencing food insecurity (29 per cent) reported their household's combined gross annual income before-tax to be between \$700 to \$1,199 a week, with a further 25% reporting earning between \$1,200 to \$1,999 per week. Households whose primary source of income is either a single or dual minimum wage fall directly within this income range.

52 per cent food-insecure households were facing that because of an unexpected expense or large bill was a cause of food insecurity, with 44 per cent reporting that they could not afford enough food because they just did not have enough money in the first place. 37 per cent of food-insecure households reported that they were living on low wages or on a pension.

<sup>33</sup> Foodbank Australia (2018) [\*Foodbank Hunger Report 2018\*](#)

<sup>34</sup> Foodbank Australia (2018)

<sup>35</sup> Stephen Godrich et al (2017) 'Prevalence of socio-demographic predictors of food insecurity among regional and remote Western Australian children' *Australian and New Zealand Journal of Public Health*

**Figure 21:** Experience of skipping meals for parents in food insecure households

Source: Foodbank (2018) *Rumbling Tummies: Child Hunger in Australia*

Almost nine out of ten parents (87 per cent) in food-insecure households have skipped a meal so their children can eat and for 36 per cent, this is a weekly occurrence. At least once a week, three in ten parents (29 per cent) have to go a whole day without eating.

## Recommendations

The issues facing low income households trying to balance their finances are complex and are impacted by numerous factors at the personal, local, state and national level. This report highlights the need for multiple responses to address the key drivers of financial hardship.

Increasing the rate of Newstart Allowance and associated payments is essential for ensuring that those who are unemployed are able to cover the costs to meet for a standard of living in line with community expectations. Action by the Federal Government to address the affordability of housing, through tax reform such as abolishing negative gearing and providing support to the states to build more social housing, is crucial.

To tackle cost of living pressures and achieve a more equitable society, WACOSS recommends that the State Government:

- Keep low income households connected to **affordable energy and water**, through future price exemptions, reversing the impact of recent increases, and a public inquiry into social concessions;
- Increase access to **social housing** via a net increase of 1,000 dwellings per year;
- Ensure every new development includes 30 per cent **affordable housing**, one third of which is for social housing;
- Develop and resource a nutrition-focussed **food relief policy**, coordinated through a ministerial portfolio, to increase food security for households;
- Ensure everyone can access **digital systems and online services**, thanks to a whole-of-government strategy and advisory body;
- Introduce a **Home Energy Action Plan** to decrease financial hardship for low income households;
- Protect consumers by funding **representation and research** in WA energy markets
- Introduce a **vacant property tax** at a rate of 1 per cent of the property's capital improved value; and
- Gradually replace stamp duty on property with a **broad-based progressive land tax** over ten years, with exemptions, deferrals and concessions for low-income earners.<sup>36</sup>

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<sup>36</sup> For more details on all of these recommendations, read the [WACOSS 2019/20 State Budget Submission Vision 2020](#).

# **WACOSS stands for an inclusive, just, and equitable society**

We advocate for social change to improve the wellbeing of Western Australians and to strengthen the community services sector that supports them.

## **Western Australian Council of Social Service**

**WACOSS**  
City West Lotteries House  
2 Delhi Street  
West Perth, WA 6005  
Telephone: (08) 9420 7222  
Freecall: 1300 658 816  
Email: [info@wacoss.org.au](mailto:info@wacoss.org.au)  
 [WACouncilofSocialService](#)  
 [WACOSS](#)  
[www.wacoss.org.au](http://www.wacoss.org.au)

