

**SENATE STANDING COMMITTEE ON
EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS**

**QUESTIONS ON NOTICE
BUDGET ESTIMATES 2009-10**

Outcome/Agency *Australian Fair Pay Commission*

DEEWR Question No. EW0044_10

Senator Siewart asked on 17 June 2006 in writing.

Question

Is it true that the formula the Fair Pay Commission is using for determining the cost of living when setting the minimum wage underestimates the true costs of housing and over-estimates government rent assistance to low-income earners?

Answer

To assist the Australian Fair Pay Commission in undertaking its Minimum Wage Review, the Australian Fair Pay Commission Secretariat (Secretariat) models the disposable incomes (that is, incomes net of income tax and social security transfers but before other expenditures such as for housing) of a set of illustrative households with one or two earners on the Federal Minimum Wage (FMW). It analyses trends in these disposable incomes relative to inflation and also compares them with two main benchmarks of low income. These benchmarks are:

- a set of relative poverty lines that represent 60 per cent of median equivalised household disposable income, which are commonly used in analysis of poverty among working households (for example, by the OECD), and
- the Henderson Poverty lines (HPLs).

In its modelling of disposable incomes, the Secretariat generally assumes that households take up all available social security payments, including Parenting Payment or Newstart Allowance, family tax benefits and rent assistance. It also assumes that households pay sufficient rent to receive the maximum rate of rent assistance (an amount that varies with family size).

Such modelling necessarily involves a number of assumptions about household circumstances. The Secretariat makes the simplest and smallest number of assumptions necessary to do this modelling. It assumes that households pay enough rent to receive maximum rent assistance. The alternative would involve making assumptions about the housing costs facing each kind of FMW-earner household. There are no reliable data to inform such assumptions.