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By email: community.affairs.sen@aph.gov.au

Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

Senate Inquiry into the extent of income inequality in Australia

The Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to comment on the extent of, and impact of, income inequality in Australia.

We are concerned by the signals of distress from the most vulnerable in our community and their increasing inability to make ends meet. Most concerning is the decreasing affordability of the essentials – food, shelter, transport, communications and energy, particularly shelter and energy.

Our comments are detailed more fully below.

About Consumer Action

Consumer Action is an independent, not-for-profit, campaign-focused casework and policy organisation. Consumer Action offers free legal advice, pursues consumer litigation and provides financial counselling to vulnerable and disadvantaged consumers across Victoria. Consumer Action is also a nationally-recognised and influential policy and research body, pursuing a law reform agenda across a range of important consumer issues at a governmental level, in the media, and in the community directly.

The extent of income inequality in Australia and the rate at which income inequality is increasing in our community.

Equality is a choice, which is delivered through policy and associated economic instruments. In 1967, the Liberal Prime Minister Harold Holt said that he knew of no other free country where “what is produced by the community is more fairly and evenly distributed among the community” than it was in Australia.

However the general trend, since the 1980s, is that inequality is on the rise. The Australian Bureau of Statistics (ABS) has conducted regular surveys of household incomes in the early 80s. The income statistics show that inequality peaked just before the global financial crisis in 2008,

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then fell slightly. However, while there have been fluctuations, the trend has been generally upwards.¹

The impact of income inequality on access to health, housing, education and work in Australia, and on the quality of the outcomes achieved.

Equality, as it is understood in Australia, was made possible through adequate wages, high rates home ownership and low unemployment. A push for downward pressure on wages means less Australians will be able to buy into affordable housing, forcing them into an increasingly unaffordable private rental market and unable to build wealth over time.

The COAG Reform Council's most recent report into housing affordability found that home purchase affordability for low and moderate income households declined in all jurisdictions between 2009–10 and 2010–11.²

The specific impacts of inequality on disadvantaged groups within the community, including Aboriginal and Torres Strait Islander peoples, older job seekers, people living with a disability or mental illness, refugees, single parents, those on a low income, people at risk of poverty in retirement as well as the relationship between gender and inequality.

Low-income households are under severe pressure by the increasing cost of housing and electricity, with many of them suffering both housing stress and energy poverty.

Housing stress occurs when low-income households (the bottom 40% of households) use about a third of their income to pay for accommodation. The COAG Reform Council reported that in 2009-2010, 42% of low-income households in the private rental market were suffering from housing stress, up from 37% in 2007-08.³

Energy poverty occurs when low-income households spend 10% or more of their net income on energy. The ABS provides an interesting analysis of the spiralling cost of energy. It found that:

“although average energy costs increased in relation to household income and wealth, energy costs had more impact on the economic wellbeing of lower economic resource groups. For instance, nine percent of low income households experienced at least one indicator of financial stress associated with their energy use compared to two percent of high income households. Nearly one in five low income households (18%) could not pay their electricity, gas or telephone bills on time, while 13% had their electricity or gas services disconnected sometime during the last 12 months. By comparison, only five percent of high income households could not pay their bills on time and two percent had their services disconnected. Low income households also spent on average almost 10% of their gross household weekly income on total household energy costs, around three times that of high income households. Households that received most of their gross weekly income from a government pension spent close to 10% of their income on total energy costs (\$61 per week, 9.9%). This was around twice that for other

¹[http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/FB162A8CBB41033DCA257BCD001A5725/\\$File/65540_2011_12.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/FB162A8CBB41033DCA257BCD001A5725/$File/65540_2011_12.pdf)

² <http://www.coagreformcouncil.gov.au/reports/housing-affordability/affordable-housing-2010-11-comparing-performance-across-australia.html>

³ <http://www.coagreformcouncil.gov.au/reports/housing-affordability/affordable-housing-2010-11-comparing-performance-across-australia.html>

households regardless of their main source of household income. Households with a government pension as a main source of income had similar expenditures on energy for their dwelling (\$30 per week) and fuel for vehicles (\$31), while weekly expenditure on fuel for vehicles for all other households was significantly higher than for energy for dwellings.⁴

The growth in energy prices outstripping growth in CPI is a problem for consumers, whose income cannot keep up with the rising cost of an essential service. This places pressure on household budgets, felt hardest by the most vulnerable consumers.

The NSW Independent Pricing and Regulatory Tribunal recently estimated that 5% of Sydney households, and 8% of households in country New South Wales are paying more than 10% of their disposable income on electricity bills.⁵

In Victoria, electricity and gas bills have been found to be the greatest cause of rental arrears (63% of cases).⁶

Energy price rises are expected to continue. Current Australian Energy Market Commission (AEMC) forecasts anticipate that residential electricity prices will increase by an average 1.2 per cent a year over the three years to 2015/16.⁷ Victoria's electricity market offer prices are expected to increase slightly more over the same period, by 1.3 per cent a year.⁸

We currently see clients who are unable to afford their daily energy usage due inadequate income support. This applies across disadvantaged groups in the community. In our recent report, *Problems with Payment*, we document the experiences of real people finding it hard to pay their energy bills in Victoria. Those who live on government incomes alone, especially when combined with private rental, have a very limited ability to pay their energy bills.

Case study: Rosemary

Rosemary is 77 years old and a pensioner. She also receives a carer's allowance for her husband, who is in poor health.

Rosemary has been with her retailer for 48 years, and she used a voluntary bill smoothing program to help manage her budget. When she first started on the program, she paid \$25 per fortnight for electricity, and \$32 for gas.

In June 2012, Rosemary and her husband received a bill of almost \$1,500 for their gas usage for the three month period of April to June 2012. When Rosemary spoke to her retailer about it, she told them that she couldn't afford to pay the bill, as she just didn't have the money. The retailer told her that if that was the case, she would be cut off from her gas supply. The retailer representative told her that if she didn't want to be cut off, she would have to continue paying \$25

⁴ <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4670.0main+features100032012>

⁵ http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews_All/Retail_Pricing/Changes_in_regulated_electricity_retail_prices_from_1_July_2011/14_Jun_2011_-_Final_Report/Final_Report_-_Changes_in_regulated_electricity_retail_prices_from_1_July_2011_-_June_2011

⁶ Sharam, Andrea (2007) "What the gas and electricity arrears of private low-income tenants can tell us about financial stress," *Journal of Economic and Social Policy*: Vol. 11: Iss. 2, Article 2.

Available at: <http://epubs.scu.edu.au/jesp/vol11/iss2/2>

⁷ Australian Energy Market Commission (2013), *Household Electricity Price Trends*, <http://www.aemc.gov.au/Media/docs/National-information-sheet-4867eb25-63fc-410a-b56f-8a88739d8e51-0.PDF>

⁸ *Ibid*, p.iv

dollars a fortnight for electricity, but \$60 for gas—double her usual amount. The retailer didn't ask her whether she could afford these payments.

When Rosemary protested that she couldn't afford this, the retailer suggested that she shouldn't turn the gas heating on, and to wear a coat and a blanket to keep warm instead. Rosemary's husband is ill, and it isn't feasible for them to stop using the heating.

Rosemary borrowed money from a friend, and paid \$700 towards her overdue bill the day after she spoke with her retailer. Rosemary is now paying the amounts that the retailer demanded, even though this is very difficult for her financially. She now pays \$85 a fortnight out of her carer's pension on electricity and gas. Rosemary called MoneyHelp for assistance, and we advised her to contact EWOV if the retailer continued to threaten her with disconnection.

Rosemary's payments do not cover her ongoing consumption, and she has recently received another bill for almost \$1,000.

The likely impact of Government policies on current and future rates of inequality particularly the changes proposed in the 2014-15 Budget.

Severe payment cuts for unemployed people under 30 years of age will have an impact for our service and other community assistance services in increased client numbers and an increased inability to find solutions to assist our clients.

The hardship services of commercial providers of essential services will also come under increasing pressure, as more households are unable to pay increasing costs on incomes that do not reflect the cost of living.

The principles that should underpin the provision of social security payments in Australia.

The underpinning principles of social security payments and concessions should be that the rates of payments and concessions are sufficient to achieve a basic acceptable standard of living. People should not be consigned to live in poverty due to inadequate support.

The practical measures that could be implemented by Governments to address inequality, particularly appropriate and adequate income support payments.

We are supportive of recommendations to remove the distinction between pensions, allowances and student payments and replace them with a common payment level that allows for an acceptable standard of living, with a particular focus on the key stressors of housing and energy costs.

People with extra costs, such as the costs of a disability, the costs of child or other care, should receive supplementary payments in addition to any base entitlement.

Please contact Denise Boyd on 03 9670 5088 or at deniseb@consumeraction.org.au if you have any questions about this submission.

Yours sincerely

CONSUMER ACTION LAW CENTRE

A handwritten signature in black ink, appearing to be 'DB', written in a cursive style.

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