

NTCOSS

NT Council of Social Service Inc.



COST OF LIVING REPORT

Tracking changes in the cost of living, particularly for vulnerable and disadvantaged Northern Territorians: CPI rises over the past quarter and past year.



NTCOSS Cost of Living Report

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Introduction

This report examines changes in the cost of living, particularly for vulnerable and disadvantaged Northern Territorians.

This NTCOSS Cost of Living Report focuses primarily on highlighting changes in Consumer Price Index (CPI) (2015d), and Selected Living Cost Index (SLCI) figures (ABS (2015a) over the past quarter and the past 12 months. This report, however, does not contain a more in-depth analysis of cost of living trends for a specific expenditure area, as occurs in other Cost of Living Reports. There is, however, a section in this report, which compares the rate of change in the CPI for each of the states and territories over the past year. The report also highlights that the benefits of a slowdown in the CPI do not necessarily flow down equally to all demographic groups or geographic areas in the Territory - with the price of food in remote areas a case in point. This abridged format is currently used for every second Cost of Living Report.

The Living Cost Indexes (LCIs) have been designed to answer the question: 'By how much would after tax money incomes need to change to allow households to purchase the same quantity of consumer goods and services that they purchased in the base period?' (ABS (2015a)).

The SLCI figures are preferred, as a summary measure, over the more well known CPI, because the CPI is technically not a cost of living measure, as it tracks changes in the price of a specific basket of goods, however, this basket includes goods and services that are not necessarily part of the expenditure of all households. In particular, there are goods and services in the CPI basket that are not part of the expenditure of many low income households (SACOSS (2014)).

The makeup of the basket of goods and services must be taken into account when considering the cost of living. If expenditure on the bare essentials makes up most or even all of the expenditure for low income households, then it is the price increases in those areas that will have a greater negative impact on some households. Increases in the prices of bare essentials may be masked in the generic CPI by rises or falls in other goods and services in the CPI basket, which may be discretionary items, and therefore more likely to be purchased by higher income households and therefore less pertinent to low income households (SACOSS (2014)).

The methodology used for the SLCI is different to that used for the CPI, as further explained in Explanatory Note 1. "The expenditure patterns of those households measured by the LCIs differ from those of the overall household sector in scope of the CPI", which contributes to differences in the respective measures (ABS (2015a)). While the SLCI figures do have some limitations in terms of tracking cost of living changes (see Explanatory Note 2), overall however, they provide a "robust statistical base, quarterly tracking of changes and a long time series, which all provide valuable data for analysis". (SACOSS (2014)).

NTCOSS acknowledges the generous time and resources and advice provided by SACOSS, whose Cost of Living Reports have contributed significantly to the development of this and previous NTCOSS Cost of Living Reports.

SECTION 1: June Quarter 2015 Cost of Living Changes: Price and Income

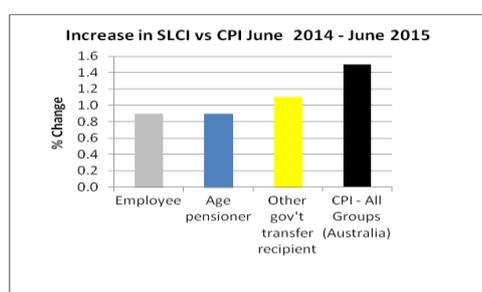
Cost of Living Changes as measured by the Selected Living Cost Index (SLCI)

The Selected Living Cost Index (SLCI) disaggregates expenditure into a number of different household types (ABS, (2015b)). This report focuses primarily on figures the “Age Pensioner” and “Other government transfer recipient” figures (hereafter referred to as 'Other Welfare Recipients'), who are likely to represent the more disadvantaged households. Figures for Employees are also included, to serve as a comparison with these two other groups. These figures are national figures.

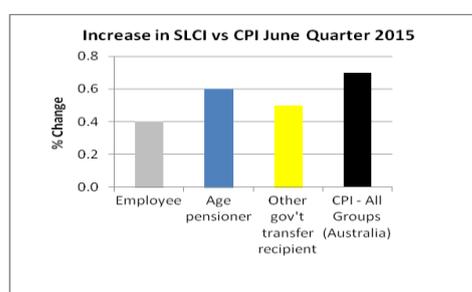
Over the last year (June Qtr 2014 – June Qtr 2015) the cost of living at the national level, as measured by the SLCI for Age Pensioners increased by 0.9% and for Other Welfare Recipients it increased by 1.1%. For Employees, it increased by 0.9%. (ABS (2015a)). Nationally, the CPI rose by 1.5% at the same time, much higher than the SLCI increases. In Darwin the CPI rose by only 0.2% during the same period and it is notable that the Darwin CPI figure represents the lowest yearly rate of increase in 17 years, since March 1998, (ABS (2015d)).

Figure 1 Increases in Living Costs June Qtr 2015 - National Figures

1a Last year (June 2014 – June 2015)



1b Last Quarter (June 2015)



Source: SLCI Figures taken from ABS (2015a) and ABS (2015d), Tables 12 & 13

It is also notable that the living costs of employees (0.9%) rose less steeply over the past year, than for Other Welfare Recipients (+1.1%), and under the rate of the generic national CPI rise (ABS, 2014a).

This means that prices for the ‘basket’ of essential items bought by a large proportion of the population, who can least afford it (e.g. unemployed), is going up faster than for other sections of the population.

In the June 2015 quarter, the cost of living (SLCI) increased by 0.6% for Age Pensioners and 0.5% for Other Welfare Recipients and for Employees it increased by 0.4% (ABS (2015a)). Over the same period, the CPI rose by 0.7 % nationally but *did not change* in Darwin (ABS (2015d)). The main reason for the difference in the SLCI for ‘Other Welfare Recipients’ and the CPI is the smaller rise in the health costs for these households when compared to the CPI population. It is also worth noting that, “The housing group” in the SLCIs does not include new dwelling purchase by owner-occupiers - a major contributor to the rise in the CPI this quarter (ABS (2015 c)). In addition

Transport costs (+4.2%), were the main contributor to the increase for Age Pensioner households over the last quarter, due mainly to the increase in the costs of petrol, which are almost back to the same level as December 2014, but are still around 10% lower than one year ago (ABS (2015c)). A rise in health costs (1.9%) also contributed - due to a rise in medical and hospital services (e.g. private health insurance premiums, and the annual indexation of the Private Health Insurance rebate, from 1 April), (ABS, (2015c)). *Age pensioner households have a higher expenditure on health as a proportion of income than the general population, so the health increase impacts particularly them* (NTCOSS (2014a)). The rise for Age Pensioners was partially offset by a decrease in recreation and culture (-1.2%), due to domestic holiday travel and accommodation (off-peak season).

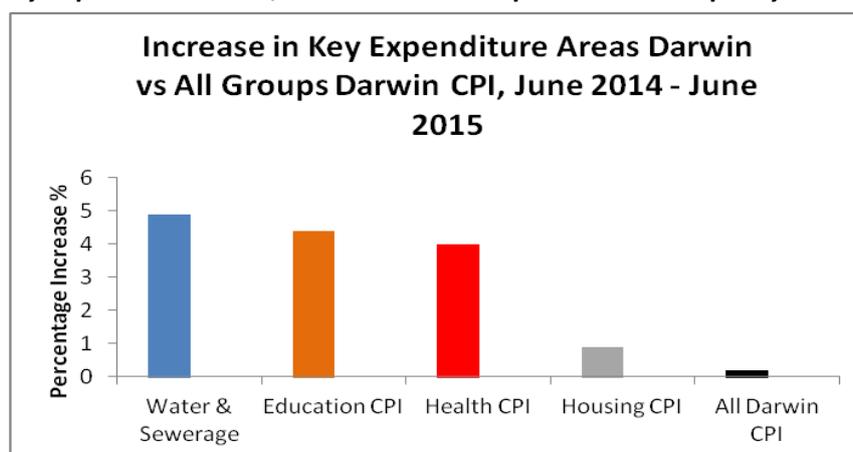
Transport (+4.3%) was also the main contributor to the rise in living costs for Other Welfare Recipients, and with a *higher expenditure on transport than Age Pensioners as a proportion of income* (NTCOSS, 2014b), this particularly impacts them. This rise, however, was partially offset by a 1.5% decrease in Insurance and financial services, due to the falls in interest charges when the banks passed on the cuts in the RBA cash rate earlier in 2015 (ABS (2015c)).

Price Changes as measured by the CPI

These overall figures can be disaggregated to track changes in the price of key basic goods and services over the past year, as measured by the CPI (Table 1). Over the past year, there were some significant downward trends in key areas of expenditure, both in Darwin, and nationally, as well as some increases in other areas. Transport costs, for example, *decreased* both in Darwin (*down* 2.6%) and across the country (*down* 2.4%), driven primarily by a very significant drop in the price of fuel, with a 20% decrease in Darwin and a 10.6% *decrease* nationally, due to a drop in overseas oil prices. The price of Gas and other household fuels *decreased* in Darwin by 7.9% (but increased nationally by 3.4%), and Electricity *decreased* by 1.2% in Darwin and decreased by 3.8% nationally. (ABS (2015d)).

There were increases in a number of key expenditure areas, such as Education (+4.4% in Darwin; +5.4% nationally), housing (+0.9% in Darwin; +2.5% nationally), as well as in Health (+4.0% Darwin; 4.3% nationally). The rises in each of these areas were higher than the respective generic CPI rises in Darwin, as well as nationally. (ABS (2015d)).

Figure 2 Increases in Key Expenditure Areas, Darwin vs All Groups CPI Darwin – past year



Source: ABS (2014d Tables 12)

Table 1 compares price changes in a number of basic necessities in Darwin with the changes nationally – covering both the last quarter and the past year, however they do not account for local variations in prices.

Table 1: Cost of Living Changes June Qtr 2015 by expenditure type Darwin vs National

Cost of Living Area	Darwin CPI June 2015 Qtr change %	National CPI June 2015 Qtr change %	Darwin CPI June 2014- June 2015 change %	National CPI June 2014- June 2015 change %
Education	0.0%	0.0%	4.4%	5.4%
Food (& non-alcoholic beverages)	-0.8%	-0.2%	-0.5%	1.3%
Clothing and footwear	1.6%	1.3%	-0.4%	-0.9%
Housing (includes utilities)	0.1%	0.7%	0.9%	2.5%
• Rent	-0.2%	0.4%	0.9%	1.9%
• New Dwelling Purchase – owner/occupiers	0.4%	1.5%	0.8%	4.8%
Health	2.6%	2.7%	4.0%	4.3%
• Medical, dental and hospital services	3.8%	3.9%	5.7%	5.8%
Transport	0.7%	3.4%	-2.6%	-2.4%
• Automotive fuel	2.3%	12.2%	-20.0%	-10.6%
Utilities	-0.1%	-0.2%	0.1%	-1.6%
• Water & Sewerage	0.0%	0.0%	4.9%	-1.0%
• Electricity	0.0%	-0.6%	-1.2%	-3.8%
• Gas & Other Household Fuels	-4.2%	0.9%	-7.9%	3.4%
CPI All Groups	0.0%	0.7%	0.2%	1.5%

Source: ABS (2014d Tables 12 & 13)

The continuing downward trend in the CPI over the past year reflected in a zero CPI increase over the past quarter and only a 0.2% CPI increase for Darwin over the past year. This downward trend is clearly welcome. In addition, the Deloitte Access Economics (DAE) economic forecasts for the NT for the next five years remain reasonably positive¹, however the DAE forecasts for economic growth and employment growth are not as high as the expected projections from 12 months ago (NT Government (2015) and (2014b)).

Petrol Prices in the NT

There was continuing good news for many motorists in the NT in terms of petrol prices, with Darwin (134.9cpl) having the lowest petrol prices of any capital city, as of June 2015. Katherine’s petrol price (137.5cpl) was lower than the 7 capital cities, other than Darwin. Alice Springs prices (140.9cpl) were lower than 3 capital cities – Brisbane, Canberra and Hobart, and very similar in price to Sydney, Melbourne and Adelaide. (ACCC 2015)

Table 2: Monthly average petrol prices June 2015 vs March 2015 - cents per litre (cpl)

	Syd	Melb	Bris	Adel	Perth	Hob	Dar	Canb	A/Spr	T/Cr	Kath
Jun 2015	140.1	139.5	144.6	140.6	138.2	143.1	134.9	144.5	140.9	162.7	137.5
Mar 2015	130.8	128.4	134.9	128.0	129.5	135.5	133.9	133.2	138.9	159.6	133.8

Note: The average price for the largest five cities combined was 140.6 in June and 130.3 in March 2015

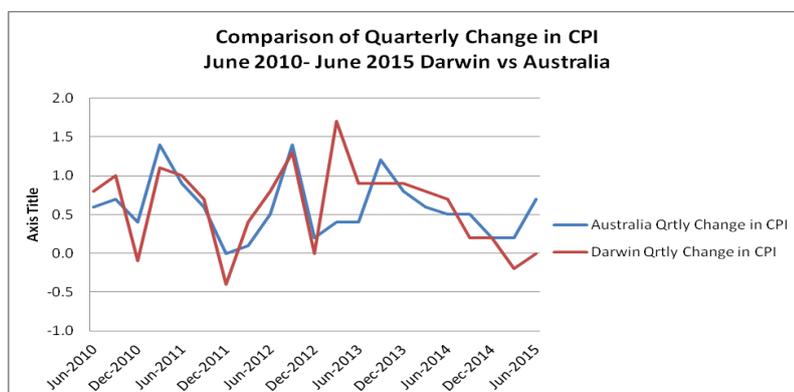
ACCC (Australian Competition and Consumer Commission) (2015)

According to the ACCC (2015): “This decline [in Darwin] could have been influenced by factors such as the discount arrangement of the Automobile Association of the Northern Territory with United Petroleum sites in Darwin, and the increased scrutiny of Darwin prices by the Northern Territory Government, the ACCC and the wider community.” It is also important to acknowledge the role played by the October 2013 Fuel Summit facilitated by the NT Government, which led to prices almost immediately decreasing in Darwin, and a greater scrutiny on prices by the wider community.

As Table 1 above shows, however, not all areas of household expenditure have seen a downward trend in prices, meaning that an overall slowing in the rate, at which the CPI increases, does not necessarily reflect the change in CPI for expenditure items that are more common for people on low incomes. In addition, price decreases in one part of the NT may not be enjoyed by households in another part of the NT (especially remote areas - see remote food example on p.4 below).

While there was a decrease in rental prices in Darwin in the past quarter (-0.2%), over the past year rental prices increased by 0.9% in Darwin, which was more than 4 times the generic CPI price increase for Darwin. In addition, while lower than previous years, the increase in rental prices still represents an increase on already high rents in the NT, which impact on low income households, who are more likely to be renters than homeowners.

Figure 3: Quarterly change in Generic CPI over the past 5 years - Darwin CPI vs National CPI

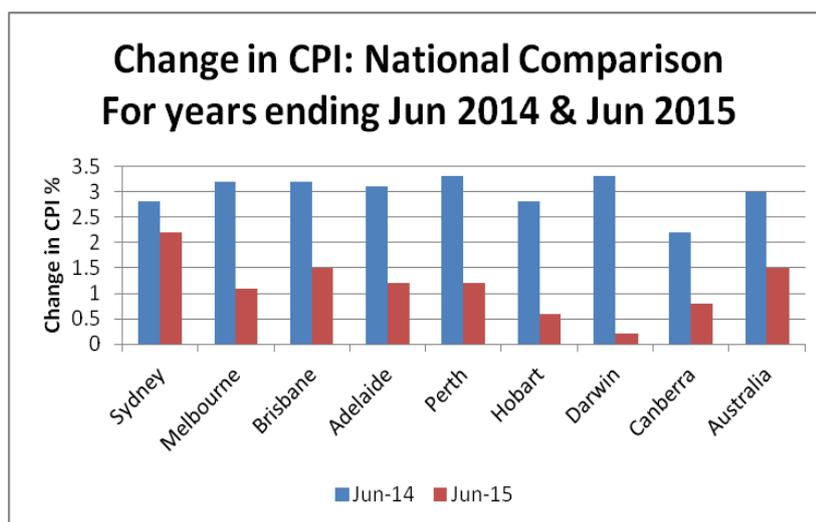


Source: ABS (2014d Tables 13)

¹ The Deloitte Access Economics Report (June 2015) predicts strong economic growth over the next 5 years to 2018-19 (an average of 4.1% p.a. vs the national forecast figure of an average 2.8% p.a., as well as reasonably strong employment growth forecast over the next 5 years (1.3% vs. national forecast of 1.4%). DAE have also forecast the CPI to increase by an average of 2.1% p.a. over this period, which is below the national average of 2.4%. However, in June 2014, the DAE report forecast economic growth of 5.1 over the next 5 years and employment growth of 3.0%.

The downward trend in the generic CPI for Darwin must also be viewed in a longer term context. Figure 2 shows that the CPI for Darwin has fluctuated significantly over most of the last five years, and until recently, has generally mirrored the national CPI. Time will tell if the recent lower rates of increase in the CPI can be sustained. In addition there are a range of factors which impact on CPI levels, largely outside of the control of states and territories, e.g. the value of the Australian dollar and world oil prices, which have both impacted on recent CPI levels. It is also important to note that the slower rate of CPI increase has occurred broadly across the country, with most capital cities enjoying relatively low levels of CPI rises at the moment - not just Darwin. All capital cities had a lower CPI figure comparing the year ended June 2015 with the year ended June 2014 (ABS (2015d)), see Figure 3.

Figure 4: Generic CPI increases for years ending June 2014 and June 2015 – States and Territories



Source: Calculations derived from ABS (2014d Table 12)

The rate at which the CPI increases, however, does not necessarily reflect the change in CPI for expenditure items that are more common for people on low incomes. In addition, price decreases in one part of the NT may not be enjoyed by households in another part of the NT, with food prices a particular case in point, as highlighted in the NTCOSS Cost of Living Report No. 7 (February 2015).

Remote Food Prices

The past year saw a decrease in food prices in Darwin ((-0.5%), whereas the CPI for food nationally increased by 1.3%. On the surface this may appear as good news, however, we know from the most recent NT Government (2014) Market Basket Survey Report, the average cost of food in remote stores increased by 5% over the previous year, in comparison with the food basket¹ in district centre supermarkets which increased by less than 1%.

This means that while households in larger centres are enjoying the benefits of a slowing down of the rate of increase in the generic CPI, remote households are still having to pay disproportionately more for their food when shopping locally – requiring 34% of their family income to purchase the food basket – and prices are rising at a higher rate than in major centres. Remote households are paying 50% more for the same goods when compared with a family shopping at a Darwin supermarket. In light of this NTCOSS reiterates its call for the NT Government to establish a Food Summit, following on the success of the 2013 Fuel Summit, to address this critical issue.

Food prices, which are an essential item and make up a significant proportion of weekly household budgets, especially for lower income households, and it is imperative that cost of living pressures are eased for remote households. **While households in larger centres are enjoying the benefits of a slowing down of the rate of increase in the CPI, remote households are still having to pay disproportionately more for their food.**

Incomes: Income Support Recipients

Given that income support recipients have very low incomes, it is unlikely that any significant amount of the weekly benefit can be saved, at least for those who are not able to supplement their government transfer payments with additional income. For someone on the base level of benefits, and assuming they spend all their income, NTCOSS has calculated the dollar value of changes in cost of living over the past year, as shown in Table 2.

Table 3: Cost of Living Change for Income Support Recipients June Qtr 2014 – June Qtr 2015 Australia

	Base Rate* Benefit per week (30 June 2014)	Base Rate* Benefit per week (30 June 2015)	Selected Living Cost Index change %	Amount per week increase in 'cost of living' \$	Amount per week increase in base payment rates \$
Age Pensioner	\$421.40	\$430.10	0.9%	\$3.79	\$8.70
Newstart single – no children	\$259.60	\$264.00	1.1%	\$2.85	\$4.40
Newstart single – 2 children & FTB A & B	\$533.20	\$544.67	1.1%	\$5.87	\$11.47

Sources: Centrelink (2014) & (2015); ABS (2015a). See Explanatory Note 3 for an explanation of how figures are derived

*For simplicity, supplements & Rent Assistance not included in Table 2, as these can vary from person to person.

The following figures highlight the situation for people whose only source of income is a base-rate government benefit, and who spend all their income, as their budget doesn't allow any leftover to save.

- For **pensioners**, the cost of living over the last year increased by \$3.79 a week, which again was more than covered by the increase in the base rate of the pension of \$8.70 per week over the same period.
- For **single people on Newstart**, the cost of living rose by \$2.85 per week, while the base Newstart rate rose by \$4.40 per week, just covering the increase in living costs.
- For **sole parents with 2 children**, receiving Newstart and FTB (A & B), the cost of living rose by \$5.87 a week, and this cost of living increase was also covered with their payment rate rising by \$11.47 per week, also for the third quarter in a row. (Centrelink (2014) and (2015)).

These figures do actually represent reasonably good news for households who rely on income support payments and it points to an easing of cost of living pressures. For people on Newstart and Youth Allowance, however, it must be noted that these recipients are starting from an already extremely inadequate base rate.

These figures also underline the importance of the current method of indexation used to adjust pensions, where payments are pegged to Male Total Average Weekly Earnings and prices (CPI) – to ensure that pensioners do not drop behind society averages (See Explanatory Note 4). The inadequate indexing system for Newstart allowance and other base level benefit allowances, which are pegged to CPI only, means that increases in allowances cannot always keep up with the cost of living – even though they are doing so at the moment.

With the low base payments for allowances, and the fact that increases in payments are being pegged to CPI only, Newstart payments lag further behind pensions and are currently \$166 lower p/w. It is therefore critical that the Federal Government commit to increase Newstart and other base level payments by \$50 per week.

Explanatory Notes

1. CPI and Living Cost Indexes

The ABS Selected Living Cost Indexes (SLCI) uses a different methodology to the CPI in that the CPI is based on acquisition (i.e. the price at the time of acquisition of a product) while the living cost index is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI traces changes in house prices, while the SLCI traces changes in the amount expended each week on housing (e.g. mortgage repayments) (SACOSS (2014)). Further information is available in the Explanatory Notes to the Selected Living Cost Indexes (ABS (2014b)).

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

(Adapted from SACOSS (2014)).

2. Limitations of the Selected Living Cost Indexes

The Selected Living Cost Indexes are more nuanced than the generic CPI in that they measure changes for different household types, but there are still a number of problems with using those indexes to show cost of living changes faced by the most vulnerable and disadvantaged in the Northern Territory. While it is safe to assume that welfare recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households indicates nothing about distribution of power, money and expenditure within a household and may therefore hide particular (and often gendered) structures of vulnerability and disadvantage. Further, the living cost indexes are not state-based, so particular Northern Territory trends or circumstances may not show up (SACOSS (2014)).

At the more technical level, the Selected Living Cost Indexes are for households whose predominant income is from the described source (e.g. Age pension or government transfers), though many households in these categories have other sources of income, or more than one welfare recipient in the same household. Like the CPI, the Living Cost Index figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest in those categories (SACOSS (2014)).

Another example of this “averaging problem” is that expenditures on some items, like housing, are too low to reflect the real expenditures and changes for the most vulnerable in the housing market – again, because the worst case scenarios are “averaged out” by those in the category with other resources. For instance, if one pensioner owned their own home outright they would generally be in a better financial position than a pensioner who has to pay market rents; as an example, if the market rent were \$300 per week, the average expenditure on rent between the two would be \$150 per week, much less than what the renting pensioner was actually paying (SACOSS (2014)).

The weightings in the Selected Living Cost Indexes are also based on a set point in time (from the 2009-10 ABS *Household Expenditure Survey*) and can't be changed until the next survey. In the meantime, the price of some necessities may increase rapidly, forcing people to change expenditure patterns to cover the increased cost. Alternatively or additionally, expenditure patterns may change for a variety of other reasons. However, the weighting in the indexes does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle (SACOSS (2014)).

Finally, the Selected Living Cost Indexes' household income figures are based on households that are the average size for that household type: 1.52 people for Age Pensioners and 2.57 for Other Welfare Recipients (ABS, 2014b). This makes comparison with allowances difficult. This Report generally focuses on single person households or a single person with two children (to align to the other welfare recipient household average of 2.57 persons). However, this is a proxy rather than statistical correlation (SACOSS (2014)).

It is inevitable that any summary measure will have limitations, and as noted in the main text, the Selected Living Cost Indexes provide a robust statistical base, a long time series, and quarterly tracking of changes in the cost of living which is somewhat sensitive to low income earners (SACOSS (2014)).

3. Pension and Newstart (and Family Tax Benefit) Calculations for Table 2

These figures reflect payment levels for a single Age Pensioner; a single Newstart recipient with no children; and a single Newstart recipient with two children (aged 10 and 14), who are not in receipt of Commonwealth Rent Assistance. There are clearly going to be variations in payment rates for different recipients, which will be affected by family structure, the number and age of children etc. Payment rates for single people are used here for simplicity – as partner’s income for partnered recipients adds another layer of complexity. (Adapted from SACOSS (2014)).

Weekly Payment Rates at 30 June 2014*

	Base Rate	Pension Supp	Energy Supplement*	FTB A child u13	FTB A child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Age Pension - single	\$383.00	\$31.45	\$6.95					\$421.40
Newstart – single, no children	\$255.25		\$4.35					\$259.60
Newstart – single, 2 children	\$276.20		\$4.70	\$86.10	\$112.00	\$51.10	\$3.10	\$533.20

Weekly Payment Rates at 30 June 2015*

	Base Rate	Pension Supp	Energy Supplement*	FTB A child u13	FTB A child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Age Pension - single	\$391.10	\$31.95	\$7.05					\$430.10
Newstart – single, no children	\$259.60		\$4.40					\$264.00
Newstart – single, 2 children	\$280.90		\$4.75	\$88.41	\$115.01	\$52.50	\$3.10	\$544.67

Note - All figures are based on maximum rates of payment where relevant

Pharmaceutical benefit included in Newstart 2 children calculations, but was excluded (in error) from previous NTCOSS Cost of Living reports

**The Energy Supplement (referred to as the Household Assistance Package (HAS) payments in previous reports) were made available to most pensioners and adult allowance recipients (incl. Newstart) from 20 March 2013, in order to address carbon tax price increase. From 20 March to 30 June 2015, these payments added \$7.05 a week to the single pension, \$4.40 to Newstart for singles and \$4.75 to those with dependent children, and are included in calculations used in Table 2. (Figures from Centrelink (2014), (2015)).*

4. How Pension rates are adjusted

“Currently, pensions (including the Age Pension, Service Pension, Disability Support Pension and Carer Payment) are indexed twice each year by the greater of the movement in the Consumer Price Index (CPI) or the Pensioner and Beneficiary Living Cost Index (PBLCI). They are then ‘benchmarked’ against a percentage of Male Total Average Weekly Earnings (MTAWE). The combined couple rate is benchmarked to 41.76% of MTAWE; the single rate of pension is set at 66.33% of the combined couple rate (which is equal to around 27.7% of MTAWE). ‘Benchmarked’ means that after it has been indexed, the combined couple rate is checked to see whether it is equal to or higher than 41.76% of MTAWE. If the rate is lower than this percentage, the rates are increased to the appropriate benchmark level.” (Parliamentary Library (2014)).

“The CPI is a measure of changes in the prices paid by households for a fixed basket of goods and services. Indexing pension rates to CPI maintains the real value of pensions over time. The PBLCI measures the effect of changes in prices of the out-of-pocket living expenses experienced by age pensioner and other households whose main source of income is a government payment. The PBLCI is designed to check whether their disposable incomes have kept pace with price changes. The MTAWE benchmark is not intended to maintain the value of the pension relative to costs; it is seen as ensuring pensioners maintain a certain standard of living, relative to the rest of the population.” (Parliamentary Library, (2014)). Note: Allowance payments, such as Newstart and Youth Allowance are indexed to the CPI only, and are adjusted every 6 months, in March and September.

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