



# Good Policy

NEWSLETTER OF GOOD SHEPHERD YOUTH & FAMILY SERVICE SOCIAL POLICY & RESEARCH UNIT

## Cost of living: the changing face of financial hardship

by Jade Blakkarly

Manager Service Strategy – Women and Girls, Financial Inclusion and Young People, Good Shepherd Youth & Family Service

The face of financial hardship in Australia is changing. While people relying on Income Support Payments continue to struggle, there is also an emerging group of people for whom access to concessions and other support is often not available. These are often people who are working, but are in precarious or insecure employment, or people that have been displaced as a consequence of the changing nature of the Australian economy. They are often also people who do not know the supports available to prevent financial crisis or where they can go when they are experiencing financial hardship.

This is certainly the experience of our financial counsellors at Good Shepherd Youth & Family Service, as Sally Edwards' article demonstrates. More people are now in financial stress as a consequence of worsening housing affordability. As private rents and house prices continue to increase alongside the costs of other essential goods and services, more people are struggling to make ends meet.

We know that prevention is always better than cure. Good Shepherd Youth & Family Service faces significant challenges in dealing both with this increase in demand for crisis support services, and in continuing our work with people to prevent financial hardship. We have an obligation to challenge the thinking that ascribes blame to the individual and look to the deeper, structural issues that lead to financial stress. The increasing cost of living is a reality for the people we work with, and its impacts are being felt more widely than ever before.

As Gavin Dufty discusses, the costs of many basic necessities are rising above the rate of inflation, and these pressures are experienced differently by different groups in our community. This requires a more targeted policy response to address the unevenness of these impacts. Increasing utility prices, the rising costs of housing and other basic necessities are forcing people to make some really difficult choices. We hope that this issue of *Good Policy* highlights this reality and what we can do to address these concerns.

For people who are struggling financially, there are often few places to which they can turn to iron out the fluctuations in their expenditure. The latest update on the extent of financial exclusion in Australia paints a sober picture. Large portions of our community are financially

excluded and, as a consequence, they use the fringe lending market to access the credit they need to manage their expenses. Tanya Corrie's article highlights the negative impacts of fringe lending, and explores the current regulatory environment that aims to reduce the reliance on and the harm caused by these credit practices. While one of the more pressing issues is the inadequacy of income support, the costs of fringe lending act to exacerbate financial stress and are not a solution to it.

We know that many of our clients access the fringe lending market to pay for their energy bills. Essential services form an important part of this wider discussion, and have been a particular point of focus as a result of the carbon tax which was implemented in July 2012. Ben Courtice and Damian Sullivan provide two different perspectives on the carbon tax debate. Ben discusses the environmental aspects while Damian explores the affordability perspectives that need consideration. It is our hope that these discussions can support us in developing the appropriate policy and practice responses to the changing need for support in our community.

At Good Shepherd Youth & Family Service we remain committed to enabling people to live a life with dignity. The capacity to engage and participate in the wider community is contingent on maintaining a basic quality of life. Continued increases in the cost of living risk jeopardising this fundamental need if not addressed adequately in the policy arena. As a community service organisation, we have an important role to play in shaping and informing this debate and an obligation to speak on behalf of our many clients who experience this stress. We also need to look to policy and program solutions to meet these needs.

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# The Consumer Price Index and

by **Gavin Dufty**

Manager of Policy and Research, St Vincent de Paul Society Victoria

**There has been a lot of commentary in the mainstream media lately about the cost of living pressures. While some may be scratching their heads and thinking “what cost of living pressures?” others will be nodding in agreement.**

The inflation rate, measured by the Consumer Price Index (CPI), is often used as an indicator of the cost of living faced by households. The assumption is that a low CPI number reflects a low cost of living for the average household, while a high number indicates households have a high cost of living. However, this seldom reflects reality. The CPI is not intended to be used as an indicator to measure an individual household's cost of living. Rather, it is a tool designed to estimate the average overall change in the price of a fixed basket of goods and services that are consumed by a postulated 'average person'. The CPI also assumes this 'average' person lives in one of the major capital cities. The further the numbers are disaggregated, the less representative the sample becomes.

**Since December 2001, overall food prices have risen 6.2 per cent above the underlying CPI.**

As such, the CPI is a great tool to assess the overall change in prices and its impact on households if you are hovering over Australia in a spaceship. However, when focusing on particular groups of people in the community or on individual households, the story is a very different one.

To explain the way changes in cost of living impact on various groups, the Relative Price Index (RPI) has been developed. As the name implies, the RPI has been designed to build price indices that are specific or relative to particular groups of people. The RPI was used in the Cost of Living Strategy for Tasmania ([www.dpac.tas.gov.au/divisions/siu/strategy/cost\\_of\\_living](http://www.dpac.tas.gov.au/divisions/siu/strategy/cost_of_living)) and is referenced in the Australian Capital Territory's targeted assistance strategy ([www.assistance.act.gov.au/publications\\_and\\_reports](http://www.assistance.act.gov.au/publications_and_reports)).

In developing the RPI, information is taken from the Household Expenditure Survey conducted by the Australian Bureau of Statistics, which details the expenditure patterns of various types of households. This information is then used to re-weight the CPI data in order to create a price index that is relative to a particular group.

The following table provides the detailed expenditure patterns of households whose incomes are 90 per cent or more reliant on Government Pensions and Allowances (GPA). This is then compared to the expenditure patterns for the 'all households'

group that is assumed for the average person, from which the CPI figure is based.

**Table 1: Comparison between 'all households' and GPA spending**

Item	All households	90% GPA	Variance %
Food	15.5%	19.4%	25.6%
Clothing	4.3%	3.6%	-16.3%
Housing	21.1%	23.6%	11.8%
Health	4.7%	4.6%	-2.9%
Transport	12.0%	9.9%	-17.4%
Communications	3.2%	4.3%	32.4%
Recreation	11.9%	8.9%	-25.3%
Rents	4.7%	10.0%	113.1%
Utilities	3.0%	4.8%	59.3%

As can be seen, there are significant variations between these two groups and their expenditure patterns. Those receiving government pensions and allowances spend proportionally more of their income on food, housing (rents), communications and utilities than other groups, and hence are more vulnerable to changes in these prices. Conversely, they spend proportionally less on items such as clothing, health, transport and recreation when compared to those in the 'all households' group and thus are less impacted if the price of these items changes.

**CPI is a great tool to assess the overall change in prices and its impact on households if you are hovering over Australia in a spaceship. However, when focusing on particular groups of people in the community or on individual households, the story is a very different one.**

In order to understand the impact of price rises on those receiving government pensions and allowances, more specific calculations are provided below for food; clothing and footwear; and housing and utilities. When weighted according to actual spending patterns as outlined in Table 1, a true picture of cost of living starts to emerge for those who rely on government pensions and allowances as their main source of income.

# Food and cost of living

## Food

**Table 2: Changes in price – food costs**

Group, subgroup or class	Quarter	Food
Price Index, all household types	Dec 2011	198.9
	Sep 2011	201.9
	Dec 2006	173.9
	Dec 2001	143.4
Points increase	Last 3 months	-3.0
	Previous 5 years	25.0
	Since Dec 2001	55.5
Percent increase	Last 3 months	-1.5%
	Previous 5 years	14.4%
	Since Dec 2001	38.7%
Difference from 'CPI' Australia percent increase	Last 3 months	-1.5%
	Previous 5 years	-1.0%
	Since Dec 2001	6.2%

Since December 2001, overall food prices have risen 6.2 per cent above the underlying CPI. As the GPA group spends proportionally more on food than the 'all households' group, this increase impacts on their budgets to a greater degree.

However, while the table above details long term price trends, it does not highlight the price volatility of food that has occurred over the last decade. This price shock is due to the impact of floods and droughts that saw the price of many fresh food items rise significantly over a short period of time. This price shock is another cost of living pressure for households.



## Clothing and Footwear

**Table 3: Changes in price – clothing and footwear costs**

Group, subgroup or class	Quarter	Clothing and footwear
Price Index, all household types	Dec 2011	109.7
	Sep 2011	110.3
	Dec 2006	108.1
	Dec 2001	112.7
Points increase	Last 3 months	-0.6
	Previous 5 years	1.6
	Since Dec 2001	-3.0
Percent increase	Last 3 months	-0.5%
	Previous 5 years	1.5%
	Since Dec 2001	-2.7%
Difference from 'CPI' Australia percent increase	Last 3 months	-0.5%
	Previous 5 years	-13.9%
	Since Dec 2001	-35.2%

The clothing and footwear group provides us with a different example. Clothing and footwear constitutes a *smaller* percentage of income expenditure for the GPA group than that used for calculating CPI. As can be seen, the price trend for the clothing and footwear group is *below* the CPI. Consumers receiving government pensions and allowances are less impacted – and therefore receive less benefit – from the relative cheapness of these goods.



# The Consumer Price Index and cost of living *continued*

## Housing and Utilities

**Table 4: Changes in price – housing and utilities**

Group, subgroup or class	Quarter	Housing	Utilities	Electricity
Price Index, all household types	Dec 2011	170.9	273.7	269.2
	Sep 2011	170.2	272.8	267.7
	Dec 2006	132.9	167.8	158.3
	Dec 2001	110.7	136.8	134.9
Points increase	Last 3 months	0.7	0.9	1.5
	Previous 5 years	38.0	105.9	110.9
	Since Dec 2001	60.2	136.9	134.3
Percent increase	Last 3 months	0.4%	0.3%	0.6%
	Previous 5 years	28.6%	63.1%	70.1%
	Since Dec 2001	54.4%	100.1%	99.6%
Difference from 'CPI' Australia percent increase	Last 3 months	0.4%	0.3%	0.6%
	Previous 5 years	13.2%	47.7%	54.7%
	Since Dec 2001	21.9%	67.6%	67.1%

Finally, the affordability of housing and utility costs has received a lot of attention in the cost of living debate. The table above highlights why this is the case. Since 2001, the cost of items in the housing group has risen 21.9 per cent above the CPI, and the utilities sub group more than 67 per cent. With both of these items being consumed at a proportionally greater rate by the GPA group than the all households group, significant increases in these costs disproportionately impact on these consumers.

These price rises are also very significant in real terms. Even a small percentage increase in housing and utility prices results in significant increases in costs for households. For example, if households were spending \$15,000 per annum on rent, a 2 per cent increase represents an additional \$300 per year. The story for utilities is similar. As utility bills are generally issued quarterly (rather than weekly or fortnightly), they are quite large bills. A small percentage increase

in cost can result in price shock for some households. Between 2010 and 2011, 50 percent of the complaints made to the Energy and Water Ombudsman in Victoria related to high bills,<sup>1</sup> indicative of this general trend.

### Conclusion

The RPI highlights that essential items have increased at a rate far greater than the underlying inflation rate. This is reflected in the increased costs of food, housing, health and utilities. By comparison, discretionary items have increased at a much lower rate than the underlying CPI. This is highlighted in the comparatively low cost increases for items such as furniture and electronic goods including TVs, toasters and other household appliances.

When weighted against the CPI, people in receipt of government pensions and allowances have had a higher increase in the cost of their 'basket of goods' than the pure CPI figures reflect. These low-income households spend proportionally more on essential

household goods and services, which have been rising at a higher rate than that of CPI. But they spend less on those items for which price increases have been significantly below CPI.

In short, if you have money left in your pocket after you have paid for your essentials, then you can take advantage of the very cheap prices for many discretionary items. However, people living on a fixed income or poverty line payment struggle to manage both the price shock associated with price volatility for many essential items as well as the underlying long term cost increases in the CPI. Those least able to absorb rising costs are impacted the most.

For a detailed look at the relative price index please go to [www.assistance.act.gov.au/publications\\_and\\_reports](http://www.assistance.act.gov.au/publications_and_reports)

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- 1 Energy and Water Ombudsman (Victoria), *2011 Annual Report*, Energy and Water Ombudsman Victoria, 2011





# Housing affordability and financial stress

by Sally Edwards Manager Financial Inclusion Services, Good Shepherd Youth & Family Service

**Housing affordability stress occurs when people are unable to meet the costs of housing. It is impacted by the local housing and labour markets as well as larger economic, environmental and social forces.**

Measures of housing affordability stress vary, however the most widely used measure in Australia is the percentage of income spent on housing costs. More specifically, those who spend more than 30 per cent of their income on housing while earning in the bottom 40 per cent of the income range<sup>1</sup> are considered to be experiencing housing affordability stress. The latest figures from the Council of Australian Governments (COAG) Reform Council reveal that, based on the indicators and years that can be reported on, there has been no improvement in housing affordability for those in the rental market or for those who are purchasing their own homes.<sup>2</sup> As Sarah Toohey from Australians for Affordable Housing notes, “the National Affordable Housing Agreement is clearly not working. For three years in a row the COAG Reform Council has reported that housing affordability is getting worse, particularly in the rental market”.<sup>3</sup>

In 2009–2010, 37.4 per cent of households in Australia experienced mortgage stress. Financial counsellors are now seeing people in mortgage stress who have never accessed social support services before. Some have entered the housing market with little equity in their homes. Combined with falling house prices on the city fringes, this means that many are now close to, or in, situations of negative equity. If there is a sudden loss of income due to retrenchment or illness, home owners are faced with losing everything. Financial counsellors are seeing many

households experience a sudden drop in living standards for the first time – every spare cent is going towards the family’s mortgage to keep a roof over their heads.

Housing affordability issues are also impacting on retired home owners who are living on the pension, and self-funded retirees who find their retirement funds dwindling due to the economic environment and the high cost of living. One financial counsellor has a client in her seventies who has run out of superannuation and is living solely on the pension. However, she still has a mortgage to repay. The client told her “I’m attached to the house but I can’t afford the maintenance. I have worked hard all of my life and never thought I would end up living like this. I can’t afford decent food and can hardly pay the electricity bill, let alone going out. I have \$200,000 equity in my house and I am going to sell it and rent so I can have a decent life.”

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**“...the National Affordable Housing Agreement is clearly not working. For three years in a row the COAG Reform Council has reported that housing affordability is getting worse...”**  
 .....

She may be one of the lucky ones. The same COAG Reform Council report also shows that 61 per cent of the very lowest income households in Australia



are in rental stress. The situation is at its worst in New South Wales, Queensland and Victoria, with capital cities recording higher levels of rental stress than regional and rural areas.<sup>4</sup> This figure is of no surprise to financial counsellors who for many years have been seeing people in the bottom 10 per cent of the income range living in severe financial hardship due to rental costs. Some people are being forced to pay 50–60 per cent of their income toward private rental – well over the threshold of 30 per cent which is considered a hardship level. This significantly impacts on their quality of life and the life they are able to provide for their children. Day to day, high levels of rental stress mean less money for food and heating, with parents being unable to provide other basic necessities for their children such as school uniforms, textbooks, excursion costs, warm clothes, shoes and transport.

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# The carbon price and energy costs: taking a closer look

by Damian Sullivan

Senior Manager of Equity in Response to Climate Change, v the Brotherhood of St Laurence

As the Australian Government's carbon price comes into operation, opponents of the scheme have argued that the price will increase costs for all households. This article explains how the scheme will operate and how the household compensation package will be an important buffer for households on low incomes. Also considered are the main factors driving up energy prices and the options to reduce the impact on low income and vulnerable consumers.

## The basics of the carbon price scheme

The carbon price scheme commenced on 1 July 2012 with a fixed price of \$23 per tonne of greenhouse gas emissions. After three years of a fixed price there will be an automatic shift to a floating price set by the market, becoming an emissions trading scheme.

Households won't pay the carbon price directly. Instead the 300 biggest polluters, such as airlines, electricity generators, miners and heavy industry, will buy emission permits. These big polluters will in turn pass on the permit costs to customers. Ultimately consumers will pay more for goods and services with higher carbon – or more precisely, greenhouse gas – intensity; the exact costs will depend on their purchasing decisions.

## Projected household costs

Government modelling shows that as a result of the carbon price the 'average' household will have to spend an additional \$9.90 per week, which includes \$3.30 for electricity and \$1.50 for gas<sup>1</sup>. Food costs are projected to increase by less than \$1 per week for the 'average' household and domestic motor vehicle fuel has been excluded from the scheme.

## Compensation package

Low and middle-income households will receive compensation for the carbon price impact on their budget.

The assistance will be delivered through a combination of tax cuts for those individuals earning less than \$80,000 per year and increases in pensions and other benefits including Newstart and Family Tax Benefits A and B<sup>1</sup>.

Households with very high energy needs as a result of medical issues or disability will receive an additional \$140 per year. Low income households will also be eligible for a supplement if they can show that their compensation does not cover their extra costs.

For low-income households, the assistance will be at least 120 per cent of the projected additional costs from the carbon price. This buffer has been called 'over-compensation' but many higher energy-using low income households will need it, as their consumption will exceed the modelled average.

## The problem of rising energy prices

Focus on the carbon price has directed attention away from the other factors driving up energy prices. Irrespective of the carbon price, energy prices have been rising significantly across Australia since 2007<sup>2</sup>. Economists from energy company AGL have projected that retail energy prices will double between 2008 and 2015<sup>3</sup>.

The Australian Energy Market Commission recently estimated that close to 50 per cent of electricity price increases in the next three years will be

driven by investment in distribution and transmission infrastructure. This largely reflects growing demand for electricity, particularly on a small number of high energy usage days (for example, during heatwaves) primarily for people using residential air conditioners. At the same time there is a need to replace ageing infrastructure.<sup>4</sup> In Victoria over 61 per cent of price rises are due to increasing retail costs, with smart meters adding a further 21 per cent<sup>5</sup>.

Some simple measures across the energy system, such as reducing peak electricity demand, could help reduce rising energy prices. Individual households, particularly those on low incomes, also need direct support to reduce their energy bills by using energy efficiently, including assistance to upgrade the more expensive items such as hot water systems or inefficient heating and cooling systems. Government has an important role in financially assisting the high up-front cost of these items.

Improving all households' understanding of energy and energy management is also important. The Home Energy Saver Scheme, a new energy literacy program from the Department of Families, Housing, Community Services and Indigenous Affairs, will play an important part in this regard. At the same time it is essential to ensure households claim the energy concessions they are eligible for, and are protected by robust and enforceable consumer rights.

## Housing affordability and financial stress *continued*



Rental stress has also forced many pensioners and retirees from the inner city suburbs to the city fringe and semi-rural areas. For many of the older people who have made the move, it can mean being separated from long-time friends, family supports, and a familiar environment. The move results in a lack of a cohesive social community, fewer medical and other facilities and reduced access to public transport.

However, perhaps the groups most affected by rental stress are those who are also marginalised by other issues such as alcohol and other drug use, mental health issues and disability. Financial counsellors are reporting that these groups are being forced into sub-standard boarding houses, caravan parks and supported accommodation facilities and are paying up to 70–80 per cent of their income towards rent. This staggering percentage is contributing to keeping these vulnerable groups in extreme poverty.

The Australian Council of Social Service (ACOSS) believes that the lack of affordable housing in Australia has reached crisis levels and calls for a greater investment by government in social housing. This investment is imperative. Associate

Professor Yates from the University of Sydney argued at the ACOSS conference in March this year that government initiatives in this area fall well short of the mark and noted that “aside from the threat of poverty for future generations of renting retirees, current estimates already put the shortage of social housing at 90,000 homes, which will rise to 150,000 in eight years’ time if nothing is done”<sup>5</sup>.

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- 4 Australian Energy Market Commission (AEMC), *Future possible retail electricity price movements: 1 July 2010 to 30 June 2013: final report*, 30 November, AEMC, Sydney, 2010
- 5 AEMC, *Ibid.*

### Notes

- i Annual increase will be: the Age Pension by up to \$338 for singles and \$510 for couples; Newstart by up to \$218 for singles, \$234 for single parents, and \$390 for couples; Family Tax Benefit Part A by up to \$110 per child; Family Tax Benefit Part B by up to \$69 per family. Some single income families will also receive a supplement of \$300.





# The real question: will the carbon price work?

by Ben Courtice Renewable energy campaigner, Friends of the Earth Melbourne

**There are many people blaming the carbon tax for all manner of ills. However, the real question that needs to be asked in the first instance is: will this 'tax' actually help reduce Australia's carbon emissions?**

A set carbon tax can raise revenue or perhaps drive some investment away from dirtier fossil fuels. However, what Australia has in place is not actually a 'tax'. It only behaves that way for the first few years. Afterwards, it becomes an emissions trading scheme (ETS).

Similar trading schemes have not worked elsewhere throughout the world. The European carbon trading market, which is the largest of these schemes, suffered because too many permits were allocated at the outset. Subsequently the price of these permits has crashed more than once and fluctuated wildly. Some polluting companies have actually made profits by buying up permits while they are cheap and selling them when the price rises again. While Australia's parliament may legislate a 'floor price' for permits to fix some of these problems, the issues with an ETS are more than the vagaries of markets.

**An [emission trading scheme] is poorly suited to the task of decarbonisation. Other tools are needed, such as the closure of dirty coal mines and power stations by regulation, and their replacement by renewable energy.**

Australian environmental writer Sharon Beder wrote "economic instruments encourage change by those who can achieve the change most cheaply."<sup>1</sup> The ETS, by a function of its design, facilitates a delay on the part of Australia's polluting industries. Those who can cheaply cut emissions are encouraged to do so, while those for whom it is more expensive can pay someone else to do so.

Australia's target under the carbon price is a five per cent reduction in emissions by 2020. When the use of international carbon offsets is taken into consideration, Australia's onshore emissions are unlikely to fall until 2030.



Given that Australia has the world's highest greenhouse emissions per capita, a five per cent reduction in emissions falls far short of what is required. The world has already put too much carbon into the atmosphere. Even at less than two degrees of warming, we are seeing the Arctic ice disappearing, and Greenland's enormous icecap appears to be melting.

Effective climate action requires fast and deep emissions cuts from big polluters like Australia. The impact of climate change will be hardest on poor people, and on poor countries that do not have the resources to adapt. Similarly, cutting emissions will be hardest in those same poor countries. Countries like Australia have already occupied far more than our fair share of the atmospheric space for carbon emissions.

By decarbonising rapidly, Australia could help in reducing the costs of renewable energy technology, and hence support poorer nations to choose a road to development without fossil fuels. However, Australia's coal exports are currently set to increase more than two-fold under the watch of this carbon price.

The reduction in the price of coal that will result from this may sound good when discussing the provision of energy, particularly for developing countries. However, it will not help stop climate change and it will not help in the development of clean alternative energy sources.

As noted by Sharon Beder above, an ETS is poorly suited to the task of decarbonisation. Other tools are needed, such as the closure of dirty coal mines and power stations by regulation, and their replacement by renewable energy. Yet the ETS and offsets allow for the industries we most need to replace to continue.

The plan researched by Beyond Zero Emissions proves that renewable energy could supply Australia's electricity 24 hours a day, 365 days a year and could be built in about ten years if there is the will. But we would need a different set of political tools to achieve such a task. Just defeating the political power of the coal billionaires would be no small step.

It is imperative that we question what impact this legislation will have on the poor, however, the first question must be: is it suited to the job at hand? The Clean Energy Future package clearly falls far short of Australia's responsibility to act, and our culpability historically and currently for greenhouse pollution.

## References

- 1 National Heritage Trust, *Managing Our Natural Resources: can markets help?* Australian Government, 26 August 2004, p. 3.



# 'Choice' in the credit market: regulating the payday lending industry.

by Tanya Corrie Social Policy Researcher, Good Shepherd Youth & Family Service

Access to a moderate amount of credit is one of three essential financial services in modern Australian society<sup>1</sup>. The recognition of this aspect of financial inclusion has come about due to the normalisation of debt that has occurred over several decades and because of its convenience as a tool to smooth fluctuations in expenditure patterns.



Research into microfinance programs indicates that the two main barriers people face in engaging with mainstream banking are having an insufficient income and an increase in the cost of living<sup>2</sup>. This combination of factors explains – in part – the growth in the payday lending industry in Australia.

Recent research, in which Good Shepherd Youth & Family Service was a partner, found that nearly half of the people who took out payday loans did so to pay for everyday, on-going expenses<sup>3</sup>. The more loans that were taken out, the more likely this was to be the case. There was also a significant minority who took out loans to pay for larger essential expenses, such as car registration, bond payments and the replacement of whitegoods. The majority (78 per cent) of borrowers relied on Income Support as their main income source<sup>4</sup>. The research also found that the high costs to consumers of these small loans and the restrictive repayment periods left many people caught in a cycle of debt that was difficult, if not impossible, to escape and recover from.

It is clear from these findings that if payday loans should exist at all, their role should be seen at the tertiary end of financial services. Practices that see annualised interest rates upwards of

800 per cent being charged need to be eradicated because they are exploitative and inequitable. Similarly, when the forwarding of credit is clearly going to make a borrower worse off, other safer avenues need to be explored. Full disclosure of the nature of these loans, and the alternatives available, needs to be made to consumers so they know if they are 'buying a lemon'<sup>i</sup>. The only sure way to do this is regulatory reform.

The payday lending industry has stated that any move toward price protection risks operators exiting the market or changing the structure of payday loans to force borrowers to take on higher debts, leaving consumers with fewer options for small amounts of credit. They say that income inadequacy and the lack of other forms of mainstream credit is the primary problem; all the payday lenders are doing is filling this gap in the market.

While people on low incomes should be able to access small amounts of credit, it needs to be safe and equitable. Limits need to be placed on how much money can be made from people's poverty. The net profit before tax for just one payday lending business was over \$9.1 million in 2010-2011<sup>5</sup>. So while it is only fair that consumers have access to small loans, in order for the system to be equitable the process of acquiring credit must not make people worse off. In providing credit to people on low incomes, it is inequitable that they should be charged such high rates just because they are poor.

Market constructs of fairness may prescribe charging more for these types of loans. Fixed costs remain just that, and need to be recovered irrespective of the size of the loan. Similarly, risk needs to be priced to account for defaults and bad debts. The higher the risk associated with the loan, the higher the cost to the

lender. If regulation does not allow these factors to be taken into account when determining price, the market is being distorted.

However, an increase in the supply of payday lenders has not created price competition. This in itself is a market distortion. While there are issues relating to income adequacy and cost of living pressures, and while poverty "pervades the lives of borrowers"<sup>6</sup> this does not mean that an under-regulated fringe market should be allowed to fulfil the credit needs of people on low incomes. There is a range of community and mainstream services that can support people in facing financial hardship and dealing with financial pressures. Financial counselling programs, microfinance and utility hardship programs are just some of the many safer alternatives. Payday loans far too often cause financial hardship and are a consequence of financial exclusion, not a solution to it.

## References

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- 4 Banks, M, *Ibid.* p.8
- 5 Cash Converters, *Annual Report 2010-2011*, p.17 accessed via [www.cashconverters.com.au/investors/annualreports](http://www.cashconverters.com.au/investors/annualreports) on 16/07/2012
- 6 Banks, M, *Op. Cit.* p.8

## Notes

- i The market for lemons is a trade situation where the seller has more information about the product than the buyer and information asymmetry occurs. In this context, it is where lenders are aware of the costs or potential detriment of the product to consumers but full disclosure is not given to the borrower.

# GOOD SHEPHERD NETWORK NEWS

## Good Shepherd Australia New Zealand

Good Shepherd Australia New Zealand published *Hidden Exploitation: Women in forced labour, marriage and migration*.

This report, which was commissioned by Good Shepherd Australia New Zealand and completed by Anti-Slavery Australia, identified gaps and emerging issues in labour rights for women and girls, particularly those who are in transit, have been forced to migrate or who are trafficked.

The report made recommendations on reforms to forced and servile marriage legislation and support for women in Australia, including:

- the need for community engagement and education
- additional immigration and emigration safeguards to prevent forced and servile marriage
- systemic service provider coordination and training



- obligations to identify and support women and children who are victims of forced and servile marriages
- civil penalties to empower and protect women and children, and
- criminal penalties to deter and prosecute offenders.

More information is available from [www.goodshepherd.com.au](http://www.goodshepherd.com.au)

## Consultations

The Social Policy & Research Unit has recently been invited to participate in several sector consultations:

- Tanya Corrie participated in a round table discussion at the Australian Securities and Investment Commission regarding issues facing clients and the community sector in April 2012.
- Kathy Landvogt participated in a roundtable about a research agenda for volunteering, hosted by Volunteering Victoria, on 8 May 2012, and an emergency relief strategic planning roundtable held by ER Victoria on 29 May 2012.
- Tanya Corrie provided feedback to South East Water's 'Water Strategy' in July 2012.



Good Shepherd Youth & Family Service is on twitter!  
Follow us @GoodAdvocacy.



Good Shepherd  
Microfinance

## Update from Good Shepherd Microfinance

Good Shepherd Microfinance is now officially its own organisation, with Adam Mooney appointed as CEO in April 2012.

Other appointments include:

- **Michelle Sainsbury** as Deputy CEO, Development and Innovation including Indigenous financial inclusion
- **Dr Anton Mischewski** as General Manager, Public Affairs, including Research, Advocacy, Policy, Communications and Stakeholder Relations, and
- **Peter McNamara** General Manager, Operations, including NILS, quality development and grants management.

A General Manager, Corporate Services will be appointed in late August.

Other news includes:

- The first World Café at the National No Interest Loans (NILS) conference in June 2012. Some 350 people participated including NILS providers, state and federal government, and corporate partners.
- A planning day with Good Shepherd Microfinance, Federal Government and National Australia Bank to identify key research areas for 2012 including:
  - measuring the impact of financial conversations
  - identifying the social and economic impact of the top three NILS loan items on recipient's lives
  - Good Practice Loan Book Management for NILS and StepUP: an Appreciative Inquiry into defaults and arrears, and
  - Mapping NILS: using Geographical Information Systems to identify the reach of the NILS and StepUP network and its relation to the geographical areas of Financial Exclusion.

# GOOD SHEPHERD YOUTH & FAMILY SERVICE NEWS

## And the winner is...

### The Jan Pentland Award

Good Shepherd Youth & Family Service's Anna Dooland was one of three winners of this year's Jan Pentland Award.

Anna is a financial counsellor at our St Albans office who was recognised for her commitment to her work in the St Albans community, including initiating a financial counselling drop in service for newly arrived communities, working at the Dame Phyllis Frost Centre with women in prison, and her commitment to the financial counselling profession. The award will support Anna in gaining her Diploma in Financial Counselling.



## Policy submissions

Good Shepherd Youth & Family Service has made the following policy submissions:

- Submission to the Senate Standing Committee on Community Affairs (Social Security) (February 2012)
- Submission to the Action Plan Consultation Framework for reducing violence against women and their children (March 2012)
- Comments on the Exposure Draft, Australia's National Human Rights Action Plan (March 2012)
- Submission to Small Amount Credit Contracts Discussion Paper in partnership with Good Shepherd Microfinance (April 2012)
- Submission to Alternatives to Small Amount Short-term Credit Contracts in partnership with Good Shepherd Microfinance (May 2012)
- Submission to Pathways to a fair and sustainable social housing system (July 2012)
- Submission to the Review into the Adequacy of Newstart Allowance (July 2012)

## Just completed projects

### Ways of Knowing: Good Shepherd's Response to Indigenous Reconciliation (June 2012)

Funded by Good Shepherd Australia New Zealand, this research project interviewed Sisters and workers of Good Shepherd in Australia and New Zealand to document and understand their work with Indigenous communities historically and presently. This includes their work with Aboriginal and Torres Strait Islander communities in Australia, and Maori communities in New Zealand. This report, completed by Tanya Corrie of Good Shepherd Youth & Family Service, will be used to understand Good Shepherd's involvement in the past in order to develop into the future.

## New publications

### Respite Care – Kinship Support Final Report (May 2012)

The third Respite Care Consortium report – *Strengthening Kinship Families: The role of respite care* – was officially launched on Thursday 3 May. The Consortium, of which Good Shepherd Youth & Family Service is a founding member, was formed in 2007 to advocate for family members and foster carers providing care for vulnerable children.

## Presentations

### 'Microfinance and the Household Economy'

Tanya Corrie presented a paper to the Australian Financial Inclusion Network in February 2012.

### 'Emergency relief service networks: is geography destiny?'

Kathy Landvogt presented a paper at the Knowledge is Power Workshop, Financial Management Program Working Together Forum 1 & 2 May 2012. Kathy also facilitated the 'hypothetical' – 'Working together: the whole client'.

### 'No wrong door? – a study of area-based service links'

Kathy Landvogt presented a paper at the Research and Evidence Symposium, Centre for Excellence in Child and Family Welfare, 18 July 2012.

### Good Shepherd Australia New Zealand Network Gathering Day

Tanya Corrie and Kathy Landvogt were both invited to participate in the Good Shepherd Network Gathering on 14 March 2012 at the Abbotsford Convent. Tanya presented a workshop on research we conducted for Good Shepherd Australia New Zealand on the response of Good Shepherd people and agencies to Indigenous Reconciliation.

Kathy participated in a panel discussion about forced marriage and Good Shepherd Australia New Zealand's recent research 'Hidden Exploitation.'

# NEWS

## Upcoming events

### Audacious Women: turning the page

On the 23 August 2012, Good Shepherd Youth & Family Service will be hosting their annual event to celebrate the capacity of women to lead positive social change. Acclaimed author, cartoonist and broadcaster Kaz Cooke will be speaking at the event. Manager of the Social Policy Research Unit, Kathy Landvogt will also be talking about building a world where women are financially secure and safe from violence. Tickets are \$90 each or \$850 for a group of ten. To book a ticket please contact Kristen on 03 8412 7342.

### Research methodologies symposium: the power to persuade

The symposium will be hosted by Good Shepherd Youth & Family Service and the University of Melbourne and will showcase a range of new and innovative research methods and explore their utility for researching and influencing change in both communities and policy.

The event will be held at the Royal Australasian College of Surgeons. Tickets are \$55 for community sector workers or concession holders, and \$110 for others. To book, email [thepowertopersuade@gmail.com](mailto:thepowertopersuade@gmail.com) or call Samuel McQueen on 0407 552 657.

## Who's who in Social Policy

We would like to sincerely acknowledge the invaluable contribution of Mr Barry Pullen, who has been a consultant in a voluntary capacity for Good Shepherd Youth & Family Service for nearly ten years. Barry has recently moved to work with Good Shepherd Australia New Zealand to pursue his passion for ecological justice. We would like to thank Barry for his work over this time and look forward to continuing working with him in his new capacity.

We would also like to farewell Jacinta Waugh and Rathi Ramanathan from our team. Jacinta has returned to the team at St. Albans after a twelve month secondment in Social Policy and Research. Jacinta made an important contribution to the team and we look forward to working with her in her capacity as team leader for Family Services. Our thanks also go to Rathi, whose contract finished in November 2011, for her contribution to the unit.

We also welcome two new staff members to our social policy and research team.

### Magdalena McGuire

Magdalena McGuire is a Social Policy Researcher at Good Shepherd Youth & Family Service. Magdalena completed a Bachelor of Laws and a Bachelor of Arts at Griffith University in Brisbane, and a Masters of Public International Law at the School of Oriental and African Studies in London. She is keenly interested in issues of social justice, human rights and law reform. Before joining Good Shepherd Youth & Family Service, Magdalena worked at the Mental Health Legal Centre and is also

currently working at the Office of the Public Advocate.

### Susan Maury

Susan Maury has recently joined the Social Policy Research team from Taralye, a Victorian early intervention centre for children with hearing loss where she was a researcher and grants writer. Susan's work has had a strong focus on utilising an evidence-based approach and closing the research-practitioner gap for international development non-profits. With almost 20 years experience in Africa in program development focused on marginalised communities, she has also designed and taught a master's level class on evidence-based practice for development practitioners. Susan holds a Masters in Organisational Behaviour from the University of London and a Bachelor's in English/Writing Concentration from Western Washington University (USA).

Manager	<b>Kathy Landvogt</b>
Social Policy Researchers	<b>Tanya Corrie</b> <b>Susan Maury</b> <b>Magdalena McGuire</b>

Two RMIT Social Work students have now joined us on final placement: **Lisa Rodwell** and **Abbey Horsburgh**.

Over the past eight months we have also worked with the following consultants:

**Fiona Macdonald**  
**Barbara Mouy**  
**Clare Shearman**  
**Michael Woods**

We are Good Shepherd. Our mission is shaped by our inheritance of the vision, courage and audacity of Saint Mary Euphrasia Pelletier and the Good Shepherd tradition she began. Ours is a vision for promoting a world of justice and peaceful co-existence. Ours is the courage to embrace wholeheartedly innovative and creative ways of enabling people of all cultural, religious and social backgrounds to enjoy the fullness of life, which is the right of every human being. Ours is the inheritance to boldly challenge those structures and beliefs that diminish human dignity. We work to ensure the value of every human being, the communities that enable us all to thrive and the integrity of the environment that guarantees both.

## Contact us:

**Good Policy** is a publication of the Social Policy and Research Unit, Good Shepherd Youth & Family Service  
PO Box 6041, North Collingwood Vic 3066 Tel 9418 3000 Fax 9418 3001 Email [info@goodshepvic.org.au](mailto:info@goodshepvic.org.au) [www.goodshepvic.org.au](http://www.goodshepvic.org.au)

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