THE WIDENING DIVIDE IN MELBOURNE

How COVID-19’s transmission through the city increased the existing inequality.
TABLE OF CONTENTS

1. Introduction 3
2. How COVID-19 transmitted across Melbourne 4
   2.1. Melbourne’s first wave 4
   2.2. Melbourne’s second wave 5
3. Widening income inequality 8
   3.1. Pandemic related job losses 8
   3.2. Inability to access Government support 9
   3.3. Transport cost savings 10
   3.4. Impact on household savings 11
   3.5. Impact on superannuation 12
   3.6. Distribution of COVID-19 fines 12
4. The opportunity 13
1. INTRODUCTION

The Australian economy has proven resilient to the shocks of COVID-19. In the recovery from the pandemic-induced recession, unemployment levels have returned to pre-pandemic levels and housing prices have continued to rise, as have some households savings. The COVID-19 pandemic had an unequal impact on Melburnians. While many suffered job losses, others were able to substantially increase their household savings. This unequal impact has further exacerbated Melbourne’s existing income inequality.

A city’s urban form influences access to employment, education, and health opportunities. This has the potential to create areas of more advantage and less advantage across the city and exacerbate existing income disparity. In the case of COVID-19, our analysis found that Melbourne’s urban form influenced how the virus transmitted across the city, exacerbating existing economic disparity. Growing inequality can pose greater risk of instability and intolerance; and worsen economic outcomes for all. It can act as a brake on economic productivity and can increase the demand for government services in areas such as health, education, social services and justice.
2. HOW COVID-19 TRANSMITTED ACROSS MELBOURNE

2.1. Melbourne’s first wave

The first cases of COVID-19 in Melbourne were predominately imported by overseas travellers, many living in Melbourne’s affluent Local Government Areas (LGAs), particularly in the inner-east and south-east (refer to Figure 1). With lockdowns and hotel quarantine, these cases peaked at relatively low numbers and did not lead to significant community transmission.

Map of overseas acquired cases during the first wave (January 2020 to 28 March 2020) by LGA

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2.2. Melbourne’s second wave

Melbourne’s second wave took hold differently. The Coates Inquiry found that it was linked to returned travellers infecting hotel quarantine workers. The majority of Melbourne’s quarantine hotels are located in the central business district (CBD), yet many hotel quarantine workers would be considered non-office workers and be required to travel to their place of work.

Figure 2 shows community transmission for each LGA, alongside the number of daily work trips made by non-office workers to the CBD. This analysis indicates that there is a strong correlation between high rates of community transmission in an LGA and the number of non-office workers in an LGA that commute to the CBD. A correlation that is particularly evident in Melbourne’s west and north, suggesting that a number of quarantine hotel workers lived in these areas. This analysis has been powered by KPMG’s Melbourne Agent and Activity Based Model (MABM).

MABM is a customer centric model – it uses ‘a person’ or an agent as the unit of analysis and considers socio-economic and demographic characteristics and behaviours of the agent, rather than trips – it represents each agent in Melbourne and their daily travel plans, including when, where and how they access their various activities. This provides us the ability to better understand COVID-19 transmission patterns. Further information on MABM can be found here.

![Figure 2: Map of community transmission in Melbourne by LGA, 1st May 2020 – 22nd June 2020, against daily work trips undertaken by non-office workers into the CBD]
Melbourne’s west and north were more heavily impacted during Melbourne’s second wave. Brimbank, Hume, Melton and Wyndham LGAs accounted for the largest numbers of COVID-19 cases between 1st May 2020 and 22nd June 2020. These LGAs are considered some of Melbourne’s least advantaged areas by the Australian Bureau of Statistic (ABS). This measure considers “people’s access to material and social resources, and their ability to participate in society,” and takes into account variables such as income, education, employment and housing. As a general rule, non-office workers do not have the opportunity to work remotely – they must continue to travel to work to earn an income. A large proportion of workers that live in the north and west are non-office workers that were forced to continue to travel to their places of work every day to earn a wage. The travel patterns of Melbourne’s non-office workers helped further seed the virus in Melbourne’s west and north. Figure 3 maps cases of community transmission by LGA, together with the daily work trips of non-office workers, excluding trips to the CBD. This shows that non-office workers generally do not cross the city for work. Workers from areas with higher rates of community transmission travelled within the west and north. This increased cases of community transmission in these areas, with Wyndham recording over 2,000 community transmission cases by 31st August 2020.

Figure 3: Map of community transmission in Melbourne by LGA, 1st May 2020 – 31st August 2020 against daily work trips undertaken by non-office workers between LGAs (excluding Melbourne LGA)
After a third lockdown lasting 5 days in February 2021, Melbourne experienced a fourth wave in May 2021. Similar trends were evident in June 2021. During the height of the fourth wave areas in Melbourne’s north again accounted for a high proportion of cases, as depicted in Figure 4. This would in part be driven by the need for the residents in these suburbs to travel for work and earn a wage.

Figure 4: Map of community transmission in Melbourne by LGA, 1st May 2021 – 24th June 2021

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3. WIDENING INCOME INEQUALITY

What started as a health crisis, soon morphed into an economic crisis – the financial fallout hit Melbourne’s less advantaged households harder.

3.1. Pandemic related job losses

While many businesses were able to adapt to lockdown restrictions, others were forced to curb production or close altogether, which led to significant job losses, many of which were in lower income industries, such as Accommodation and Food Services (refer Figure 5). Many of these lost jobs were likely held by workers of less advantaged households.

Figure 5: Job losses and average weekly ordinary time earnings for full time adults, by industry, 10, 11

<table>
<thead>
<tr>
<th>Industry</th>
<th>Change in payroll jobs between 14 March 2020 and 5 September 2020</th>
<th>Average weekly ordinary time earning, full time adults</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity, gas, water and waste services</td>
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<tr>
<td>Health care and social assistance</td>
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<td>Financial and insurance services</td>
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<td>Mining</td>
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<td>Public administration and safety</td>
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<tr>
<td>Manufacturing</td>
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<tr>
<td>Wholesale trade</td>
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<tr>
<td>Construction</td>
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<tr>
<td>Retail trade</td>
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<td></td>
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<tr>
<td>Transport, postal and warehousing</td>
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<tr>
<td>Education and training</td>
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<tr>
<td>Information media and telecommunications</td>
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<tr>
<td>Rental, hiring and real estate services</td>
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<tr>
<td>Administrative and support services</td>
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<tr>
<td>Other services</td>
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<tr>
<td>Arts and recreation services</td>
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<tr>
<td>Accommodation and food services</td>
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</tbody>
</table>
3.2. Inability to access Government support

To have been eligible for JobKeeper\textsuperscript{12}, a worker must have been:

- permanent (full time or part time); or
- casual and employed for greater than 12 months.

As outlined in Figure 7 below, industries such as Hospitality and Retail Trade that were hardest hit by lockdown restrictions also employ a large number of short-term casuals. Analysis indicates that many of these workers were ineligible for JobKeeper.\textsuperscript{13}
The Australian Government ended JobKeeper in March 2021. As Victoria’s fourth lockdown extended beyond the initial one week period, both the Victorian and Australian Governments announced new packages of financial support. The Victorian Government’s Circuit Breaker Business Support Package committed more than $500 million to support small-to-medium businesses and sole traders affected by the lockdown. The Australian Government also announced the COVID-19 Disaster Payment for workers who were unable to attend work on, or after, day eight of lockdown. To be eligible, a worker must have not been:

- eligible to paid leave entitlements through their employer; and
- receiving other support payments (including income support payment or state business payment) from the Victorian Government during the same period.

3.3. Transport cost savings

Office workers are generally some of Melbourne’s higher income earners. Nearly 80 per cent of workers whose income is within the top 20 per cent of equivalised household income for Melbourne, are classified as office workers. This is compared to 49 per cent in the bottom 40 per cent.

During Melbourne’s lockdowns, most office workers were able to work from home and did not need to commute each day. Many non-office workers did not have the benefit of working from home; for those that kept their job, usual transport costs were incurred.

<table>
<thead>
<tr>
<th>INDIRA</th>
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<tbody>
<tr>
<td><strong>Occupation:</strong> Lawyer</td>
</tr>
<tr>
<td><strong>Annual Income:</strong> $150,000</td>
</tr>
<tr>
<td><strong>Net effect of the pandemic on financial position:</strong> significant increase in savings</td>
</tr>
</tbody>
</table>

- **Job loss:** Indira was able to keep her job and experienced no impact on her income.
- **Government Assistance:** Indira did not require Government assistance.
- **Transport Costs:** Indira was able to work from home throughout both waves. She normally would have spent around $2,160 on public transport travelling into her office per year.
- **Long Term Savings:** Indira’s savings during the pandemic increased to 20% of her income compared to 8% in previous years.
- **COVID-19 Fines:** Indira did not receive any fines during lockdowns.

Figure 7: Percentage of non-office workers by income quartile

![Figure 7: Percentage of non-office workers by income quartile](image)
Households in the top 20 per cent of equivalised household income for Melbourne would spend around $10,700 on average for commuting each year. For lower income households in the bottom 40 per cent, these costs amount to around $9,200 each year.

During the pandemic, many office workers would have been able to pocket commuting costs as savings (subject to any offsets for increased living costs, such as increased utility bills). This improved the economic resilience of these households. For non-office workers, transport costs continued to be incurred – they did not enjoy the benefits of an unexpected opportunity to boost their savings.

While transport costs are comparable between higher and lower income households, they represent different portions of income. Households in the top 20 per cent spend less than one per cent of their income on transport, while households in the bottom 40 per cent spend 30 per cent, on average, of their income on transportation. Households that needed financial savings the most (say via reduced transport costs) were unlikely to have had the opportunity to make this saving due to commuting costs broadly remaining the same (that is if they managed to hold on to their jobs).

3.4. Impact on household savings

For the first time since 2012, Victoria experienced positive household savings in 2019/2020. In 2018/2019 Victorian households were in overall net debt of $13.7 billion, in 2019/2020, Victorian households had amassed $8.6 billion in savings. This turnaround was driven by forced changes to community behaviour – as well as reduced transport costs, opportunities for discretionary spending were significantly limited during the lockdown.

These savings were not shared by all households. In August 2020, 23 per cent of Australians reported that their household would still not be able to raise $2,000 within a week for an important expense. Whether due to job loss, the absence of JobKeeper or ongoing transport costs, it’s likely that many less advantaged households did not benefit in terms of increased household savings.

ROB

Occupation: Plumber
Annual Income: $70,565
Net effect of the pandemic on financial position: reduced savings

Job loss: Rob was able to keep his job throughout 2020. However, during the Stage 4 lockdown he was only able to undertake plumbing jobs classed as emergencies, reducing his workload.

Government Assistance: While Rob saw a drop in his business of about 20 per cent during the Stage 4 lockdown it was not enough to qualify for JobKeeper.

Transport Costs: Rob was still required to travel to clients for his plumbing work. In some instances he took work further away from his home than usual to work as much as he could.

Long Term Savings: Rob’s long-term savings took a hit during the Stage 4 lockdown. With reduced income and no Government support he was unable to save and instead dipped into his savings during this time.

COVID-19 Fines: Rob did not receive any fines during lockdowns.
3.5. Impact on superannuation

Short breaks in employment can have considerable effects on superannuation. Less advantaged households will generally have lower income, and therefore, smaller superannuation funds than more advantaged households. Job losses during the pandemic exacerbated this imbalance. Recent research by the Grattan Institute found that the loss of income for just six months during the COVID-19 recession could translate to a reduction of more than $100,000 in earnings over a typical young woman’s lifetime.\(^{23}\)

In some cases, the loss of superannuation contributions may have been compounded by the government’s early access to superannuation policy. Workers aged 25–34 were responsible for more withdrawals than any other age group. With compounding interest,\(^{24}\) this withdrawal can have a significant impact on a person’s retirement savings and outcomes.

3.6. Distribution of COVID-19 fines

Households in Melbourne’s less advantaged areas were twice as likely than households in Melbourne’s most advantaged areas to receive a fine for breaching lockdown restrictions. Ten of Victoria’s least advanced local government areas received 0.73 per cent of fines as a proportion of population, while more advantaged areas only received 0.35 per cent of fines.

Greater Dandenong and Brimbank (areas which also experienced high COVID-19 case numbers) accounted for 5.6 per cent and 4.9 per cent of all fines respectively.\(^{25}\) Households in these areas generally have less disposable income for unexpected expenses, such as fines.

Many factors contributed to the distribution of COVID-19 related fines. For some people however it may have been unavoidable – they needed to earn a wage (and therefore travel for work) and continue to support their families.
4. THE OPPORTUNITY

Although the Australian economy is bouncing back from the pandemic, the benefits of the recovery are not being shared equally across communities. The inequality exacerbated by the pandemic is also not being put right by the recovery.

Without intervention, a lasting legacy of the pandemic will be growing inequality and entrenched disadvantage. While governments have introduced some early initiatives to address this problem – for example, the Victorian Government’s record investment in social and affordable housing and the Australian Government’s JobTrainer program – there is more to do. We must take this opportunity to further address inequality. A more equal and egalitarian society has a greater likelihood of stability and resilience. Greater equality can help improve the health and education outcomes of the population, enhancing the production potential of the workforce and support economic growth. It can also help reduce the medium to long term cost of government services in areas such as health, education, social services and justice. With greater equality, Melbourne’s most vulnerable households will be more resilient to any future economic shocks.

KPMG recommends the following action to policy makers:

- Identify the lessons that can be learnt for managing this pandemic in coming months and years, as well as any future pandemics, in terms of how relative disadvantage – and in particular, the need to continue to travel to work – can influence the chain of transmission. Similar patterns of transmission have emerged in the June/July 2021 COVID-19 wave in Sydney. The virus has taken hold in relatively less advantaged parts of Sydney where many people may need to continue to travel for their jobs.
- Subject to public health advice, some of these lessons may also be relevant for maximising the efficiency of the COVID-19 vaccine roll out by prioritising households from less advantaged that will need to continue to travel to work.
- Ensure any future stimulus and support focuses on sectors that employ workers from less advantaged households.
- Encourage economic development and employment close to those LGA’s hardest hit by the pandemic to support job accessibility.
- Invest in transport and social infrastructure that improves job accessibility, particularly for Melbourne’s less advantaged areas.
- Consider opportunities to address the financial gaps that the pandemic has exacerbated, particularly in respect to household savings and superannuation.
Endnotes

4. KPMG MABM
12. The JobKeeper payment was a wage subsidy scheme introduced by the Australian Government in response to the COVID-19 pandemic. The subsidy was claimed by employers that had experienced downturn during the pandemic in order to assist with employees’ wages. In order to qualify, the employer had to meet a turnover test related to decrease in business. Only the wages of permanent employees or casual employees who had been with the employer for more than 12 months could be subsidised.
13. Casuals potentially excluded from JobKeeper have been identified using ABS data as workers who do not qualify for paid leave and have been employed for a term less than 12 months. This analysis has been undertaken utilising the same methodology adopted by the Grattan Institute in their report Women’s Work: The impact of the COVID crisis on Australia women, March 2021.
16. Equivalised means: total household income is household income adjusted by the application of an equivalence scale to facilitate comparison of income levels between households of differing size and composition, reflecting that a larger household would normally need more income than a smaller household to achieve the same standard of living.
17. KPMG MABM
18. KPMG MABM
19. KPMG MABM
20. KPMG MABM
23. Grattan Institute, Women’s work: The impact of the COVID crisis on Australian Women, p.26