

Climate Change



Climate change will have extensive environmental, social and economic effects across Australia that are likely to impact low income and disadvantaged households most severely.

How the Victorian Government responds to the challenges of climate change in the 2009-10 Budget will have significant implications for social inclusion and the future sustainability and liveability of our state.

Into the future, Victoria is projected to experience increased temperatures, more frequent and intense heat waves and increased risk of drought, bushfire and flooding⁴⁸. These direct effects of climate change will impact on Victoria's climate-vulnerable industries such as agriculture and tourism, its infrastructure, water availability and health and emergency services.

There is an urgent need to take action to reduce greenhouse gas emissions in order to prevent dangerous climate change. The policies put in place to achieve this, however, must also be equitable and fair.

The Government has an essential role in ensuring equitable structural adjustment and assisting communities to adapt to climate change. A failure to prioritise equity in climate change policy responses now will lead to negative social outcomes and a greater call on the state's resources in later years.

Vulnerability to the impacts of climate change and exposure to the potential impacts of climate change policy are not evenly distributed across the Victorian community.

Low income and disadvantaged households with limited income to invest in insurance, adapt through capital investment, or meet the increased costs of essential services such as gas and electricity are more vulnerable.

Those living in areas with limited social and public transport infrastructure - on the outer fringes of our cities and in rural and regional areas - will have limited adaptation assistance and fewer options to reduce their exposure to higher costs.

Rapid policy development at the federal level including the imminent introduction of a national Carbon Pollution Reduction Scheme (CPRS) means there is a corresponding need to ensure a coordinated and equitable Victorian policy response to this pressing issue.

To date the Government has taken a leading role in responding to climate change by establishing the Victorian Renewable Energy Target, the Victorian Energy Efficiency Target, the Energy and Water taskforce, rebate schemes for household energy efficiency and the introduction of Environment and Resource Efficiency Plans for large energy and water-using businesses.

⁴⁸ Victorian Department of Sustainability and Environment, *Climate Change in Victoria: A Summary*, DSE, 2006.

The Victorian Climate Change Summit discussion paper canvasses the issues facing Victoria in meeting the future challenges of climate change, and posits a range of proposed actions for mitigation, adaptation and structural adjustment, framed more in economic than social terms.

The Government's Climate Change Green and White papers will provide a valuable framework for action on climate change but will need to more explicitly recognise the social impacts of climate change and responses to it.

This framework should be underpinned by the fundamental principal of ensuring equity in government and community response to climate change.

Reducing the disproportionate impact of climate change on disadvantaged Victorians, supporting vulnerable households, building community resilience and supporting structural adjustment are key measures that will build an equitable framework for addressing climate change.

Working in partnership with industry, the environment movement and the community sector will also go some way in producing comprehensive solutions without compromising community wellbeing.

Building Community Resilience to Tackle Climate Change

Climate change and the structural adjustment required to address it will have profound impacts on Victorian communities.

VCOSS has welcomed the Government's work undertaken through the Victorian Climate Change Adaptation Program to identify vulnerable communities and priorities for action.

Climate change will intensify many of the challenges already faced by Victorian communities including dealing with drought, bushfires, floods and heat waves.

Responding equitably to these growing challenges will require planning and targeted funding to support emergency, health and mental health services, community infrastructure and social services to support communities. Climate change is a long term challenge. Uncoordinated and ad hoc project funding will not be sufficient.

The place-based approach of *A Fairer Victoria* should be extended to include mitigation and adaptation projects in communities vulnerable to the broader impacts of climate change such as coastal communities, drought effected rural areas and areas heavily dependent on climate vulnerable industries.

Best practice models drawn from existing community-based climate change projects such as those undertaken by the Central Victorian Greenhouse Alliance, the Birchip Cropping Group

and Environment Victoria should be used to inform a community engagement-based model for more intensive structural adjustment programs.

The high cost and scarcity of water remains a real and prevalent problem in many rural and regional communities.

With climate change modelling predicting changing rainfall and evaporation patterns, we will need to address the effects of increased and prolonged incidences of drought. Community-wide, place-based mitigation initiatives as outlined above can go some way in supporting rural and regional communities to adapt to prolonged drought and a changing climate.

By investing in place-based energy efficiency measures, research & development and education and training in these regions, the Government can develop a body of knowledge on climate change mitigation and emissions reduction, while creating opportunities in regions that will face significant challenges in the coming decades.

An Equitable Transition to a Low Carbon Future: the Carbon Pollution Reduction Scheme (CPRS)

The CPRS is an integral part of the Commonwealth Government's measures to combat climate change. By placing a price on greenhouse gas emissions for high emitting industries, it will also increase the price of basic items like energy, food and transportation. There is a significant risk of a disproportionate impact on low income households⁴⁹.

It is particularly important to note in this debate that low income households are generally low volume energy users. These households use approximately half the energy of high income households but pay almost twice as much as a percentage of their income⁵⁰. In other words, price pressures have already resulted in a carbon constrained economy for many of these households.

With an electricity generation mix heavily reliant on brown coal, the carbon emissions from energy produced in Victoria are considerably higher than those from energy produced in other states. As such, the introduction of the CPRS by the Commonwealth Government will have broad impacts for the Victorian economy including households, community and sporting groups, neighbourhood houses and welfare organisations.

While the Commonwealth Government has undertaken to compensate low income households for higher energy costs via the tax and welfare systems, it seems unlikely that this nationwide compensation scheme will adequately take into account the regional

49 National Institute of Economic Industry Research, *The impact of carbon prices on Victorian and Australian Households*, Brotherhood of St Laurence, 2007, p.18.

50 Australian Bureau of Statistics, *Household Expenditure Survey: Vic Data 2003-2004*, ABS, Canberra, 2006, accessed at [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/0A4B83AC509E9276CA2571150077053B/\\$File/65300_vic_data_2003-04rev.xls](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/0A4B83AC509E9276CA2571150077053B/$File/65300_vic_data_2003-04rev.xls), 21/08/08.

variability of electricity price rises.

A range of complementary measures will be required at the state level to mitigate the impact of these price increases on households, including an increase in concessions to ensure that their real value is maintained in line with energy price rises as a result of the CPRS.

These complimentary measures should also include programs to assist households mitigate their greenhouse gas emissions.

While there are a range of government programs and rebates in place to assist householders to reduce their energy consumption and reduce greenhouse gas emissions, many of these programs remain out of reach for vulnerable households.

The upfront cost of an appliance, the level of rebate available and household tenure all play a role in low income households being unable to undertake energy efficiency

Existing government programs for low income households, such as Energy Taskforce, have received funding to assist approximately 7300⁵¹ households over the past five years, which equates to approximately 10 percent of all Victorian public housing properties and just 2 percent of all private rental properties⁵².

Given the imminent increases in energy prices over the next five years⁵³, vulnerable households would benefit from greatly accelerated energy efficiency measures and information programs.

Existing schemes, such as the Energy Taskforce program should be expanded to include larger energy efficiency measures, such as replacement of heaters and hot water services, an education component and extension outside neighbourhood renewal areas.

In order to be effective, energy efficiency programs aimed at low income households must not require significant upfront costs and should utilise direct subsidies rather than rebates. They could also make no-interest loans available for energy efficient appliances. The Warm Front program operating in the UK is an effective model for providing guidance on the content of any updated scheme.

The state government has a particular responsibility to retro-fit public housing properties. VCOSS recommends a timeline whereby energy efficiency retrofits and information would be provided to:

- 25 per cent of all public housing households prior to the commencement of the CPRS in 2010; with
- 100 per cent of public housing properties having received retrofits to achieve a

51 *A Fairer Victoria*, State Government of Victoria, 2008.

52 Australian Bureau of Statistics, *2006 Census QuickStats :Victoria*, ABS, Canberra 2006 accessed at <http://www.censusdata.abs.gov.au> , 26/8/08.

53 Dufty, G, St Vincent De Paul is concerned with increasing electricity prices, St Vincent De Paul Society, 2008.

minimum four star energy rating via either scheduled upgrades or the Energy Taskforce program by 2015.

This would ensure that all public housing tenants would be insulated from significant energy price rises following the removal of the cap on the carbon price after the initial stage of the CPRS.

Energy efficiency measures provide a range of cross benefits from reducing cost pressures on vulnerable households and improving health and wellbeing through increased thermal comfort.

While low income and vulnerable households are not generally high volume energy consumers, the benefits of energy efficiency programs for these households should be considered in light of the full range of cross benefits they provide.

Water and Energy Pricing

The impacts of climate change and climate change policy on utilities prices will compound the increased costs of utilities market deregulation on low income households.

Climate change will continue to affect water availability throughout Victoria. In managing water scarcity the state government must ensure that all Victorians can access an affordable supply of water to meet their basic needs.

The 14.8 per cent increase in the capped water concession announced in the 2008-2009 Victorian State Budget was a welcome recognition of the real increase in water prices.

The latest Victorian Utility Consumption Survey shows that although water consumption has declined 22 per cent between 2001 and 2007, water bills have risen 16 per cent, indicating much larger increases than inflation⁵⁴. During this time the average annual concession amount increased 13.8 per cent⁵⁵.

With continued pressure on water resources across the state, the removal of the price cap on water concessions is necessary to ensure that essential water remains affordable.

The adequacy of concessions is particularly acute for households reliant on carted water for their essential water supplies. The up front and high costs of carted water places additional stress on households already struggling with the impacts of drought and the level of concession here is inadequate.

The removal of energy price regulation in Victoria as of 1 January 2009, will mean that consumers who have not previously engaged in the energy market will be faced with a complex system of market contracts and variable prices for their essential services.

54 Roy Morgan Research, *Victorian Utility Consumption Survey*, Victorian Department of Human Services, 2008, p.153.

55 Roy Morgan Research, p.156.

Ensuring that consumers have the right information to be able to participate is critical in creating a competitive and effective market system. For many consumers the current energy market is complex, confusing and in some circumstances deliberately misleading.

Community service workers, such as financial counsellors, settlement support and housing support workers currently assist disadvantaged and vulnerable consumers connect to gas and electricity services.

The removal of a regulated price for the standing offer means that many of these workers will be in the unenviable position of providing energy market information and advice, or assisting clients to sign on to an offer that may be financially disadvantageous. VCOSS believes that this is an unacceptable risk for workers and clients in the community sector.

To assist vulnerable and disadvantaged households, including recent arrivals and refugees, community members with little financial literacy and those without access to the Internet, VCOSS recommends that the Victorian Government establish an independent energy advisory service to provide information on the energy market and to assist consumers to choose an energy contract.

The introduction of pricing principles that secure a minimum 'lifeline' supply of energy, to cover essential heating, refrigeration, hot water and lighting for a typical household, could be used to mitigate the impacts of energy price rises on low income and vulnerable households.

By introducing a lifeline tariff as the first part of an inclining block tariff structure, low income & low usage households would be insulated from excessive price rises while the electricity market is given sufficient flexibility to pass on additional costs in tariffs over and above this minimum supply rate.

The application of these pricing principles on the regulated distribution tariffs would ensure that low income households are provided with an essential supply of energy, while also limiting the cost to government of a growing demand on the concessions budget.

Under these pricing principles some additional assistance would be required for large households to reduce their energy costs and improve household thermal efficiency for all households.

Household Thermal Efficiency

The Victorian Government's introduction of mandatory 5-Star energy efficiency rating for new homes was a good first step in improving residential energy efficiency over the long term. No such scheme, however is in place for existing housing stock.

Improving thermal efficiency in private rental properties, which make up over 21 per cent⁵⁶ of Victoria's housing stock rental is especially complex. The split incentive that exists, where landlords do not bear the cost of energy prices in their inefficient rental properties and

56 Australian Bureau of Statistics, *2006 Census QuickStats :Victoria*, 2006.

hence have no incentive to improve its efficiency, poses a distinct challenge. Unless this is addressed, the many low income households living in private rental accommodation will be hard hit by increased energy costs.

In order to overcome the split incentive, mandatory energy efficiency standards should be introduced for all rental properties. These standards should work in conjunction with existing retrofitting and rebate schemes, giving landlords both an incentive and an imperative to invest in energy efficiency measures.

The standards should be phased in by requiring all new rental listings from 1 July 2009 to meet minimum energy efficiency standards, with full market coverage to be completed by 2015.

Transport

Private transportation contributes 13.9 per cent of Victoria's greenhouse gas emissions⁵⁷. Reducing emissions from this sector through alternative transport options must be a priority in the Victorian Government's strategy to address climate change and reduce vulnerable households' exposure to high transport costs.

Land use planning that encourages active transport, such as walking and bike riding, and provides access to public transport will go some way in meeting this challenge.

Increased minimum service standards for public transport, including operating hours and frequency are needed to increase the viability of public transport as an option for Victorians living in Melbourne's outer suburbs.

The importance of public and active transport is discussed further in the transport section of this submission.

Recommendations

1. VCOSS recommends that equity be recognised as a fundamental component of policy development in the Victorian Government's response to climate change. This includes:
 - prioritising climate change initiatives that support Victoria's most vulnerable people and communities; and
 - ensuring that climate change policies and initiatives are developed in close consultation with communities and affected sectors including the community sector.
2. VCOSS recommends that the Government ensures an affordable essential energy supply for low income households by:

⁵⁷ George Wilkenfield and Associates, *Victoria's Greenhouse Gas Emissions, 1990, 1995, 2000, 2005: end use allocation of emission*, report to the Department of Sustainability and Environment, 2008, p.3.

- implementing pricing principles to allow for a minimum supply of affordable household energy;
 - increasing concessions so that at least the real value of existing energy concessions remain in the face of energy price rises; and
 - providing additional assistance to larger low income households to reduce their energy use.
3. VCOSS recommends that the Government ensures consumers have timely and accurate information about the energy markets by:
- funding an independent energy advice service, possibly through Consumer Affairs Victoria, to provide advice to consumers on energy products.
4. VCOSS recommends that the Government increase assistance for low income households to improve the energy and water efficiency of their dwellings and appliances by:
- developing efficiency programs, which utilise direct subsidies and no interest loans and increase the subsidy level for concession holders;
 - expanding the Energy Taskforce program to cover larger energy efficiency measures, similar to the intent and content of the UK Warm Front model, and extending the program outside neighbourhood renewal areas;
 - setting a target to complete energy efficiency retrofitting in 25 per cent of all public housing properties by 2010 and 100 per cent by 1 January 2015; and
 - developing mandatory thermal efficiency requirements for all rental properties to be fully implemented by 1 January 2015.
5. VCOSS recommends that the Government invest in increasing the resilience of communities to the impacts of climate change and the carbon pricing by:
- establishing and supporting regional community-based programs, in conjunction with local government, to support communities in climate change mitigation, adaptation and structural adjustment; and
 - increasing targeted investment in emergency services, health and mental health services and community development in climate change vulnerable communities.
6. VCOSS recommends that the Government ensures an affordable essential water supply for low income households by:
- removing the volumetric water concession cap so that it applies fully on a typical household's typical consumption;
 - using water authorities' dividend payments to help offset the impact of price rises on disadvantaged households through direct payment, hardship or efficiency programs; and
 - providing an affordable water supply to low income households not connected to mains water.