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Victoria Best and Fairest



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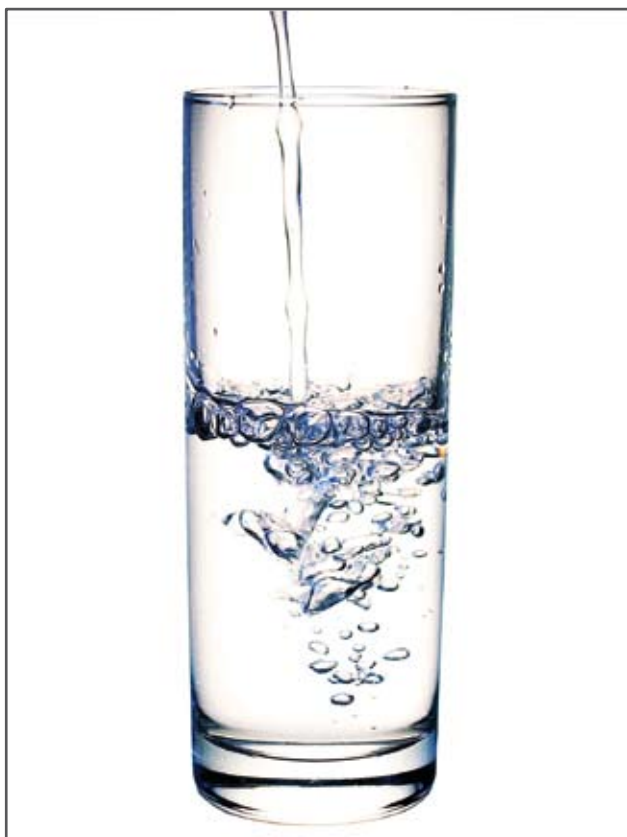
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Energy and water



In the last few years a number of Government initiatives have significantly improved consumer outcomes with regard to the energy industry. These include the ongoing retention of the consumer safety net and price to beat, the strengthening of the regulatory and compliance regime, the comprehensive response to the hardship inquiry, and the expansion of the Utility Relief Grant Scheme – all solid achievements that have ensured disadvantaged and vulnerable households in 2007 have more secure access to essential energy than they did in 2003.

As the impacts of climate change begin to be felt and the need to decrease greenhouse emissions becomes more urgent, the whole community is starting to consider energy and water usage, previously taken for granted, in a different light. The need to both invest more heavily in water infrastructure and factor the environmental cost of generation into the price of fuel raises significant affordability challenges in a society premised on relatively cheap energy and water.

Low-income and vulnerable Victorians face serious risks to their livelihoods and access to services as a result of major economic and social changes, including those induced by environmental stressors. Escalating housing and transport costs are affecting all households

on low or fixed incomes. Industrial relations changes have constrained wages growth, particularly at the low paid end of the jobs market. Households in outer metropolitan areas are especially vulnerable to the impacts of high petrol prices and increasing house and interest rate costs, and rural and regional Victorians face direct environmental threats to their incomes and livelihood. All of these pressures seriously limit low-income household's capacity to pay environmentally weighted energy and water costs.

It is the role of government to ensure ongoing affordability and access to energy and water for low-income households at a time when energy and water efficiency and pricing strategies are part of the response to climate change concerns. These households need special attention and support in government strategies to shift to a more sustainable economy. The following key areas are fundamental to meeting this objective.

Helping low-income households use energy and water more efficiently

The Victorian Government has introduced a number of programs to help households upgrade their appliances and dwellings. Low-income households often have difficulty accessing these programs for a number of reasons:

- inability to change dwelling fixtures or structure due to being a tenant rather than an owner-occupier – some assistance programs (such as the Capital Grants Scheme) specifically exclude tenants from some of their provisions;
- rebates being insufficient to make appliances affordable; and
- inability to afford the upfront cost of appliances in order to qualify for a rebate.

Rebate programs could be adapted to better serve the interests of low-income households by being delivered differently to concession households: doubling the rebates to address the affordability gap, and recasting them as discounts (perhaps through a voucher system) to address the cash flow problem.

Creative solutions are needed to address tenure inequity. Cheap private rental accommodation is notoriously substandard and energy costs for many tenants are inflated due to high consumption over which they have little control.



Landlords currently have no incentives to invest in efficiency improvements. Because low-income households are overrepresented in the cheap end of the private rental market, lack of access to the same types of assistance available to low-income owner-occupiers is a glaring social inequity.

A preparedness to meet tenants' urgent needs and investigate the feasibility of various mechanisms to recoup costs from private landlords will be the cornerstone of a new cross-government program that builds upon the existing Energy Taskforce Program but is open to all low-income households and based on need as well as location.

The Capital Grants Scheme is currently the only way for very low-income households to upgrade faulty or excessively inefficient appliances. However its effectiveness in meeting the needs of this extremely disadvantaged group is limited by its constrained coverage – a household can only receive assistance once, and only for one appliance.

An expansion of the scheme, allowing for two appliances in one application, and periodic re-eligibility, as has been introduced for the Utility Relief Grant Scheme, will better address affordability issues for these households, as well as facilitate a reduction in greenhouse emissions.

Giving tenants full access to the program will also eliminate the tenure inequity as discussed above.

By giving retailers financial incentives to help their customers become more efficient, the Victorian Energy Efficiency Target Scheme (VEET) has the potential to address some of these issues, including the tenure inequity. But to ensure scheme participants engage where most needed, high consumption low-income households must be designated as a priority group within the VEET scheme.

Keeping essential energy affordable

The energy consumer safety net – comprising a suite of consumer protections, an obligation to supply, and a default contract with a regulated price to beat – has been of fundamental social importance, making Victorian energy consumers the best protected in the world, facilitating healthy competition, and safeguarding the affordability of essential energy for Victorian households. But securing disadvantaged households' access to affordable essential energy in a carbon-constrained future requires additional intervention, especially as the cost of energy is rising at the same time as the energy market is being progressively deregulated.

Fundamental to ensuring basic affordability is ongoing price oversight for the essential element of energy consumption. A guaranteed affordable price for a 'lifeline' quantity of energy (enough to cover essential heating, refrigeration, hot water and lighting for a typical household), quarantined from pass-through of any carbon price, provides basic security for households while still allowing the market to drive pricing for additional consumption.

This could be implemented via a government subsidy to retailers to cover the difference between the market-led price and the cap, recouped as a transmission levy passed through to retailers. The fixed charge should be capped at 20 per cent of the cost of the 'lifeline' allowance.

With such a system, households would have a basic allotment priced cheaply, but still be consuming varying amounts of energy at market prices. Thus they would be partly exposed to the increased cost, thereby having some protection from price shock and additional incentives to conserve energy. Typical households would still be paying more for energy, but not excessively so. Low-income households would continue to be protected by concessions, and the risk of concessions budget blow out contained by the lifeline tariff.



Keeping essential water affordable

The proposed doubling of the price of water over the next five years requires a similarly comprehensive approach to water tariffs. A 'human right' component, providing sufficient water for basic hygiene, cleaning and drinking for a typical household (around half the size of the current first tariff block) and protected from further real price increases, will provide essential water cheaply to most households.

A subsequent three or four tariff blocks, priced progressively higher, will moderate the price rise and incentivise household water efficiency. Most households will still be consuming water in the second block, thus being exposed to significant price rises and contributing to the water authorities' revenue requirements; but the cheaper 'human right' allotment will help to contain those increases where consumption is not excessive and — importantly — create a greater cost difference between typical and efficient usage, thus addressing the key sustainability objective of water conservation.

Low-income households will still need the extra protection of the water concession. Because the concession cap is currently too low (demonstrated by 73 per cent of households already receiving the maximum concession!), it needs to be increased to ensure that a typical concession household receives

the full 50 per cent reduction on their water usage thus fulfilling the intent of the concession.

Applying the concession primarily to usage will ensure that tenants are fairly treated (currently they can only access half of the concession, because the other half is only applied to fixed charges that tenants don't pay), as long as measures are in place to protect low volume owner-occupier concession households (such as aged pensioners). Annual indexation at the same rate as the price increase of the volume of water the concession pays for is essential to ensure it retains its value into the future.

Large households (those with four or more dependents) will still be vulnerable to affordability problems because too much of their essential usage falls outside the 'human right' allotment. This can be at least partly addressed by giving large concession households an additional rebate on their annual water bill. Existing practices used by water retailers, such as giving large households extra time to pay, will complement this approach.

VCOSS also urges the Government to consider using water authorities' dividend payments to help offset the price shock that disadvantaged households will experience over the next few years. This could be



invested in assistance programs such as the Capital Grants Scheme, or returned to water authorities to reduce their revenue requirements.

More help for people in bill payment difficulty

The Government's response to the 2005 Energy Hardship Inquiry was intelligent, timely and comprehensive, and has done much to improve outcomes for Victorian consumers. But one key finding that was not addressed was the urgent need to increase access to financial counsellors.

Ongoing drought, increasing employment insecurity, lower social security payments, plummeting housing affordability, and price rises in essential goods such as energy, water and petrol all significantly challenge many Victorian households' capacity to manage financially. Financial counsellors are critical in helping people adapt financially to major life transitions (such as loss of employment, family breakdown, serious accident or onset of illness) and, if in financial crisis, negotiate with creditors. People in bill payment difficulty often turn to financial counsellors for assistance – and energy retailers, on the whole, are comfortable dealing with financial counsellors as mediators in hardship cases.

Unfortunately, long waiting periods caused by the shortage of financial counsellors limits the efficacy of the financial counselling program. A recent study determined that for maximum effectiveness, appointments should be available within one week of initial contact²; in practice, waits of four to six weeks (considerable longer in some areas) are not uncommon.

The continually improving hardship framework for energy consumers is increasingly reliant on the active involvement of financial counsellors. Failure to improve the capacity of the generic financial counselling program will undermine the effectiveness of the significant steps that have been taken in recent years to secure low-income households' access to essential energy.

VCOSS urges the Government to guarantee ongoing funding for the financial counselling program. To meet current demand, funding should increase by \$1.5 million to increase the number of casework positions available.

Every study undertaken of financial counselling case outcomes identifies transition from paid employment (due to retirement, family breakdown, accident or illness, failure of small business, and so on) as a major cause of the financial crises that eventually led people to seek financial counselling. In many cases, timely intervention during or immediately following the transition could have been instrumental in averting the resultant crisis and the much more intensive intervention thus required. Additional funding should thus be committed to preventative interventions – this would involve dissemination of information about budgeting and the availability of financial counselling through agencies that people are generally in contact with during such a transition (for example: the Australian Taxation Office, the Transport Accident Commission, Centrelink, hospitals, and so on).

Lastly, workforce retention and renewal are critical issues facing the financial counselling sector. VCOSS urges the Government to work with the sector to develop strategies to attract and retain financial counsellors.

Financial counselling is extremely cost-effective. A 1998 cost-benefit analysis of the Commonwealth financial counselling program found a benefit to cost ratio of two to one, considering benefits such as reduced suicides, unemployment, debt collection costs, and illnesses. Significant benefits not considered included family preservation, improved life skills and self-sufficiency³. Adequate funding for financial counselling is a critical investment in societal wellbeing.

Recommendations

- 1 VCOSS proposes that the Government increase assistance for concession households to improve the energy and water efficiency of their dwellings and appliances by:
 - a. doubling energy and water efficiency rebates for concession households and allowing them to be accessed as up-front discounts;
 - b. giving tenants equal access to efficiency programs, including expansion of the Energy Taskforce Program to include private tenants;
 - c. additional funding for the Capital Grants Scheme to allow for more than one appliance or fixture to be replaced if necessary, and allow subsequent applications after two years; and
 - d. delineating high consumption concession households as a priority group in the Victorian Energy Efficiency Target Scheme.
- 2 VCOSS proposes that the Government ensure an affordable essential energy supply for low-income households by:
 - a. retaining price oversight for the essential component of household electricity use; and
 - b. increasing concessions funding to guarantee the retention of the existing energy concessions in the face of energy price rises.
- 3 VCOSS proposes that the Government ensure an affordable essential water supply for low-income households by:
 - a. remodelling the domestic water tariff into a four-part inclining block with a smaller first block protected from further real increases and successively greater price differentiation between subsequent blocks;
 - b. increasing the volumetric water concession cap to ensure that it applies fully on a typical household's typical consumption;
 - c. giving large concession households an additional rebate to compensate for their essential usage being charged at a higher rate; and
 - d. using water authorities' dividend payments to help offset the impact of price rises on disadvantaged households.
4. VCOSS proposes that the Government continue to improve assistance for households in utility bill payment difficulty, and those in financial crisis generally, by:
 - a. increasing funding for the financial counselling program by \$1.5 million (to

a total of \$6.5 million) and guaranteeing ongoing funding at this level in real terms;

- b. committing additional funding to a preventative strategy targeting households undergoing major life transitions; and
- c. working with the financial counselling sector on workforce retention and renewal strategies.

Endnotes

- 1 Department of Human Services, *State Concession and Hardship Programs 2005-2006*, Concessions Unit, Office for Children, Department of Human Services, Melbourne, 2007.
- 2 Blue Moon, presentation of findings from qualitative study of financial counselling clients to Consumer Affairs Victoria Working Together Forum, 26 September 2007.
- 3 Network Australia, (unpublished) Cost-benefit analysis of the Commonwealth financial counselling program report for the Consumer Affairs Division, Department of Industry, Science and Tourism, June 1998.