

NTCOSS

NT Council of Social Service Inc.



COST OF LIVING REPORT

Tracking changes in the cost of living, particularly for vulnerable and disadvantaged Northern Territorians – The Cost of Utilities in the Territory



Issue No.1 October 2013



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Introduction

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

The first part uses the Australian Bureau of Statistics' Selected Living Cost Indexes (ABS, 2013a) and Consumer Price Index (ABS, 2013d) to show changes in the cost of living in the last quarter and over the last 12 months.

As a summary measure, the Selected Living Cost Indexes are preferred over the better known Consumer Price Index (CPI) because the CPI is technically not a cost of living measure. The CPI tracks changes in the price of a specific basket of goods, but this basket includes goods and services that are not part of the expenditure of all households, and in particular are not part of the expenditure of poor households. When considering the cost of living, this is important because if expenditure on bare essentials makes up the vast bulk (or entirety) of expenditure for low income households, then price increases in those areas are crucial whilst price increases or decreases on other discretionary goods are less relevant. However, increases in the prices of bare essentials may be masked in the generic CPI by rises or falls in other goods and services in the CPI basket (SACOSS 2012).

The Selected Living Cost Indexes use a different methodology to the CPI (see Explanatory Note 1) and it disaggregates expenditure into a number of different household types (ABS, 2013b), although this *Cost of Living Update* focuses only on the "Age Pension" and "Other government transfer recipient" (hereafter "other welfare recipients") figures, as these are likely to represent the more disadvantaged households. While the Selected Living Cost Indexes also have limitations in tracking cost of living changes for these groups (see Explanatory Note 2), they do provide a robust statistical base, a long time series, and quarterly tracking of changes – all of which is useful data for analysis (SACOSS 2012). This report also adds to the Selected Living Cost Indexes figures by putting a dollar value on the percentage changes in the indexes, and by using disaggregated CPI data to summarise change in prices of key items.

The second section of the NTCOSS *Cost of Living Updates* contains a more in-depth analysis of cost of living trends in one key area of concern in relation to cost of living pressures on vulnerable and disadvantaged Northern Territorians. This *Update* focuses on the cost of utilities (electricity, water and to a lesser extent, gas) and uses the disaggregated CPI figures for Darwin, as well as quantitative and qualitative data from other sources.

NTCOSS acknowledges the generous time and resources and advice provided by SACOSS, whose Cost of Living Reports have formed the basis for this inaugural NTCOSS Cost of Living Report. In particular, this report is modelled on the: SACOSS (2012), Cost of Living Update, No. 12, November 2012..

SECTION 1: June Quarter 2013 Cost of Living Changes

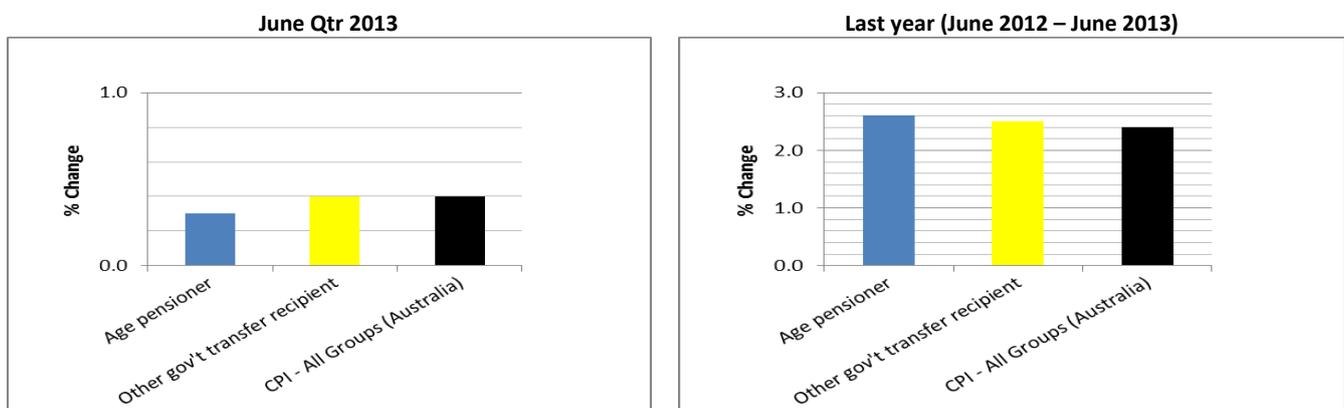
Prices

In the June 2013 quarter, the cost of living (as measured by the ABS Selected Living Cost Indexes (SLCI) for Age Pensioners rose by 0.3% and for Other Welfare Recipients by 0.4%, nationally. In the same period, CPI rose by 0.4 % overall nationally and 0.9% in Darwin, which was much higher than the rest of the country. (ABS, 2013a; ABS 2013b; ABS 2013d).

The major contributors to the price rises included clothing and footwear (an import-dominated industry, hit by the fall in the Australian dollar); health (especially for Age Pensioners); and housing (rent) for Other Welfare Recipients. Rent price increases are not such a big a factor in the pensioner index (with home ownership more common). Price increases were offset by falls in petrol prices, however give less benefit to pensioners, who are less likely to own a motor vehicle or to drive. (ABS 2013b)

Over the last year (June Qtr 2012 – June Qtr 2013) the living cost indexes for Age Pensioners increased by 2.6 % and Other Welfare Recipients increased by 2.5% (SCLI). CPI rose nationally by 2.4%. In Darwin the CPI rose by 3.9% in the 12 month period. (ABS 2013a, ABS 2013c).

Figure 1: Increases in Living Costs June Qtr 2013 - National Figures



Source: SLCI Figures taken from (ABS, 2013a; ABS 2013d Tables 12 & 13)

While the differences between the national CPI and the increase in living costs are small and the last quarter was better for age pensioners, the figures over the last year show that for both groups, the cost of living over the last year increased more than CPI. This is a particular concern for other welfare recipients reliant on payments like Newstart, Youth Allowance or Widows Allowance which are all indexed to CPI. It is also notable that the living costs of employees and self-funded retirees went up less over the past year than for pensioners and other welfare recipients – 1.4% for employees, 2.2% for self-funded retirees. (ABS, 2013a).

In other words, prices for the 'basket' of essential items bought by those who can least afford it is going up faster than for other sections of the population whose basket of goods and services is different

These overall figures can be separated into their component parts (disaggregated) to track changes in the price of key basic goods and services in the last quarter in Darwin and nationally - shown in Table 1. There are some significant trends, with Darwin prices rising significantly more than nationally in many areas – e.g. food; housing (rent); water & sewerage and electricity; with the exception of health and gas & other household fuels. The overall Darwin CPI increase in the last year was higher (3.9%) than the national average (2.4). (ABS 2013d). There are a number of specific concerns in the basic cost of living categories with Darwin rental prices and utilities, in particular, as well as health prices, all going up faster than the generic CPI. (ABS 2013d). Darwin rents increased in the June Quarter by significantly more than CPI, while new house prices increased by 3.6 %, which was the same as the national increase in CPI for this category, but higher than the generic national CPI rise. (ABS 2013d). Interestingly, the highest average weekly household expenditures in the country were recorded in the ACT (\$1,536) and the not very remote parts of the Northern Territory (\$1,500). (ABS 2011a)

Table 1: Cost of Living Changes June Qtr 2013 by expenditure type Darwin vs National

Cost of Living Area	Darwin CPI June Qtr change %	National CPI June Qtr change %	Darwin CPI June 2012- June 2013 change %	National CPI June 2012- June 2013 change %
Food (& non-alcoholic beverages)	0.5	0.1	1.6	1.1
Housing (includes utilities)*	1.4	0.6	7.8	5.3
• Rent	2.0	1.1	7.5	3.4
Utilities	0.9	-0.2	29.3	13.3
• Water & Sewerage	0.8	0.0	27.3	2.6
• Electricity	0.9	-0.7	30.6	17.2
• Gas & other Household Fuels	1.8	1.0	6.7	15.3
Health	2.1	1.9	4.1	6.6
Transport	0.0	-0.9	3.5	-0.5
• Automotive Fuel	-1.1	-3.1	1.9	-3.3
CPI All Groups	0.9	0.4	3.9	2.4

Source: ABS, 2013d Tables 12 & 13. NOTE: For disaggregated housing figures see ABS 2011c. * see ABS 2011d

Incomes

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

Table 2: Cost of Living Change June Qtr 2012 – June 2013 Australia

	Base Rate Benefit per week \$ (30 June 2012)	Base Rate Benefit per week \$ (30 June 2013)	Selected Living Cost Index change %	Amount per week increase in 'cost of living' \$	Amount per week increase in base payment rates \$
Aged Pensioner	\$347.65	373.60	2.6%	\$9.04	\$25.95
Newstart – no children	\$244.85	252.70	2.5%	\$6.12	\$7.85
Newstart with 2 children & Family Tax Benefit A & B	\$503.04	518.94	2.5%	\$12.58	\$15.90

Figures based on one child under 13 and one b/w 13-19. Source: Centrelink, 2012 & 2013; ABS, SLCI 2013a See also Explanatory Note 5.

For those whose only source of income is a base-rate government benefit and (who spend all their income), the cost of living over the last year increased by \$9.04 a week for pensioners, by \$6.12 for single people on Newstart and \$12.58 for a sole parent with 2 children receiving Newstart and FTB (A & B). By comparison, the base rate pension rose by \$25.95 in the same period, and the base Newstart rate rose by \$7.85 per week, and the combined Newstart and FTB (A & B) rate rose by \$15.90 per week (Centrelink, 2012 & 2013). These figures are unusual though and should be treated with caution. The June 2013 figures include the Household Assistance Package payments introduced to compensate for the impact of the carbon price and it is only these payments which put the Newstart Allowance ahead of the cost of living pressures.

“This underlines the importance of those payments, but it is likely that with the low base payment and inadequate indexing, that Newstart and other base level benefit payments will continue to lag behind pensions (currently \$118.35 p/w lower) – unless the Federal Government commit to increase Newstart and other base level payments by \$50 per week.”

SECTION 2: Utilities Costs

The Importance of Utilities Expenditure

Having access to affordable utilities like electricity, gas, water and sewerage is a necessity and basic right of people living in a modern society. Those services are important to health and wellbeing, and lack of access to those services is a barrier to social participation.

Table 3 shows average currently weekly expenditure on utilities in Darwin. The “domestic power and fuel” category is the summary level category which includes electricity and gas, as well as other fuels. This summary level figure is used here because the disaggregated *Household Expenditure Survey* (HES) figures need to be treated with caution as not all households use gas and so the average expenditures for those that do are very different from overall averages in the HES.

Table 3: Utilities Expenditure Darwin - Current

	Estimated Current Average Weekly Expend	% of H/hold Expend (2009/10 survey)
Domestic Fuel & Power	\$52.90	2.58%
Water	\$15.90	0.64 %
Utilities total: (Domestic Fuel & Power and Water)	\$68.80	3.22%

*Source: Average Weekly Expenditure derived from HES data indexed to 2013 CPI
Data taken from ABS (2011b Table 23A); ABS (2013d Table 12 Data 4). See also Explanatory Note 3.*

The proportion of household expenditure here is probably an underestimate as it is based on the 2009-10 HES. With prices rising steeply since then, expenditure may in fact have increased as consumers may have been forced to forego more discretionary expenditure in order to pay the rising utilities prices. However, taking the 4.23% figure as the proportion of household expenditure for Darwin (overall the NT figure is lower at 3.86%), utilities is clearly not the largest household expenditure and is well behind housing (20.80%), food (14.65%) and transport (15.97%) (ABS, HES, 2011b Table 23A). This may suggest utilities are less important in terms of cost of living pressures, despite rapidly rising prices, however, this is not the case.

Utilities bills can drive economic hardship precisely because they are not a regular weekly expenditure. For most households, they are lumpy expenditures which come with a “bill shock” both because they are large expenditures when they do come and because in recent times they will have gone up considerably, making household budgeting difficult (SACOSS 2012). In fact, the ABS uses an ‘inability to pay an electricity, water or telephone bill’ as a marker of financial stress. In 2009/10, some 14 % of Northern Territory households had at least one experience of not being able to pay their utilities bills on time (ABS, 2011c, Table 30). This was the fourth most common indicator of financial stress in the survey (ABS, 2011c, Table 30).

Interestingly, national figures (ABS, 2011b, Table 31A) show that the average weekly expenditure on electricity was about the same for those who experienced multiple indicators of financial stress throughout the year, as for those who experienced none, while expenditure on water and gas was less for those with multiple financial stress indicators.

“This suggests that those who are experiencing financial stress are not using more electricity than others (and are using less water and gas), it is just that, faced with rapidly rising prices their ability to pay may be compromised.”

Different Household types – NT

Utilities prices impact differentially on households with different income levels. Table 4 shows the Northern Territory figures for expenditure based on each income quintile, plus the proportion of total goods and services expenditure for that income quintile.

Table 4: Utilities Expenditure by Household Type, Northern Territory (2009-10)

	Domestic Fuel & Power (NT) 2009-10		Water (National*) 2009-10	
	Av. Weekly Expend \$	% of H/hold Expend	Av. Weekly Expend \$	% of H/hold Expend
<i>Note: Domestic fuel & power not disaggregated</i>				
Lowest Income Quintile	15.51	3.00	4.89	0.87
Second Income Quintile	27.13	3.30	6.32	0.78
Third Income Quintile	36.06	2.53	7.97	0.68
Fourth Income Quintile	40.07	2.46	9.53	0.64
Highest Income Quintile	42.67	1.93	12.26	0.57
All households	35.19	2.35	8.19	0.66

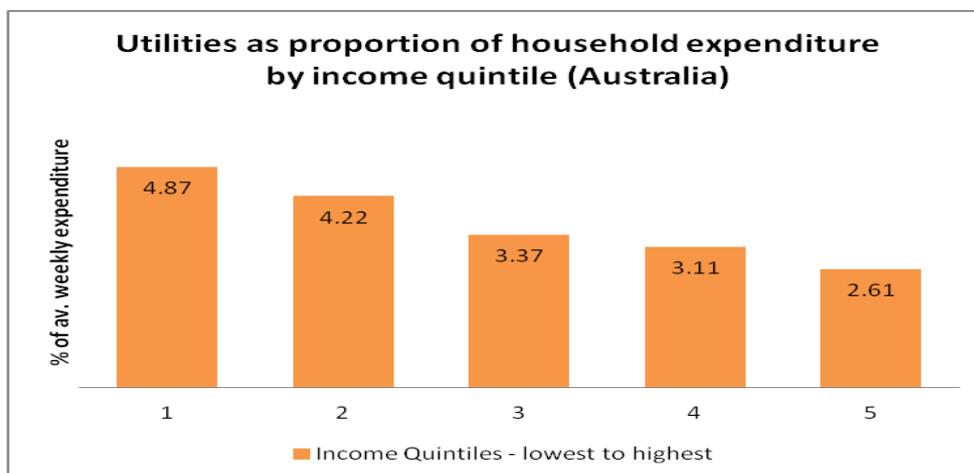
Source: Domestic Fuel & Power figures taken from 2011c (Table 3); National Water figures taken from ABS 2011b Detailed, Table 3A)
Note: The Expend figures have not been indexed to reflect 2013 expenditure but the % of H/hold Expend do not need adjusting for currency

The breakdown of expenditure by households by income quintiles is disaggregated by states, not capital cities. In addition, there is no breakdown of figures by income quintiles for electricity or gas as separate categories, nor for water and sewerage at the state level (which are contained in the housing figures and cannot be separated from this), so national figures for water and sewerage are used.

The combined domestic fuel and power figures are stark. Highest income households use more electricity and gas and spend almost three times (2.75x) as much as the lowest income households, but as a percentage of household expenditure it is one and a half times as important for low income households. The national figures for water tell a similar story. Taken together, **low income households clearly spend more on utilities as a proportion of their income than the average or higher income households** – see Figure 2. (Note: national figures were used because while there were NT figures for domestic fuel and power, separate water & sewerage figures are not available, as they are contained within in the housing figures at NT level).

Figure 2: Utility expenditure by household income – Australia 2009-10

For this chart, utilities includes water, sewerage, electricity, gas (mains and bottled) & other household fuels



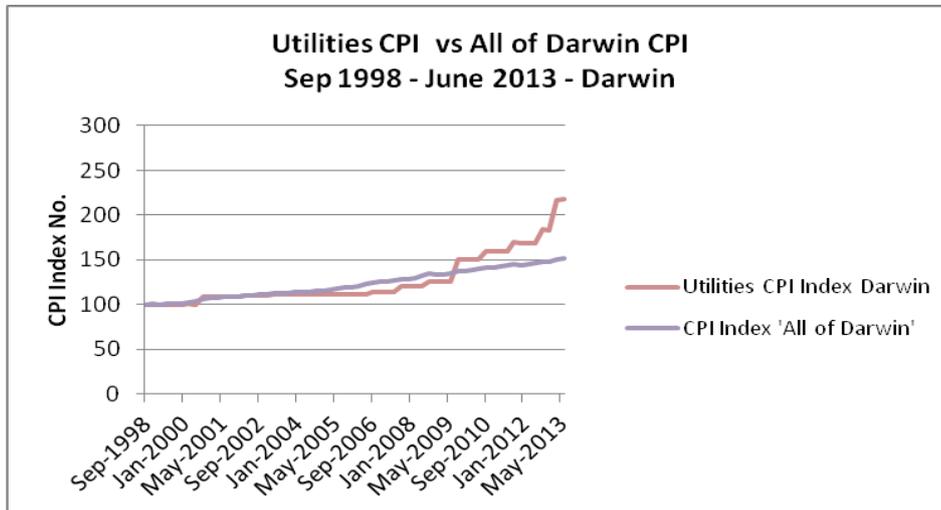
Derived from ABS 2011b (Table 3A)

The result of these expenditure patterns is that utilities price rises impact disproportionately on low income households both because utilities constitute a greater proportion of their overall expenditure and they have less room to move in their weekly budgets. For this reason, any measures to alleviate cost of living pressures arising from utilities should be directed primarily at low income households.

Summary of Utilities Price Movements

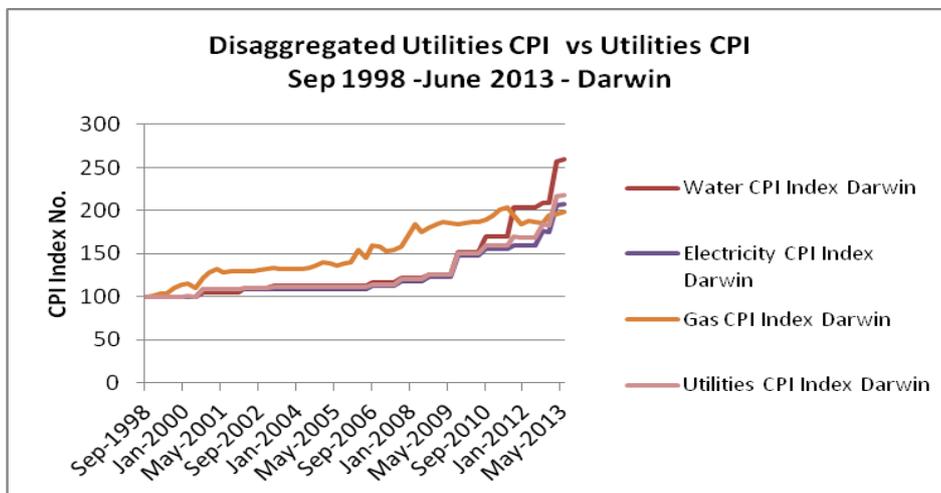
The extent of rises in prices of utilities is evident in the CPI figures. CPI for all utilities in Darwin over the last quarter rose by 29.3% in the past year (ABS, 2013d Data 5), well above and out of all proportion to the 2.4 % increase in CPI for all goods, as per Table 1 below. This continues the trend of recent years which has seen utilities prices consistently outstripping other prices. Figure 3 shows the movement of prices for each of the different utilities over the last decade and a half.

Figure 3: Utilities CPI vs All Groups CPI Sep 1998 - June 2013 for Darwin



Source: ABS (2013d, Table Data 4, Table 13)

Figure 4: Disaggregated Utilities CPI vs Utilities CPI 1998 – June 2013 for Darwin



Source: ABS (2013d Data 4, Table 13)

Impact on Household Budgets of rising costs

Table 5: CPI increases for Utilities over the last 15 years, Darwin

	% Increase Sept 1998-June 2013
Electricity	107.6
Gas	98.9
Water	159.70
Utilities	118.5
CPI – All Groups	51.8

Source: ABS (2013d Table 13, Data 4)

Table 6: Utilities increases over the last year, Northern Territory

(NT 2009/10 base figure \$)	NT Estimated Average Weekly Expend \$ June 2012	CPI Increase Darwin for each utility % (June 2012-June 2013)	NT Estimated Current Average Weekly Expend \$ June 2013	Increased expenditure per week \$ in past year	Increased expenditure for whole quarter (13 weeks) \$	Actual expenditure for whole quarter (13 weeks) \$
Electricity (33.15)	35.60	30.6	46.40	10.80	140.40	603.20
Gas: Bottled and Mains (1.59)	1.68	12.4	1.89	0.21	2.73	24.57
Water & Sewerage (9.28)	12.40	27.3	15.80	3.40	44.20	205.40
Totals	49.68	-	64.09	14.41	187.33	833.17

Source: Derived from (ABS 2011b Table 27A; ABS 2013d Table 13, Data 4) NOTE: Darwin CPI used as state CPI figure not available in ABS data
See Explanatory note 4 re use of Darwin CPI with NT figures (NOTE: Not all households use gas)

These index increases have real impacts on weekly budgets (see Table 6). It should be noted that these are *not* cumulative increases for each quarter. NT households are spending \$10.80 more on electricity; and \$3.40 more on water, per week, than they were a year ago. The figures show, based on previous expenditure patterns, *the average household expenditure on utilities at June 2013 is approximately \$187 more for the June 2013 quarter, than they would have been for the June 2012 quarter.* In addition, Table 7 shows that households are spending nearly \$10 per week more on electricity than they would if the electricity CPI followed the general 'All Darwin CPI', and around \$5.50 more on water (gas would remain about the same). Over the course of a year this adds up to around **\$800 per year on average more per household.**

Table 7: NT difference in Average Weekly Expenditure on Utilities NT, June 2013

Electricity Expenditure	NT Average Weekly Expenditure \$	Gas Expenditure	NT Average Weekly Expenditure \$	Water & Sewerage Expenditure	NT Average Weekly Expenditure \$
2009/10	33.15	2009/10	1.59	2009/10 Electricity Expenditure	9.28
June 2013 if cumulative 'All Darwin' CPI applied (10.1%)	36.50	June 2013 if cumulative 'All Darwin' CPI applied (10.1%)	1.75	June 2013 if cumulative 'All Darwin' CPI applied (10.1%)	10.22
June 2013 if Electricity CPI applied (30.6%)	46.40	June 2013 if Gas CPI applied (12.4%)	1.89	June 2013 if Water & Sewerage CPI applied (27.3%)	15.80
Difference in 2013 estimates*	9.90	Difference in 2013 estimates*	-.14	Difference in 2013 estimates*	5.58

Source: ABS (2011b, Table 27A) ABS (2013d Table 13, Data 4) Note: Darwin CPI used as state CPI figure not available in ABS figures.
See Technical note 4 re use of Darwin CPI with NT figures (NOTE: Not all households use gas)

Darwin vs NT Expenditure

Almost identical spending patterns are seen with water in both Darwin (\$9.34 p/w), and across the NT as a whole (\$9.28 p/w). With electricity, expenditure is slightly higher in Darwin (\$36.58 p/w) compared with the NT as a whole (\$33.15 p/w). Gas prices figures show minimal change, and don't really reflect the actual cost of gas for households, as not all households use gas, and so the HES expenditure figures are much lower than the average expenditure for those households who actually do use gas (Darwin \$0.94 p/w and NT 1.59 p/w).

Interstate Comparisons

Using data in the ABS *Household Expenditure Surveys* and CPI it is possible to compare utilities expenditure in different states. These are expenditure figures and are not price comparisons. For example, electricity in one state may be more expensive than another, but expenditure on electricity may be less because of greater use

of gas (or solar or other technologies). For this reason, the comparison below is based on a combined figure for gas and electricity. This combined expenditure comparison, rather than disaggregated prices, is also the most useful cost of living measure because what ultimately matters for consumer affordability is how much they need to spend to get the necessary power and fuel - not the fuel mix or price per unit.

In 1998 Darwin had the highest average weekly expenditure on electricity; the lowest on gas and the 3rd highest water expenditure among Australian states and territories (ABS, 2001, Table 5). In 2003/04 HES, Darwin's electricity expenditure remained the highest in the country, and gas expenditure remained the lowest; while water sat as the 4th highest in the country. In the last HES (2009-10), Darwin average household electricity expenditure remained the highest; gas expenditure remained the lowest in the country, while water was 6th highest.

However, price rises since the 2009/10 HES survey suggests that water expenditure in the NT has gone up significantly and is now the third highest in the country. Electricity expenditure, which has consistently been the highest in the country, has gone up even further. The figures below (Figure 6) show the comparative capital city expenditures indexed to the June 2013 quarter using the relevant CPI rises (capital city data is used because there is no whole-of-state CPI).

The figures below demonstrate that Darwin consumers currently spent more on electricity than consumers in other Australian capital cities

Darwin households spend slightly more than what Hobart households spend, but \$12 - \$22 more per week more than the other states/ACT. Gas expenditure in Darwin remains the lowest in the country.

The result of the trends in water and electricity expenditure is that Darwin consumers now spend almost as much on utilities overall (68.14), as the ACT (68.52) and Adelaide (68.41) who sit behind Melbourne (73.18) – See Figure 5d below.

Figure 5: Comparison of Electricity, Gas, Water & Sewerage Expenditure in Capital Cities 2013
Indexed from 2009-10 HES Figures

Figure 5a

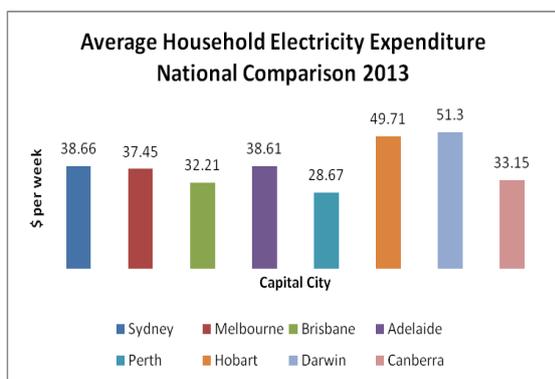


Figure 5b

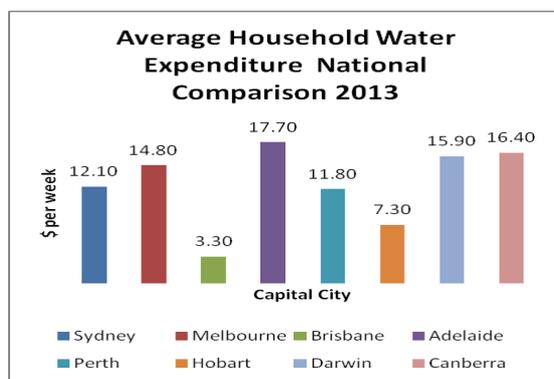


Figure 5c

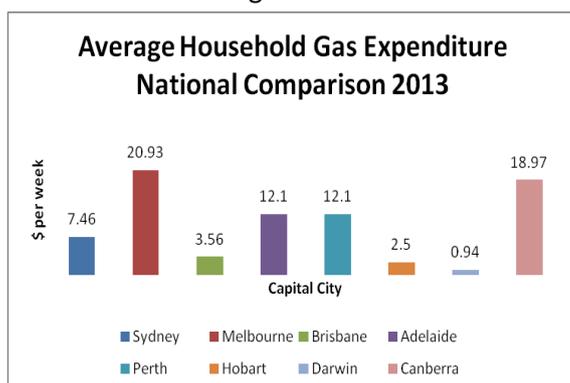
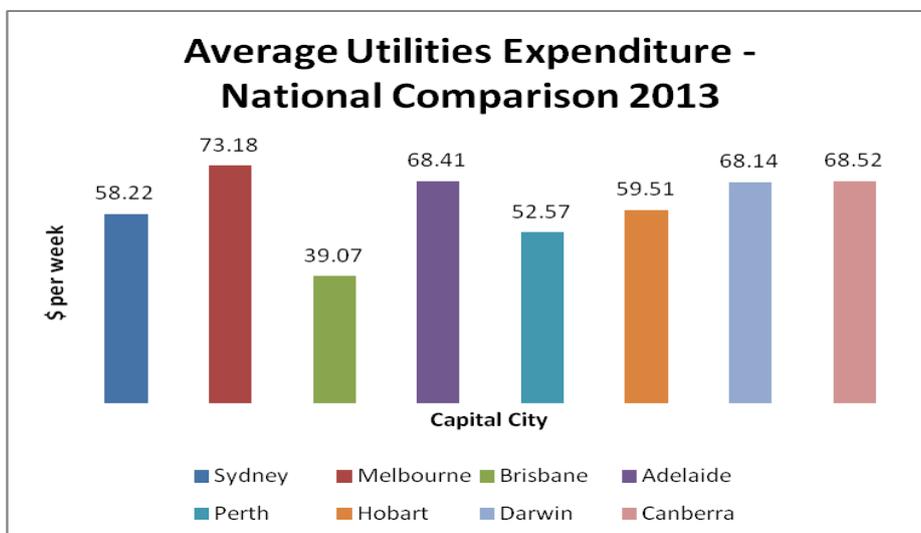


Figure 5 (continued): Comparison of Electricity, Gas, Water & Sewerage Expenditure in Capital Cities 2013
Indexed from 2009-10 HES Figures

Figure 5d



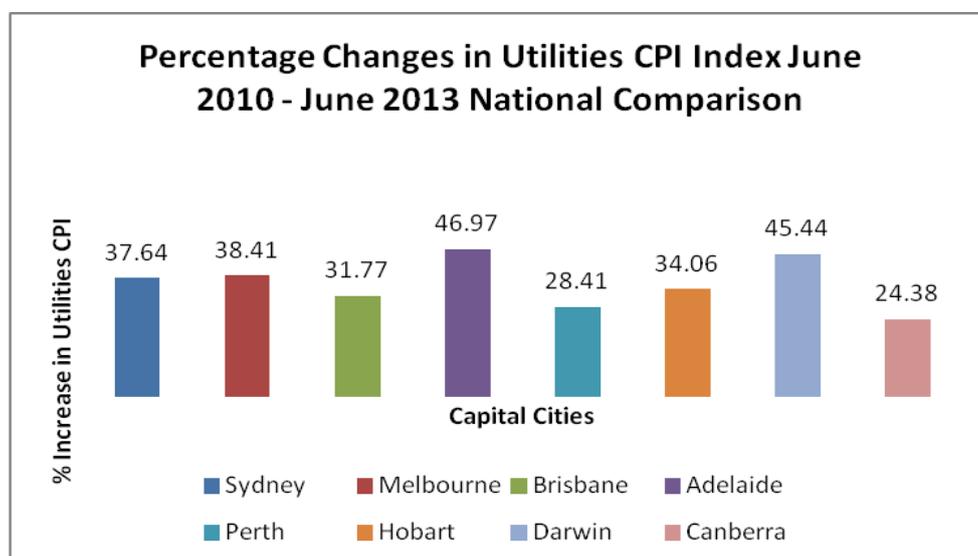
All figures derived from ABS (2011b Table23A); and ABS (2013d Table 13, Data 4)

Utilities CPI in NT second fastest rising in the country

While there is low expenditure on (and usage of) gas in the NT, compared to other jurisdictions, in order to make a consistent comparison of CPI rises it is important to do a comparison of combined utilities figures, as this takes into consideration dual fuel households and single fuel households.

Over the last three years, South Australia (46.97%) and **the Northern Territory (45.44%) have seen by far the highest rises across all states and territories** in terms CPI for Utilities (combined). See Figure 6. For the Northern Territory this is largely due to the extremely high rise in CPI for water (70.6%, and electricity (40.1%) with the CPI for gas has risen only 6.7% during the same three year period. At the same time the 'All groups CPI' for Darwin has only risen by 8.7% (ABS 2013d, Table 13, data 4-5).

Figure 6: Comparison of Percentage Changes in Utilities CPI Index in Capital Cities June 2010 - June 2013



Source: Figures derived from ABS (2013d Table 13, Data 1-5)

Concessions and Rebates

Eligible households in the can access state and federal government payments to assist with the cost of utilities. The Australian Government provides a Utilities Allowance to a small pool of recipients and the NT Government provides electricity, water & sewerage concessions to a larger number of households, through its NT Pensioner and Carer Concession scheme (NTPCCS).¹ However, the NTPCCS concession does not cover all Health Care Card holders, as all other states, bar Queensland do (though in Queensland, parents with children who receive Newstart are eligible). There are also concerns of a low uptake of the concessions available to residents, as reported by Bushlight (CAT) 2013), in a report done in the context of prepayment meters on Town Camps in Alice Springs², where they recommend “Agencies administering rebate and concession programs... undertake better marketing in Indigenous communities, and offer support to eligible residents to apply for the programs.”

Northern Territory Pensioner and Carer Concession Scheme (NTPCCS)

The NT Pensioner and Carer Concession Scheme (NTPCCS) is administered by the NT Department of Health. Currently, NTPCCS customers who have a standard electricity meter, receive a fixed daily concession of \$1.241 per day as well as a \$0.783 cents per kilowatt hour reduction, meaning they are in effect charged at the rate of \$0.18079 cents per kilowatt hour - no matter how much electricity is used – as well as a fixed daily charge of \$0.4808 cents per day. This is compared with the general charges of \$0.2591 per kilowatt hour of use for the rest of the population.

In relation to households with pre-payment meters³, eligible members receive an allocation of \$420 in concessions every 6 months. The concession on water is \$0.9130 per day on fixed daily charge and \$0.8610 on consumption; and for sewerage there is a \$1.213 per day concession on fixed daily charges. The electricity and water concessions are not capped per se, but cannot be more than the total of the bill but can be up to 100% of the charges. An example of the current value of concessions based on sample usage figures are set out in Table 8, below.

Table 8: NT Utilities Concessions – impact of concessions for households?

Current Concessions payable- example of typical usage for an attached dwelling-	Concession payable per Annum
For standard meters: Electricity usage based on 6460kW per annum (0.07831 x kW and 1.241 per day)	\$958.85
For prepayment meters: Concession for prepayment meter users (\$420 payable every 6 months)	\$840
Water usage based on 370 kL per annum if own and live in own home (0.8610 x kL; and 0.9130 per day)	\$651.81
Sewerage per annum if own and live on own homes (\$1.213 per day) (maximum payable)	\$442.75

Source PWC 2013

The electricity, water and sewerage concessions provided under the NTPCCS are very generous for those who are eligible to access them. However there are many low income Territorians who miss out because of the tight eligibility criteria (e.g. not extended to all health care card holders); and the fact that some (particularly remote) people who use prepayment meters, do not access their entitlement to the 6-monthly concessions.

Given the high costs of living in the NT, and the bush in particular, it is imperative that concessions reach all those who are eligible. In addition, it is a concern that utilities costs lead to further living cost pressures for people who can least afford it, and who are often receiving smaller incomes than people who are eligible for the NTPCCS scheme, with the Newstart payment approx \$82.75 per week lower than the pension rate.

¹ The scheme takes in Pension Concession card holders (Centrelink;DVA), DVA Gold Card (TPI only), Commonwealth Carers allowance, seniors (women 60+; men 65+), low income superannuants receiving a pension from an approved super fund, with health care card (HCC), or named on a partner’s HCC.

² Prepayment meters and energy efficiency in Indigenous Households, Centre for Appropriate Technology, McKenzie, M, 2013

³ With pre-payment meters, power is credited to the meter by a single-use token, which is a magnetic strip card that comes in denominations of \$5, \$10, \$20, and \$50. The card is fed into a slot on the front of the meter and the value of the card is credited to the meter. Prepayment meters have \$8 emergency credit which can be used when a power card runs out, but if used, is subsequently deducted from the credit on the next power card to be inserted into the meter. Meters are available for people with a single phase electricity service.

Conclusion

The overwhelming conclusion from the above is that utilities prices are rising much faster than the general inflation rate. Despite being a smaller part of household expenditure than housing, food and transport, expenditure on utilities is a significant driver of financial hardship. Poorer households spend proportionately more on utilities than richer households and the lumpiness of this rapidly rising expenditure for households with little room to move in their weekly budgets makes it harder to manage. For this reason, any policies aimed at assisting Northern Territory households with utilities bills, should be targeted primarily at low income households.

Expenditure on utilities is a significant driver of financial hardship

NT households have consistently had the highest expenditure on electricity in the country (over the last 15 years); and now have the third highest expenditure on water. Lower income households pay proportionally more of their income on utilities than higher earning households. However there is no disaggregated data regarding households who use standard meters vs prepayment meters, which could reveal if there is a greater or lesser expenditure by households who use prepayment meters. In addition, lower income households can least afford to spend their money on more costly energy saving devices like solar panels or energy efficient washing machines or fridges, which all require significant financial outlays.

While there have been energy saving schemes available in parts of the Northern Territory, low income households have generally not had the financial means to take advantage of them. This makes it very hard for low income households to improve their energy efficiency, which often leads to reliance on older and inefficient appliances, which are often subject to poor maintenance regimes. In addition renters in older accommodation often face poor thermal efficiency in their homes, and there is little incentive for landlords to make energy efficiency related improvements. NTCOSS is pleased that there are now programs nationally which are directly working with low income households to address energy efficiency issues – including the Low Income Energy Efficiency Program (LEEIP) in East Arnhem Land – and believe that further steps can be taken.

The NT government has recognised the impact of utility prices and cost of living pressures on Territory households by making affordable living a priority of government, and in particular by a number of actions in the utilities areas such as continuing to increase concessions with any price rise, reducing the severity of the initial price rise introduced in January 2013 (adjusted and backdated to 1 January, in March 2013). NTCOSS wishes to see these and other developments built on and makes a number of recommendations below.

There is room for discussion about the establishment of innovative water and energy service models. More common overseas, these models could be alternatives to the current system of purchasing kilowatt hours from a retailer. Where privatisation and deregulation are in place, it can lead to a myriad of choices for utilities services provision which can be confusing for households trying to work out what best suits their needs, particularly people with low literacy skills, or English as a second language, including people from culturally and linguistically diverse communities and Aboriginal communities.

Innovative service models could include the development of partnerships with utilities providers, appliance retailers and finance companies to create bundled water and energy services that improve affordability and could mean that households could buy what they need without worrying about capital and running costs. Various technologies have been developed which measure cost of usage, and could complement such schemes.

It is of interest that the National Council on the Ageing (COTA) believes that in order “to be effective for older people, energy reduction schemes need to focus on energy cost savings for households, rather than energy savings in terms of kWh.”⁴ NTCOSS calls for research in the area of energy services, and trialling of pilot

⁴ COTA 2012, *Submission to Senate Select Committee into Electricity Prices*, September 2012

programs for new initiatives. Programs such as Opower's Behavioral Energy Efficiency Solution, the NSW Energy Savings Scheme and the Victorian Energy Efficiency Target would be worth examination in this light⁵.

Another factor of significance is that the NT Government recently informed⁶ that discussions were occurring within Cabinet regarding major reforms in the essential services sector, including the splitting of the Power and Water Corporation (PWC) into separate entities. This will see the PWC restructured to separate its monopoly and competitive businesses into stand-alone Government-owned corporations with separate boards.⁷ The Government has stated that "The primary objective of the restructure is to make PWC more efficient and financially sustainable and to ensure it can operate effectively in the new competitive electricity market."⁸ While the Government has indicated that privatisation is not being considered, and it is "not looking at selling off assets at this stage", it has indicated it wishes to encourage competition in power generation, transmission and retail.

NTCOSS is concerned about the impact that the splitting up of PWC and encouraging competition will have on low income and vulnerable households, particularly households in remote and very remote areas of the NT. NTCOSS believes that equity of utilities prices across the whole of NT is crucial. NTCOSS is also concerned that, even if not in the immediate future, these plans by the Government could eventually lead to privatisation. Privatisation in other states, for example in South Australia (1999)⁹, has led to higher electricity prices for households, with the CPI for electricity rising 175% in Adelaide since 2000.

It is critical, therefore, particularly if disaggregation occurs, that resourcing of consumer advocacy be put in place to ensure the necessary consumer protections accompany any such changes. All jurisdictions – bar the NT and WA – are part of the National Energy Market (NEM), and subject to the National Energy Customer Framework (NECF). Under the NECF¹⁰, residential (and small business) energy customers are supported by a range of robust customer protections including

- *Guaranteed access* to an offer of supply for electricity and gas;
- *A customer hardship regime*, requiring retailers to develop customer hardship policies that must be approved by the AER, with certain prescribed elements to assist residential customers experiencing longer-term payment difficulties;
- *Limitations on disconnection*, including processes to follow, restrictions on when disconnections can occur, additional protections for customers experiencing hardship for financial difficulty and a prohibition on disconnecting premises where life support equipment is required;
- *Mandatory minimum terms and conditions* for retail and connection contracts for residential customers
- *Energy marketing rules* that build on the requirements set out in the Australian Consumer Law to ensure customers receive full information before they enter an energy contract, and ensuring retailers are held accountable for marketing that is conducted on their behalf.

Residents of the NT should be able to expect at least the same protections as those in other States, the majority of whom have funded consumer advocacy in place.

⁵ <http://opower.com/solutions/behavioral-energy-efficiency>; <http://www.ess.nsw.gov.au/Home>; <https://www.veet.vic.gov.au/Public/Public.aspx?id=Home>

⁶ Power and Water split plan, NT News, 10 August 2013

⁷ NT Government Media Release, 'New Structure to fix Labor's mess', Minister Tollner, 27 September 2013

⁸ *ibid*

⁹ In addition, in SA, full retail contestability came into place in 2003 and deregulation in 2013

¹⁰ <http://www.scer.gov.au/workstreams/energy-market-reform/national-energy-customer-framework/>

Recommendations

1. Provide mechanisms to enable low income households to improve energy and water efficiency. This could take a number of forms and include initiatives such as:

- Incentives for private and public housing landlords to improve energy and water efficiency; and
- The establishment of low-interest loans and/or more rebates for solar power, solar hot water - which need to be targeted in a way to be accessible to low income households.
- Access to information, education and workshops to enable households to take control of their energy and water usage, including increasing the ability of tenants to advocate to landlords to report damage that may contribute to higher living costs. This could also include education for landlords.

2. Research and trial potential market reforms that create incentives for the provision of water and energy service models. The development of partnerships with utility providers, appliance retailers and finance companies to create bundled water and energy services that improve affordability could be one way to move forward in this area. For example, the development with the Power and Water Corporation, an appliance retailer and a credit union working jointly to provide a 'bundled refrigeration service' consisting of an energy efficient fridge with electricity and maintenance, all for a fixed cost per month.

3. Ensure all Territorians eligible for utilities concessions can access those concessions

The development of better marketing of and support for customers, including prepayment customers, to access concessions they may be eligible for is critical. This would need to include information and resources in language – both oral and written.

4. Research on the expenditure patterns of households who use pre-payment meters. The Household E Expenditure Survey (HES) data for electricity does not disaggregate for standard meters vs prepayment meters. It is important to determine if there are significant differences in expenditure patterns by prepayment customers which might adversely impact on low income households in the Territory. This would help determine if there are any differences as a result of climatic conditions (in remote areas), household composition, and types of housing, comparing prepayment meter users with standard meter users.

5. Consumer Advocacy resourced in the NT. If disaggregation occurs as a result of Government decisions around the splitting up of the Power and Water corporation, funding for consumer advocacy must be established to ensure the necessary consumer protections are put in place to accompany such reforms. Such advocacy would include incorporating consumer perspectives on network price determinations (transmission and distribution), and consumer engagement in the power of choice recommendations relating to the introduction of smart meters, amongst other measures, to find the best solutions for the Northern Territory. The electricity industry is well resourced to provide their perspective on the myriad of issues in the energy space, but it can be easy for consumer interests to be overlooked. The consumer must have a legitimate voice.

Any policies aimed at assisting Northern Territory households with utilities bills should be targeted primarily at low income households.

Explanatory Notes

1. CPI and Living Cost Indexes

The ABS Selected Living Cost Indexes (SLCI) uses a different methodology to the CPI in that the CPI is based on acquisition (i.e. the price at the time of acquisition of a product) while the living cost index is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI traces changes in house prices, while the SLCI traces changes in the amount expended each week on housing (e.g. mortgage repayments). Further information is available in the Explanatory Notes to the Selected Living Cost Indexes (ABS, 2013b).

In that sense, the Selected Living Cost Indexes are not a simple disaggregation of CPI and the two are not strictly comparable. However, both indexes are used to measure changes in the cost of living over time (although that is not what CPI was designed for), and given the general usage of the CPI measure and its powerful political and economic status, it is useful to compare the two and highlight the differences for different household types (SACOSS 2012).

2. Limitations of the Selected Living Cost Indexes

The Selected Living Cost Indexes are more nuanced than the generic CPI in that they measure changes for different household types, but there are still a number of problems with using those indexes to show cost of living changes faced by the most vulnerable and disadvantaged in the Northern Territory. While it is safe to assume that welfare recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households says nothing about distribution of power, money and expenditure within a household and may therefore hide particular (and often gendered) structures of vulnerability and disadvantage. Further, the living cost indexes are not state-based, so particular Northern Territory trends or circumstances may not show up (SACOSS 2012).

At the more technical level, the Selected Living Cost Indexes are for households whose predominant income is from the described source (e.g. aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the 2009-10 *Household Expenditure Survey*) add up to well over the actual welfare payments available (even including other government payments like rent assistance, utilities allowance and family tax benefits). Clearly many households in these categories have other sources of income, or more than one welfare recipient in the same household. Like the CPI, the Living Cost Index figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest in those categories (SACOSS 2012).

Another example of this “averaging problem” is that expenditures on some items, like housing, are too low to reflect the real expenditures and changes for the most vulnerable in the housing market – again, because the worst case scenarios are “averaged out” by those in the category with other resources. For instance, if one pensioner owned their own home outright they would generally be in a better financial position than a pensioner who has to pay market rents – but if the market rent were \$300 per week, the average expenditure on rent between the two would be \$150 per week, much less than what the renting pensioner was actually paying (SACOSS 2012).

The weightings in the Selected Living Cost Indexes are also based on a set point in time (from the 2009-10 *Household Expenditure Survey*) and can't be changed until the next survey. In the meantime, the price of some necessities may increase rapidly, forcing people to change expenditure patterns to cover the increased cost. Alternatively or additionally, expenditure patterns may change for a variety of other reasons. However, the weighting in the indexes does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle (SACOSS 2012).

Finally, the Selected Living Cost Indexes' household income figures are based on households that are the average size for that household type: 1.52 people for the age pensioners, and 2.57 for the other welfare recipients (ABS, 2013b). This makes comparison with allowances difficult. This *Update* focuses on single person

households or a single person with two children (to align to the other welfare recipient household average of 2.57 persons). However, this is a proxy rather than statistical correlation (SACOSS 2012).

It is inevitable that any summary measure will have limitations, and as noted in the main text, the Selected Living Cost Indexes provide a robust statistical base, a long time series, and quarterly tracking of changes in the cost of living which is somewhat sensitive to low income earners (SACOSS 2012)..

3. Summary level Utilities Expenditures

Table 3 in the main text, updates the *2009-10 Household Expenditure Survey* expenditure figures to the June 2013 Quarter, by simply increasing them in line with Darwin CPI for each of the categories. Since there is no summary category for “domestic power and fuel” in the CPI (SACOSS 2012), this figure has been indexed using CPI for Darwin electricity as this is the biggest part of the broader category. “This indexing of HES data obviously mixes expenditure with prices and assumes that expenditure patterns remain unchanged. Demand for essential services is fairly inelastic, meaning the expenditure figures for domestic fuel and water are probably a reasonable estimate, but the proportion of total expenditure may be less accurate due to potentially changing expenditure patterns forced by the rapidly rising prices” (SACOSS 2012).

4. Use of Darwin CPI with NT figures

State CPI figures are not available through the ABS, Darwin CPI figures are used to calculate current expenditure figures from the 2009-10 HES Expenditure Data. Given the relatively similar expenditure figures for Darwin and the NT as a whole, use of the Darwin CPI provides a fairly accurate basis for deriving the figures.

5. Pension and Newstart Calculations for Table 2

Age Pension figures based on maximum payment for single pensioner (\$347.65) as at 30 June 2012 (NOTE: Household Assistance Package (HAS)* payments not applicable at the time); and 366.85 and HAS (\$6.75) as at 30 June 2013.

Newstart single no children figures based on maximum payment for single Newstart recipient (\$244.85), as at 30 June 2012 (NOTE: HAS not applicable); and \$248.50, plus HAS (\$4.20) as at 30 June 2013.

Newstart single with children figures based on maximum payment for single Newstart recipient (\$264.90) as at 30 June 2012 (NOTE: HAS not applicable); and (\$268.90), and HAS (\$4.55) as at 30 June 2013; **AND**

FTB A figures based on maximum payment for parent with one child under 13 (\$82.32) and one secondary student between 13-15 (\$107.03) as at 30 June 2012; and \$84.84 and \$110.32 as at 30 June 2013; **AND**

FTB B figures based on \$48.79 maximum payable to family with youngest child over 5, as at 30 June 2012 (assuming income test requirements are met); and \$50.33 as at 30 June 2013.

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

The Household Assistance Package (HAS) payments to address carbon tax price increases were made available to most pensioners and adult allowance recipients (including Newstart) from 20 March 2013. These payments add \$6.75 a week to the single pension and \$4.20 to Newstart for singles and \$4.55 to those with dependent children – and are included in the calculations used in Table 2.

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