

Mr Lyndon Rowe
Chair
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12th September 2013

Dear Mr Lyndon Rowe

RE: Response to the ERA's Inquiry into Microeconomic Reform in Western Australia: Issues Paper.

The Western Australian Council of Social Service (the Council) welcomes the opportunity to provide a response to the ERA's Inquiry into Microeconomic Reform in Western Australia: Issues Paper.

The Council has raised a number of important reform areas and ideas for your consideration. We regret that we have only been able to provide a cursory analysis of some issues and options at this point, and would be happy to follow up with the Authority in more detail if there are specific issues that you regard worthy of further consideration. The issues canvassed include: funding the TEC from consolidated revenue rather than a levy on electricity customers in the SWIS; introducing mandatory minimum thermal performance standards for housing and introducing mandatory disclosure of a households energy rating before the point of sale or lease; and issues relating to the cost and affordability of housing for low income and vulnerable Western Australians. Please note that the issues discussed are presented for your consideration only, and the options presented do not necessarily represent Council policy.

We have focused on some emerging issues that address the key findings of our recent *2013 Cost of Living Report*, which I commend to you for your consideration. These are: that it is only households on low and fixed incomes within Western Australia who are struggling with and falling behind rising costs in essential goods and services; and that the cost of housing (particularly market rental) is the single biggest driver of financial hardship and accounts for 60-75% of the rising in living costs for low income households. Our recent consultations with emergency relief providers and financial counsellors also confirm that utility bills are likely to be the first symptom of financial hardship and the key source for personal debt. We are suggesting that the best approach to these combined challenges may be to focus State Government programs, resources and policy initiatives on those who are in greatest need and to pursue outcomes that can be sustained in the longer term. This is likely to include: better targeting of concessions and financial assistance to those most in need, addressing barriers to affordable housing supply and the drivers of rising rental costs; looking at ways of incentivising the provision of affordable rental for low income households through state fees and charges; and by reducing the energy and water consumption of low income households experiencing financial hardship through improved thermal efficiency and behaviour change.

The Council has identified these areas as priorities for its policy development and advocacy for the coming year, and welcomes opportunities to work with the Authority and the State Government to

progress these issues. We note that our work in this area is at a relatively early stage, and we are not yet in a position to provide detailed recommendations on these matters to this inquiry. We hope that including these critical issues on the agenda of the Authority's discussion paper may help to prompt further debate and focus the interest and expertise of others with knowledge and skills to contribute in this area. The Council also notes that it has recently discussed the issue of housing affordability for low income households with Shelter WA, the Community Housing Coalition of WA, and the Council on the Aging WA (in relation to seniors housing affordability challenges and down-sizing). We believe Shelter WA may be making a submission addressing the issues of housing supply and reforming existing state fees and charges. The Council supports changing arrangements to improve the availability of affordable rental properties for low income earners, encourage seniors to be able to better access their assets in retirement, and improve affordability for those on lower incomes able to enter the housing market.

Should you have any queries in relation to this or any other matter, please do not hesitate to contact Chris Twomey, Director of Social Policy on (08) 9420 7222 or chris@wacoss.org.au. Please note that no part of this submission is confidential.

Irina Cattalini

Chief Executive Officer

WACOSS

1.0 Introduce mandatory disclosure of a households energy rating at point of sale & lease

1.1 Background

It is stated the free market requires perfect information, yet many people make their most significant purchase, the family home, by value without important information on its on-going costs – that is, the costs of heating or cooling that property arising from the thermal performance of the property. As energy ratings are available for a range of goods in Australia it is surprising to see that the biggest contributor to a households energy use, being its thermal performance, is not provided to potential buyers or tenants. Potential buyers are aware of other on-going running costs like water rates, Council rates, strata fees and the like, yet are unaware of what their electricity and water usage bills will be.

To help address this information failure it is worth investigating the feasibility of introducing mandatory disclosure of a household's energy rating at point of sale & lease. By combining a rating of a house or apartment's thermal efficiency with the size of the property, potential buyers or leases should be able to obtain a reasonable estimate of the dwellings on-going heating and cooling costs.

1.2 Benefits of the proposed reform

As people will be able to compare various property thermal performance rating there is potential for property value to increase or decrease in value based on the thermal performance rating. There is evidence in the ACT where mandatory disclosure is already law that this is occurring.

As heating and cooling is responsible for the significant proportion of a households entire energy use, improving the thermal performance of the residential housing stock should reduce the demand for electricity from the grid, particularly during peak periods. See the *Reduced Infrastructure Costs from Improving Building Energy Efficiency* report¹ for more information on the estimated costs and benefits are for the electricity network.

Public health authorities are concerned by the correlation between extreme weather events and hospitalisation and even death due to preventable illnesses (including heat stroke, influenza and pneumonia, as well as critical incidents for people with existing chronic conditions)². While mandatory disclosure at point of sale or rental may not immediately lead to improvements in thermal efficiency, it will allow those with health conditions such as thermoregulatory dysfunction to make informed choices. A report by the WA Department of Health states that climate change is

¹ Langham et al. [Reduced Infrastructure Costs from Improving Building Energy Efficiency](#), 2010 Prepared for the Department of Climate Change and Energy Efficiency by the Institute for Sustainable Futures, University of Technology Sydney and Energetics.

² Susan Williams, Monika Nitschke, Philip Weinstein, Dino L. Pisaniello, Kevin A. Parton, Peng Bi, [The impact of summer temperatures and heatwaves on mortality and morbidity in Perth, Australia 1994–2008](#), Environment International, Volume 40, April 2012, Pages 33-38, ISSN 0160-4120, (behind pay wall) and Nitschke et al. [Impact of two recent extreme heat episodes on morbidity and mortality in Adelaide, South Australia: a case-series analysis](#), Environmental Health. 2011, 10:42

likely to advertise health consequences for society³ and one of the possible adaptation measures identified within the report is to extend the regulations for minimum energy efficiency standards to existing homes⁴.

Whether or not mandatory disclosure leads to improved thermal efficiency in the rental and property markets over time is likely to depend on a couple of key factors, including the extent to which consumers are informed about the relationship between star ratings and on-going costs, the extent to which star-ratings are used as a point of product differentiation in the marketing of properties, and the balance of supply and demand within the market. Under current circumstances where there is restrictions on supply, strong competition for limited properties (in particular a chronic shortage of affordable rental properties) the impact of mandatory disclosure may be relatively limited for some sub-markets (such as low-cost rental), hence it may be worth investigating the costs and benefits of introducing a minimum thermal performance requirement for such properties, if it shown that rental properties do not benefit from mandatory disclosure.

There are a number of options that might be considered for how mandatory disclosure might be combined over time with minimum thermal performance requirements or incentives. Different options for incentives might include reductions to once-off or on-going charges such as stamp duty, rates or land tax, or the ability to participate in specific programs or schemes (for instance the Department of Housing's *Rental Pathways* program, or the *National Rental Affordability Scheme* NRAS) for properties that are at a minimum thermal standard or where alternations to a property to improve its thermal performance has occurred. Ideally, the introduction of a mandatory disclosure scheme would include a public education campaign and a lead-time to the gradual introduction of compliance and monitoring of both rates of compliance and the efficiency of different categories of housing over time. This data could then provide the basis for informed decisions about the introduction of minimum thermal standards or incentives programs, depending on the extent to which market conditions were or weren't driving improvements for particular sub-markets. Our concern is that there is already evidence of market failure in the provision of affordable rental properties⁵, and so some sort of intervention is likely to be needed to incentivise the provision of more thermally efficient rental properties at the low-income end of the market.

The economic benefits of these reforms would be likely to occur in a number of areas. Reduction over time in peak energy demand should alleviate or defer the need for additional investment in power generation and transmission infrastructure. Reduced electricity consumption and improved efficiency of electricity use would reduce the amount consumers are currently sinking into recurrent inefficient consumption and concomitantly reducing the subsidies provided by government in the absence of cost reflectivity, particularly to regional consumers.⁶ There would be an increase in both

³ WA Department of Health - Environmental Health Directorate, [Health impacts of climate change: Adaptation strategies for Western Australia](#), 2008

⁴ WA Department of Health - Environmental Health Directorate, [Health impacts of climate change: Adaptation strategies for Western Australia](#), 2008, page 35.

⁵ Arguably driven by existing capital gains and negative gearing provisions, and the preponderance of individual 'mum and dad' investors believing property as means of providing for retirement is 'as safe as houses' – but these are Federal issues outside the scope of this inquiry.

⁶ There is a double benefit in improving the thermal efficiency of regional and remote housing where temperature extremes are more likely and the cost of power delivery and infrastructure is higher, and where

energy efficiency assessment activities (providing opportunities for assessors trained under previous defunct federal schemes, such as Green Loan scheme and the Green Start program and in the construction sector (retro-fitting of insulation, blinds, double-glazing, shade, etc.) which is currently facing rising unemployment rates linked to the wind-down of the construction phase of the resources boom.⁷

The introduction of mandatory disclosure may allow the government to better target energy efficiency/retrofitting programs and the concessions & rebates that are provided to low income households. Better targeted programs will ensure that future government programs that try to address energy inefficiency are more cost effective. Existing electricity, gas and water concessions could then also be better targeted based on need.

There may be some equity considerations in seeking to improve energy efficiency outcomes in low-income rental properties, given that recent renewable energy and home insulation schemes and feed-in tariffs have seen substantial public investment in measures that have largely benefitted those who have owned their own homes and had the capacity to co-invest, while arguably costing those on lower incomes (for instance through increased electricity tariffs, or forgone public investment in other social programs).

1.3 Options that are available for introducing the Residential Mandatory Building Disclosure requirements

The scheme could have a blanket requirement for disclosure to occur before the point of sale or lease, or just at the point of sale, or potentially the scheme could be in phased in over many years.

If the introduction of mandatory disclosure requirements is too abrupt it could lead to escalating assessment costs or serious concerns around quality control of assessors if there is a shortfall of qualified assessors. Therefore the schemes introduction will need to be carefully thought out and phased in. An approach where disclosure requirements are phased-in across different market segments over a number of years would be best, as it would allow industry time to grow and prevent the boom and bust cycle that occurred recently with the Federal government home insulation and green loans schemes.

The phased in option might also involve requiring a landlord or seller to undertake differential levels of assessment under different circumstances and then providing the highest level assessment to a potential buyer or leaser.

The levels may consist of the following:

- a) High level audit for new build/major renovation (already required)
- b) Point of Sale (mid-level audit); and
- c) Point of Lease when the information is already on-hand (e.g. homes that through a sale/new build already have an assessment and is then leased, or new builds that become rentals);

consumers within the Southwest Interconnected System are cross-subsidising that power via the Tariff Equalisation Contribution.

⁷ See 2013 State Budget Paper 3, p26.

- d) A low level self-check list style audit could be required before a new lease occurs, if none of the above apply.

The requirement to have a rating could be phased in over time. For instance - self check lists might be introduced at first for when a property is leased, while dwellings exceeding a set limit based on size or value when sold could require a rating. The square metre /price requirement might continue to reduce until all dwellings being sold are covered under the scheme, at which point the requirement could be introduced to the rental market.

1. Benefits of a phased in approach

Such an approach would ensure that there is not a mass influx of assessors to an industry which will ensure that the industry (skills) is built up over a number of years. It will also ensure that there is not a spike in the cost of assessments as only a limited number of audits will be needed at any particular point in time, ensuring that the supply for auditors will not outstrip demand. Eventually once the industry is matured then the assessments could be introduced for all new leases as well (once again slowly phased in over time). Until that time there should still be a requirement for a basic self-check list to be provided to potential tenants at the time that the property is advertised as being up for lease so that at least the tenant has some information available to them. It should also be stated that if a higher level audit rating is available then that rating should be disclosed before the point of lease.

Properties would only need one assessment (at a or b level, as above) over the course of its life unless major changes occur at the property that could alter its rating (which is already law). The self-checklist for leases will need to be completed every time the dwelling is re-leased as without such a requirement it would be extremely difficult to hold someone liable (when there is a deliberate withholding of information) if something is missing from the checklist from a previous transaction.

As a property will only need one assessment over its life time, the number of assessments for houses sold after a few years of the scheme operating will continue to reduce as the percentage of houses with an energy rating already provided from a prior sale (or from when it was built/renovated) will continually increase. Once this tipping point occurs it would be an opportune time to introduce mandatory disclosure to leases as there will already be established body of assessors requiring additional work. If the real estate industry has concerns around creating a demand shock, then perhaps some innovative phase-in style approach could be employed, similar in style to that for properties sold.

1.4 Questions for Interested Parties

In the issues paper there were a number of questions that the stated that a submission may wish to address. Below are responses to these questions for the mandatory disclosure reform.

What sectors of the Western Australian economy are likely to benefit from the implementation of microeconomic reforms?

The construction and building sector are the likely beneficiaries of the proposed changes. It is likely that the building sector will be called upon by property owners to improve their properties so that they increase their property or rental value before selling or leasing of their property occurs.

Thermal performance assessors will also be beneficiaries.

What specific reforms might improve the efficiency, productivity or flexibility of those sectors, and why?

This policy has the potential to improve the thermal efficiency of the housing stock, thereby improving the productivity of the housing stock that is currently available in the housing market. In addition it will improve the efficiency of the electricity network which could alleviate or defer the need for additional investment in power generation and transmission infrastructure. These reforms could be introduced under Part 7 of the [Building Act 2011](#).

What economic and social benefits might those specific reforms have for individuals, businesses and/or the State?

Some of the economic and social benefits that these reforms include the following:

- Reduced health costs
- Improved information for consumer decision making
- Lower energy bills for people that reside in poor quality housing stock
- Reduced peak demand
- Increased building activity at a time when the construction is slowing and unemployment expected to increase.

The above benefits are discussed at greater length in the section concerning minimum thermal performance standards for existing housing stock. While there is some overlap with mandatory disclosure of a household's thermal performance and minimum thermal performance standards, the benefits realised under the minimum thermal performance standards would be greater than under the mandatory disclosure reform due to the fact that only a rating needs to be supplied under the mandatory disclosure reform. Hence that reform provides information and education to the community which may or may not provide motivation for a property owner to improve a property, while under minimum thermal performance standards there would be a requirement on property owners to make improvements to poor quality housing stock and being industry wide the benefits would be magnified. Hence the voluntary nature for improvements to housing stock under mandatory disclosure would result in the benefits mentioned above not being as great as under the minimum thermal performance standards were improvements to poor quality housing is required.

What economic and social costs might those specific reforms have for individuals, businesses and/or the State?

If mandatory disclosure is introduced then households that receive a poor rating may also see a reduction in the value of their property when it comes to sell. On the flip side property owners that have undertaken improvements to their properties or have quality housing might see an increase in the value of their property. Overall it will provide customers with information which could affect its

property value, as has been the case in the ACT⁸. So while there is a cost to property owners with poor quality housing, there would also be a benefit to owners of quality housing stock.

In addition there will be administration costs to the state.

Are you aware of any additional information that may assist the ERA in assessing the efficiency of the sector in question, or the costs and benefits of the proposed reforms?

The following references might be of assistance to the ERA for assessing the costs and benefits of the proposed reforms:

- Allen Consulting Group, 2011, *Mandatory Disclosure of Residential Building Energy, Greenhouse and Water Performance: Consultation Regulation Impact Statement*, fourth draft report to the National Framework for Energy Efficiency Building Implementation Committee. This report already contains a cost-benefit analysis that could be expanded and take into account the feedback from Moreland Energy Foundation submission which believes some of the benefits have been underestimated and costs overstated. However, even with the conservative assumptions used by the Allen Consulting Group their cost benefit analysis found that 3 out of the 4 options of mandatory disclosure studied provided an overall net benefit.
- All of the submissions as part of the Mandatory Disclosure of residential building energy, greenhouse and water performance Regulatory Impact Statement for The National Framework on Energy Efficiency Building Implementation Committee can be found at this address <http://www.mce.gov.au/quicklinks/submissions.html>
- The ACT Government will be releasing a discussion paper on expanding the mandatory disclosure requirement to tenanted dwelling for public comment late September. WACOSS has been informed that it will be released through the ACT Government's "Time to Talk" website: <http://www.timetotalk.act.gov.au/home/>. The issues paper or responses to the issue paper may prove of use to the ERA in assessing the costs and benefits of the proposed reform
- The Public Utilities Office and WA Building Commission have commissioned work on a dwellings thermal performance to assess the costs and benefits of moving to a minimum 6 star standard for new dwellings, these agencies may have some additional information or expertise that could assist with assessing the cost and benefits of the proposed reform.
- The WA Department of Health - Environmental Health Directorate, *Health impacts of climate change: Adaptation strategies for Western Australia* report has identified a range of possible consequences as a result of climate change, some which apply to extreme weather. People residing in poor thermal performing dwellings will likely be affected by a range of the components identified in the report.

Are you aware of any examples of other jurisdictions (either in Australia or overseas) where similar reforms have been implemented? How effective were the reforms in those jurisdictions?

⁸ The Energy efficiency rating "was found to be positively associated with house price. The association on average for 2005 was 1.23 percent for each 0.5 EER star and 1.91 percent in 2006, holding all other variables constant." Source: *Energy efficiency rating and house price in the ACT*, Department of the Environment, Water, Heritage and the Arts, page 6.

The ACT government has introduced mandatory disclosure. The reform has been effective in that it allows people to make informed decisions when they are about to purchase a property. As a result there is a correlation between a house prices and the dwellings thermal performance.⁹

2.0 A minimum energy rating standard for existing residential buildings

2.1 Background

On average houses build before 1990 have an energy rating of 1 star on the NatHERS scale¹⁰, these houses in effect have a very poor thermal performance. Having such poor thermal efficient housing is costly for both the occupant and the society at large, resulting in many unforeseen costs.

Intruding minimum 2, 3 or 4 star Energy Rating standard for existing residential building stock, phased in over a protracted period of time may reduce household expenditure on electricity bills and government expenditure on concessions. In addition it may reduce the need to increase the capacity of the electricity network¹¹ which has been the major cost driver of electricity prices in recent times which is a drag on the overall economy. Reducing the spending on the electricity grid should result in slower electricity price increases for both the residential and business sector, which in effect should make Western Australian businesses compete more effectively on the national and international stage.

2.2 Potential savings reform would bring

Improving the thermal performance of the residential housing stock could reduce government expenditure as a result of:

- Reduced health costs (direct link between health effects and households thermal performance)
- Reduced cost in concession payments (HUGS)
- Reduced costs in unseen subsidies (TEC & CSO)
- Lower energy costs due to lower peak demand – lower electricity generation costs
- Defer the need for further investment in the power grid
- Increased building activity at a time when the construction phase of the mining boom is starting to slow

Reduced health costs

There are a many journal articles that examine human health, hospital administrations and temperature, in addition to health and fuel poverty which is closely associated to under-consumption of energy for heating/cooling purposes, and a household's thermal performance and occupant's health & safety. Some of these articles investigate the relationship between temperature induced events and their associated economic costs. Some of the articles that the ERA may want to consider when reviewing the economic benefits of a households thermal performance have been

⁹ See previous footnote.

¹⁰ [NASH technical note 2, Six-star energy efficiency measures for Houses](#), page 2

¹¹ The report [Reduced Infrastructure Costs from Improving Building Energy Efficiency](#) explores savings made to the electricity grid by improving both the existing building stock in the commercial, residential and industrial sectors.

included under question 5 of the *Questions for Interested Parties* section further on in this submission.

2. Reduced costs in subsidies (TEC & CSO)

As electricity is greatly subsidised within the residential sector in Western Australia via Community Service Obligation (tariff adjustment payment), any reduction in usage should also see a reduction in the subsidies that the government currently pays to all residential electricity customers. Considering that this subsidies runs into the hundreds of millions of dollars each year it is within everyone's interests to reduce the energy usage of the residential sector.

The Tariff Equalisation Contribution (TEC) results in SWIS customers paying more for electricity to subsidised their regional counterparts. Improved thermal performance could substantially lower the electricity requirements in regions where in many instances supplying electricity is very costly, especially in remote communities where diesel generators are used. Any reduction in energy usage should lower the subsidy amount required from SWIS customers which is used to ensure that the higher cost regional electricity is provide at the same price as their city counterparts. The economic benefits include lower electricity prices which is important as the market continues to move closer to cost reflective pricing.

3. Lower energy costs due to lower peak demand

More thermal efficient housing will reduce energy use during peak summer and winter periods¹², which should reduce the costs drivers of electricity, being network spend and the utilisation of higher marginal cost generation plant. This is expanded further in our response to question 1 in the Questions for interested parties section.

Overall lower cost drivers/energy prices should help make Western Australia business more competitive and spur economic growth.

4. Increased building activity at a time when the construction phase of the mining boom is slowing

Requiring poor quality buildings to improve their thermal efficiency will increase activity in the construction sector. If this policy was introduced within the next one or two years then it would aid the construction sector just when it is predicted that the mining boom would be starting to slow down. Hence it might be an opportune time for introducing such a scheme.

2.3 Potential costs

Costs to property owners to ensure that their properties meet the minimum standards

There will be costs to property owners when they need to make alterations so that their properties meet the minimum standards. The key question is the extent to which the long term net benefits

¹² Langham, E., Dunstan, C., Walgenwitz, G., Denvir, P., Lederwasch, A., and Landler, J. 2010, Reduced Infrastructure Costs from Improving Building Energy Efficiency. Prepared for the Department of Climate Change and Energy Efficiency by the Institute for Sustainable Futures, University of Technology Sydney and Energetics.

outweigh the costs and therefore whether it is still worth pursuing based on the compensation principle.¹³

5. Government administration costs

With any new government scheme there will be administration costs, however with reduced network spend, lower hospital costs and the other benefits outlined in this submission to government should outweigh the costs, in line with the minimum standard for all reforms set out in the compensation principle stated in the issues paper.

2.4 Phasing in the scheme

If such a scheme were to be introduced a gradual phased in approach similar to that outlined in the section 'Options that are available for the Residential Mandatory Building Disclosure introduction' in this submission is suggested, which sees a threshold based on either price or house size that dictates the timeframe of when a property needs to comply that is slowly reduced until all households are covered under the scheme.

2.5 Questions for Interested Parties

In the issues paper there were a number of questions that the stated that a submission may wish to address. Below are responses to these questions for the minimum 3 or 4 star Energy Rating standard for existing residential building stock reform.

What sectors of the Western Australian economy are likely to benefit from the implementation of microeconomic reforms?

The construction and building sector are the likely beneficiaries of the proposed changes to improve the existing housing stock thermal performance. Energy auditors will also be beneficiaries. It is likely that the building sector will be called upon by property owners to improve their properties so that they comply with any new requirement of a minimum thermal performance standard. This is opportune time for the introduction of such a policy as with the slowing of the mining construction phase many construction workers will be seeking alternative employment.

In addition electricity prices should reduce as there would be a reduction in energy use at all times and in particular during periods of peak demand¹⁴. Hence the electricity grid network spend should be reduced which we see electricity price increases reduced from what would have occurred under a business as usual (BAU) scenario. In addition as demand is reduced so too is the average cost of generation. In a perfect market generation assets will be deployed in order of least marginal cost to highest marginal cost plant as generation demand increases. With reduced electricity demand the more costly plant will be switched off first with the lower cost plant continuing to operate, as such a

¹³ The compensation principle is based on if those that would be made better off by the reform could theoretically compensate those made worse off by the reform as the benefit to the people made better off is greater than the costs to those made worse off. This is the minimum standard set for all reforms stated in the issues paper.

¹⁴ See Langham, E., Dunstan, C., Walgenwitz, G., Denvir, P., Lederwasch, A., and Landler, J. 2010, [Reduced Infrastructure Costs from Improving Building Energy Efficiency](#). Prepared for the Department of Climate Change and Energy Efficiency by the Institute for Sustainable Futures, University of Technology Sydney and Energetics for more information.

reduction in demand should also see a reduction in the average cost of generation. As the cost of generation for non-contestable business and residential customers is smeared across all non-contestable energy tariffs any reduction in the electricity cost stack should result in lower costs than under a BAU scenario. As such businesses across the entire economy and residential households will benefit from the introduction of this policy.

What specific reforms might improve the efficiency, productivity or flexibility of those sectors, and why?

The introduction of a minimum 3 or 4 star Energy Rating standard for existing residential building stock and/or mandatory disclosure of a households energy rating would improve the housing stock and electricity productivity. See the answer above. These reforms could be introduced under Part 7 of the [Building Act 2011](#).

What economic and social benefits might those specific reforms have for individuals, businesses and/or the State?

Some of the economic and social benefits that these reforms include the following:

- Reduced health costs
- Improved information for consumer decision making
- Lower energy bills for people that reside in poor quality housing stock
- Reduced cost in concession payments (HUGS)
- Reduced costs in unseen subsidies (TEC & CSO)
- Lower energy costs due to lower peak demand, improve WA's economy
- Increased building activity at a time when the construction phase of the mining boom is starting to slow will help ensure that employment remains steady in the construction sector.

These are discussed at greater length throughout the submission.

What economic and social costs might those specific reforms have for individuals, businesses and/or the State?

The proposed reform will require some properties owners to make improvements to comply with the new requirement of minimum thermal performance standards.

In addition there will be administration costs to the state, however with reduced network spend, lower hospital costs and the other benefits outlined in this submission the benefits to government should outweigh the costs, in line with the minimum standard for all reforms set out in the compensation principle stated in the issues paper.

Are you aware of any additional information that may assist the ERA in assessing the efficiency of the sector in question, or the costs and benefits of the proposed reforms?

The following references may be of assistance to the ERA with assessing the costs and benefits of the proposed reforms.

- [Energy-efficiency: building code star-ratings. What's optimal, what's not](#), prepared for the Master Builders Australia by the Centre for International Economics, July 2010.

- [On-Ground Assessment of the Energy Efficiency Potential of Victorian Homes](#) prepared by Moreland Energy Foundation Limited for Sustainability Victoria, March 2010
- Williams et al. [The impact of summer temperatures and heatwaves on mortality and morbidity in Perth, Australia 1994–2008](#), Environment International, Volume 40, April 2012, Pages 33-38, ISSN 0160-4120 - behind pay wall
- Howden-Chapman et al. [Tackling cold housing and fuel poverty in New Zealand: A review of policies, research, and health impacts](#) Energy Policy, Volume 49, October 2012, Pages 134-142, ISSN 0301-4215 - behind pay wall
- Leech. J, Raizenne. M & Gusdorf. J, [Health in occupants of energy efficient new homes](#) International Journal of Indoor Environment and Health, Volume 14, June 2004, Pages 169-173 - behind pay wall
- Dr Ralph Chapman, Associate-Professor Philippa Howden-Chapman & Des O’Dea [A cost-benefit evaluation of housing insulation: results from the New Zealand ‘Housing, Insulation and Health’ study](#), October 2004.
- Véronique Ezratty, Anne Duburcq, Corinne Emery & Jacques Lambrozo. [Residential Thermal Comfort, Weather-Tightness and Ventilation: Links With Health in a European Study](#).

Are you aware of any examples of other jurisdictions (either in Australia or overseas) where similar reforms have been implemented? How effective were the reforms in those jurisdictions?

The United Kingdom has introduced ‘The Energy Act 2011’ which will ban the most poorly rated properties (F and G rated properties) from being rented out from 2018 onwards if improvements are not made, which is very similar to the model discussed above.

3.0 A Hardship Affordability Scheme for Low-Income Households

Reducing consumption is an important method to reduce cost of living pressures, and it may be more economically efficient to achieve permanent reductions in consumption than trying to address utility hardship via tariffs, concessions and hardship grants alone. The Council would like to see a new energy affordability program targeted at low income households with high consumption in social housing or private rental. The scheme might be made available to concession holders experiencing financial hardship who are identified to have comparatively high consumption for their household size and type (say, the top two quintiles). By targeting the largest users the program will be able to significant savings for individual households, and deliver the greatest overall reductions in power consumption and deferred investment in grid capacity, resulting in an overall net benefit to society.

A particular focus on low-income high-consumption households or communities in regional areas where the cost of power delivery is particularly high, but the cost of making efficiency improvements is not comparatively prohibitive might also deliver the best value for money to the community as a whole, due to reductions in the cost of the TEC. In more remote circumstances consideration should be given to economies of scale in assessing and retrofitting groups of houses at once, rather than on a case-by-case basis.

Entry to such a program should require an agreement to share data, and it is best if the program was delivered by local community service providers who have an established relationship (trust) with the household. A home efficiency assessment should identify least cost measures, with the cost of interventions tracked against bill reductions. Participants may gain access to further efficiency measures by meeting targets for behavioural change that reduces their consumption, and engaging with peer to peer education and support.

4.0 Funding the Tariff Equalisation Contribution from consolidated revenue

Under the State Government's uniform tariff policy, regional WA customers outside the South West Interconnected System (SWIS) pay the same tariffs for their electricity as customers in the SWIS. The uniform tariffs are the same even though the costs to provide electricity to regional customers are higher than those in the SWIS. Part of the funds that ensure that there are uniform tariffs across the state comes from Tariff Equalisation Fund (TEF) which is funded by the Tariff Equalisation Contribution (TEC). The TEC is an additional charge collected by Western Power as part of the distribution network tariffs. This charge is paid into the Tariff Equalisation Fund (TEF), which ultimately funds the cross-subsidy. The TEC ensures that residential customers connected to the SWIS cross-subsidise other customers outside of the SWIS. On the other hand, a Community Service Obligation (CSO) implies that the WA population contributes to the subsidy of electricity outside the SWIS rather than customers connected to the SWIS.

It was estimated that from 1st July 2012 to the 30th June 2017 Synergy customers will subsidise Horizon Power customers to the tune of \$782 million.¹⁵ A more equitable and efficient method of funding the uniform tariff policy is to have it paid entirely through consolidated revenue, otherwise

¹⁵ TEC figure from the [Western Australian Government Gazette No 142](#), page 3795

there is less incentive for the government to identify and implement cost savings measures outside of the SWIS.

4.1 Questions for Interested Parties

In the issues paper there were a number of questions that the stated that a submission may wish to address. Below are responses to these questions for funding the Tariff Equalisation Contribution from consolidated revenue reform.

What specific reforms might improve the efficiency, productivity or flexibility of those sectors, and why?

The specific reform that might improve the efficiency of the electricity sector would be the removal of the TEC and for the funding of the uniform tariff policy to come directly from consolidated revenue. This will encourage the government to further implement programs and reform within the regions that fall outside of the SWIS to reduce the cost of delivering electricity in the regions, in an attempt to lower the community service obligation payment that the government would otherwise be making to Horizon Power due to the government subsidising the difference between the true cost of delivering electricity to the regions and what non-contestable customers are charged.

What economic and social benefits might those specific reforms have for individuals, businesses and/or the State?

The State may be more inclined to implement programs in the regions to reduce energy use in an attempt to lower the cost of funding the uniform policy from consolidated revenue. As such customers in the regions might be recipients of energy efficiency programs that aim to reduce electricity usage. Lower consumption will result in lower electricity bills for households in the regions. In addition the state will reduce the amount of greenhouse gas it produces through lower electricity consumption.

What economic and social costs might those specific reforms have for individuals, businesses and/or the State?

The cost will be shifted from electricity users in the SWIS to the state budget; therefore there is a direct cost to the state budget. This is more equitable means of funding the uniform tariff policy.

Are you aware of any additional information that may assist the ERA in assessing the efficiency of the sector in question, or the costs and benefits of the proposed reforms?

The ERA may want to review the former Ministerial Council of Energy's (now SCER) [National Framework for Energy Community Service Obligations](#) which provides principles for best practice on the design and operation of community service obligations.

Are you aware of any examples of other jurisdictions (either in Australia or overseas) where similar reforms have been implemented? How effective were the reforms in those jurisdictions?

The water industry in Western Australia already operates on this model where the cost difference in the regions is paid via a community service obligation payment to the Water Corporation rather than be cross-subsidised by metropolitan water consumers.

5.0 Efficient and affordable rental for low-income households

Consideration of how best to secure improvements in thermal efficiency in older housing stock, especially that rented to low-income households who are at risk of financial hardship, is a critical issue. The 2013 Cost of Living Report round that housing is the major weekly expense facing each of the low income household types we modelled (a working family on the minimum wage, a single parent household with part-time work, and an unemployed single¹⁶), accounting for between 29% and 45% of their weekly income (up from 28 - 41% last year). As a consequence, the 8.6% rent increase experienced in 2012-13 was the biggest single cost increase for these households and accounted for 61% to 74% of their total rise in living costs.¹⁷ During the last decade Perth median rental has risen from 35% to 75% of the State Minimum Wage, and all indications are that housing starts will continue to lag behind projected population growth in WA.¹⁸

By comparison, utility costs represent 3.7% to 4.6% of weekly expenditure for our households, and the rise in utility costs in 2012-13 (of between 11.7% to 13.2%) accounted for between 10% to 12% of the overall rise in essential living costs. This indicates that low income households are much more sensitive to rising in housing costs. Because of the fundamental nature of secure shelter to the well-being of individuals and families, the difficulty securing affordable housing and the challenges faced in moving homes, schools and communities, we know that households in financial stress will prioritise paying the rent ahead of other essential costs, including food, transport and utilities. Due to their relatively large size and infrequent nature, difficulty paying utility bills is likely to be one of the first symptoms of financial stress and the key cause of household debt and default.

A careful balance needs to be struck between the need to ensure low income houses have access to affordable rental properties on the one hand (ie not to further limit its availability or drive up rental costs), and the need to take measures to reduce the ongoing costs of living in that housing and the risk of utility hardship and debt on the other. The challenge is to identify what can be done cost-effectively at a State level to support the provision of more efficient affordable rental - for instance to provide incentives by reducing ongoing fees and charges. One option discussed in the Henry Tax Review is for State Governments to abolish or phase-out stamp duty (which arguably creates a barrier for seniors looking to down-size larger family homes in favour of smaller, more accessible and easier to maintain ones) in favour of a broad-based land tax. Were such a model introduced it would be essential to ensure that seniors (particularly aged pensioners who do own their own home) had the option of deferring land tax payments until sale of the property. While such a scheme may free up a number of larger properties with empty rooms, it is unlikely to be sufficient to address the ongoing gap between housing construction and population growth in Western Australia [insert

¹⁶ The population of Western Australia was 2,034,400 as of July 2013. There were an average of 61,000 **unemployed** during 2012-13 and an average unemployment rate of 4.7%. The unemployment rate is forecast to rise to 5.5% in 2013-14 then to 5.75% in 2014-14, accounting for 83,000 out of work or an extra 22,000 people. There were 25,703 **single parent households** receiving Parenting payment single as of 29 March 2013. This does not include an estimated 6,000 single parent households in WA moved to Newstart Allowance on 1 January 2013. There were 138,277 **working families** in WA who received Family Tax Benefit Part A (FTB-A) as of 29 March 2013. FTB-A is means tested according to the age and number of children in the household, and the payment rate is tapered so that it cuts out at an income of \$48,000 for a single child and at \$95,000 for three or more children. With 2 children and annual income of \$67,000 our household is fairly representative.

¹⁷ WACOSS, 2013 Cost of Living Report, p4, p13-15.

¹⁸ WACOSS 2013 Emerging Issues Forum, slide X.

graph] and other measures to increase housing supply will also be needed and may prove more effective.

It is important to note that with a significant cohort of our population now at or approaching retirement age (the 'baby boomer' generation) the ability to free up housing assets to support retirement income is going to become increasingly important. It is also important to note that a significant proportion of our current rental housing is owned by 'mum and dad investors' who have seen property as a safe means of providing for their retirement – and that there is likely to be significant issues arising in the housing market as they progressively need to free up those assets to cover ongoing living costs, health and aged care. This is either a risk or an opportunity for our state and national economies, depending on how well we prepare for it. There may be an opportunity to create more effective investment instruments that support retirement income and achieve economies of scale in the provision of affordable rental properties. Appropriate policy settings might support a shift from individual investment in higher cost rental to institutional investment in lower cost rental to address both these needs, to make our rental market look more like those in other OECD nations and gradually unwind the perverse outcomes of our capital gains and negative gearing structures.

The issue of how to strike the right balance between the cost of housing and the cost of living within that housing (in this case, the cost of heating and cooling – noting that transport and access to jobs, schools and services is a related issue arising from our urban sprawl) is a critical one. The key point to note from our modelling of low-income households in the 2012 and 2013 Cost of Living Reports is the relative proportion of the weekly household budget that housing and utility costs contribute. Given that housing costs make up 30% - 45% of weekly expenditure, while utility costs only make up 4% - 5%, increases or reductions in rental costs will have a much greater impact on the risk of financial hardship. This suggests we need to consider the ratio between rental and utility costs to ensure that any scheme to improve thermal efficiency does not push up market rental such that this ratio gets worse.

The balance between the cost of purchasing housing (and servicing a mortgage) versus the cost of heating and cooling that housing may be different for households moving into home ownership – depending on the extent to which purchasers are making decisions based on a reasonable assessment of what they can afford to pay versus pursuing an aspiration of their dream home. There is a question of the extent to which changes to the cost of constructing or renovating housing due to thermal efficiency requirements lead to short-term versus sustained increases in market costs. A significant proportion of the cost of housing is attributed to the value of the land rather than construction costs, which effectively reflects what the market is prepared to pay given location, amenity and supply. It is interesting to note in comparison that housing is not comparatively more unaffordable in other comparable economies with more extreme winters and much higher construction standards.

The Henry Tax review undertook a comprehensive analysis of the taxation system in Australia. One of the sections that the review investigated was how property taxes could be altered so that the property market becomes more efficient and that governments can widen their tax base. Within Western Australia owner occupied housing is exempt from paying land tax,¹⁹ while rental properties

¹⁹ See Office of State Revenue webpage 'Do I have to pay land tax on my residence?'

in Western Australia are charged land tax. The Henry Tax review states that “land tax on residential investment properties is probably passed through to renters as higher rent”²⁰. The Council therefore has concerns that while owner-occupied property owners enjoy the benefits of house ownership, including being exempt from paying land tax, many low-income households are in effect paying this tax via their rent.

In addition the Henry Tax review asserts that stamp duty taxes are highly inefficient and inequitable, as it *“discourages transactions of commercial and residential property and, through this, its allocation to its most valuable use. Conveyance stamp duty can also discourage people from changing their place of residence as their personal circumstances change or discourage people from making lifestyle changes that involve a change in residence. It is also inequitable, as people who need to move more frequently bear more tax, irrespective of their income or wealth.”*²¹

One option discussed in the Henry Tax Review is for State Governments to abolish or phase-out stamp duty in favour of a broad-based land tax. The recommendations in the Henry Tax review that concerns state based property taxes may warrant further investigation by the ERA, as it has the potential to make the housing market more efficient and equitable.

The Henry Tax reviews recommendations in this area include.

“Recommendation 51: Ideally, there would be no role for any stamp duties, including conveyancing stamp duties, in a modern Australian tax system. Recognising the revenue needs of the States, the removal of stamp duty should be achieved through a switch to more efficient taxes, such as those levied on broad consumption or land bases. Increasing land tax at the same time as reducing stamp duty has the additional benefit of some offsetting impacts on asset prices.

Recommendation 52: Given the efficiency benefits of a broad land tax, it should be levied on as broad a base as possible. In order to tax more valuable land at higher rates, consideration should be given to levying land tax using an increasing marginal rate schedule, with the lowest rate being zero, with thresholds determined by the per-square-metre value.

Recommendation 53: In the long run, the land tax base should be broadened to eventually include all land. If this occurs, low-value land, such as most agricultural land, would not face a land tax liability where its value per square metre is below the lowest rate threshold.

Recommendation 54: There are a number of incremental reforms that could potentially improve the operation of land tax, including:

1. ensuring that land tax applies per land holding, not on an entity's total holding, in order to promote investment in land development;
2. eliminating stamp duties on commercial and industrial properties in return for a broad land tax on those properties; and
3. investigating various transitional arrangements necessary to achieve a broader land tax.”²²

²⁰ [Australia's future tax system — Report to the Treasurer](#), page 48

²¹ [Australia's future tax system — Report to the Treasurer](#), page 49

²² Australia's future tax system — Report to the Treasurer, [Chapter 12: List of Recommendations](#).