



**WEST AUSTRALIAN COUNCIL OF SOCIAL SERVICE**

**CONSUMER UTILITIES PROJECT**

**Submission to the Economic Regulation Authority**

*Inquiry on Urban Water and Wastewater Pricing*

**April 2005**

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## GLOSSARY

ERA	Economic Regulation Authority
WACOSS	West Australian Council of Social Service Inc.
Draft report	The Economic Regulation Authority <i>Inquiry on Urban Water and Wastewater Pricing</i> draft report
Government	The Government of Western Australia

## INTRODUCTION

The Western Australian Council Of Social Service Incorporated (WACOSS) is the peak body of the community service sector across Western Australia. Since 1956, WACOSS has been developing and strengthening the non-government community services sector's capacity to assist all Western Australians. With over 350 members, WACOSS has strong relationships with the social services sector and seeks to represent their interests, and those of the disadvantaged individuals and families they assist at a service level. Given this relationship, WACOSS is in a unique position to comment on issues in our society that socially impact upon disadvantaged members of the community.

WACOSS is well respected within both government and non-government arenas as being an authoritative voice for consumers with regard to Utility reform in WA. WACOSS has developed a strong network with Utility Policy Workers across Australia, which provides us with information and expert opinion on these issues.

In March 2005, WACOSS commenced the Consumer Utilities Project, funded through the Department of Consumer and Employment Protection. This project will build upon the utility policy work WACOSS has undertaken over the past 4 years. The Consumer Utilities Project has been established to work with consumers and representative organisations to achieve better outcomes in the provision of essential services.

WACOSS has direct access to the issues of low-income and disadvantaged consumers through our Consumer Reference Group, which includes representatives from the Emergency Relief sector, Unions, Financial Counsellors and Community Legal Centres. These agencies provide us with policy information and direction in relation to our work and look to us to represent the interests of their clients with regard to water issues. We have taken on this role due to the level and severity of the Utility issues being raised by community agencies and the fact that there is no other resourced body in Western Australia representing these issues.

Providing a response to the Inquiry on Urban Water and Wastewater Pricing draft report is an important process for WACOSS to engage in to endeavour to ensure the Economic Regulation Authority give appropriate consideration to the social impacts when conducting their analysis and making recommendations to the State Government in their final report.

## EXECUTIVE SUMMARY

Water is an essential service in maintaining life, well-being and general community health standards. Water usage can be either necessary or discretionary. That is, there is a level of water usage that is unavoidable to sustain a relative standard of life and water usage above this standard for non-essential purposes. Any changes to existing pricing structures and/or the development of new pricing structures must guarantee access to an affordable level of water, and most particularly, ensure that necessary use of water is affordable for low-income households.

Access to water services and use of water resources can be influenced by:

- Tariff amount/Price: that is how much it costs per kilolitre of water
- Tariff design; including the structure prices take such as price increments at certain steps
- Allocation; whether or not restrictions are in place, and how much discretionary water use you have (particularly relevant for large families)
- Concessions: including horizontal based such as rebates for the whole of the community, and vertical based which acknowledges the inability for low income households to cover the full cost of essential services
- Attitudes; what education campaigns are effective and are being run, and how is the community responding to the campaigns

It is important that the ERA acknowledge the role each of the influencing factors play in ensuring low-income consumers can access adequate water services. Two areas of particular concern to WACOSS are the emphasis of price as a demand management tool, and the cost shift from home owners to tenants.

Price should not be used as a demand management strategy because:

- The social costs would outweigh the potential benefit.
- There is a large body of research and evidence that concludes that water is price inelastic, that is demand that is not greatly affected by a change in the price of the product.
- There is further evidence that suggests low-income households have even lower demand elasticity than high-income households.

The people in society that can least afford price increases will be the major losers in any move to cost shift from fixed charges to consumption charges because:

- Tenants are responsible for up to 100% of the water consumption charge
- Tenants are not usually responsible for the fixed charge, so would not benefit from a reduction in fixed rate charges
- Tenants are at greatest risk of financial hardship and can least afford cost increases

The result of the ERA draft findings, if adopted would result in:

- Increased revenue generated through customers, without any justification for increased expenditure
- Large families being penalised via price increases
- A significant cost burden shift from homeowners to tenants
- Low income earners facing increased costs if they are unaware of their current water consumption levels (highly likely)
- Increased wastewater charges for people living in more affordable suburbs

The people who will benefit most from the restructure in pricing are small families who own a high value property in a wealthy suburb. The social costs of such recommendations being adopted are too high.

## CONTEXT

When the Economic Regulation Authority Bill was introduced into Parliament, WACOSS made a submission to the Government regarding some concerns including, *inter alia*, the protection of the public interest. The relevant extract of that submission is detailed below.

The community is becoming increasingly aware of the importance of regulation and its impact on the lives of everyday citizen. For example, significant media attention has been given to the critical comment and the recommendations regarding the regulation of the insurance industry by APRA made recently by the Royal Commission into the collapse of HIH. The Federal Government has come under scrutiny and criticism for failures in establishing a regulatory system robust enough to protect the public from the impact of such collapses and the public is becoming increasingly cynical of government distancing itself from responsibility through the implementation of "independent" regulation. The HIH Royal Commission made over 60 recommendations and the majority of those recommendations went to improving and strengthening and providing bigger skills bases for the Regulator. The failure of the regulatory system to prevent or address the HIH issue, amongst other corporate collapse and events affecting the lives of citizens, should be seen as a warning to Government regarding the importance of well planned, implemented, resourced and supported regulatory systems.

One of the basic arguments for the imposition of economic regulation upon an industry is to insulate consumers from the effects of market conditions. As such, one of WACOSS' main concerns with the ERA Bill is the Bill's lack of consideration of consumer and environmental concerns, contrary to the State Government's stated commitment to achieving simultaneous environmental, social and economic outcomes.

It could be argued that a concession to social considerations exists in Section 26(1) of the ERA Bill, which provides for the ERA to:

*" have regard to –*

*a) the long-term interests of consumers in relation to the price, quality and reliability of goods and services provided in relevant markets;...*

*g) the need to promote regulatory outcomes that are in the public interest.*

Section 26(2):

The Authority has a discretion as to the weight it gives to each of the matters referred to in subsection (1) in the performance of a particular function.”

However, the term “*have regard to*” is ambiguous and does not necessarily commit the regulator to act in the best interests of consumers or the public interest; the regulator is obliged merely to *consider* consumer interests. Further, this lack of robust protection is confirmed by section 26(2) in which the regulator is given discretion to weight these matters in a manner it so chooses. These sections of the ERA Bill do not provide adequate guidance to the Regulator or assurance to the Western Australian public that social and environmental concerns will be addressed or that the public interest will be protected.

The ERA Bill should provide guidance to the Regulator similar to the Victorian Essential Services Commission, by including provisions such as:

*The Objective of the Victorian Essential Services Commission states:*

[1] In performing its functions and exercising its powers, the primary objective of the Commission is to protect the long-term interests of Victorian consumers with regard to the price, quality and reliability of essential services.

At the bare minimum the ERA Bill should be more explicit in the guidance to the Regulator to incorporate environmental, social and economic objectives in a balanced and integrated way, consistent with the current State Government commitment to the concept of sustainability.

“The regulatory framework should cover all aspects of the service that are important to Government and society, including economic, equity and environmental objectives. It should also ensure that there is an appropriate balance of these objectives where trade-offs arise.”

- Victorian Essential Services Commission Proposal Paper<sup>1</sup>.

National Competition Policy specifically states that the following matters be taken into account:

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<sup>1</sup> Victorian Department of Treasury and Finance, June 2001



- Government legislation and policies relating to ecologically sustainable development;
- Social welfare and equity considerations, including community service obligations; and
- Interests on consumers generally or of a class of consumers<sup>2</sup>.

Whilst National Competition Policy (a stated rationale behind the development of the Economic Regulation Authority) allows for it, the ERA Bill does not make a tangible link between the functions of the ERA and the State Government's stated commitment to triple bottom line sustainability.

Furthermore, National Competition Policy does not limit the Government to see its community service obligation as its only social welfare and equity consideration. Due to their economic and social disadvantage there are significant numbers of customers who are at risk of being further disadvantaged through the lack of adequate provision for consumer protection in the ERA Bill.

The Victorian Government prioritised the interests of consumers, including low-income and vulnerable customers, when establishing its Essential Services Commission. The Victorian Essential Services Commission has in its stated aims and objectives the interests of consumers and includes practical initiatives to assist consumers in the form of the Consumer Utilities Advocacy Centre (CUAC)<sup>3</sup>. Continued resourcing of the CUAC by the Victorian Government is indicative of its commitment to the public interest.

Furthermore, it is essential that the concept of public interest, particularly with regard to triple bottom line accountability be specifically defined. There are serious concerns regarding the differing interpretations of the public interest. The fact that the Regulator will be independent of Government removes significant elements of the accountability to the public that is achieved through Ministerial responsibility of elected persons. For this reason it is essential that the

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<sup>2</sup> Competition Principles Agreement – 11 April 1995. Section (3)

<sup>3</sup> The Objectives of the Victorian Essential Services Commission states:

1) In performing its functions and exercising its powers, the primary objective of the Commission is to protect the long term interests of Victorian consumers with regard to the price, quality and reliability of essential services.

concept of public interest, as understood by those whose interests are to be protected, is well defined and provides clear guidance to the Regulator.

The absence of clear definition, clarity of purpose and guidance of weighting of considerations is of great concern to WACOSS. We urge further consideration of the manner in which these issues have been approached in other jurisdictions, in particular in Victoria, and the provision of better protection of the public interest.

The *Economic Regulation Authority Act 2003 (The Act)* was enacted, and the ERA was established as an agent of the State. The Function of the ERA are outlined in Part 4 of The Act;

## **25. Functions**

The functions of the Authority are —

- (a) the inquiry, reporting and other functions it is given by this Act;
- (b) the functions referred to in section 11AA of the *Energy Coordination Act 1994*;
- (c) the functions referred to in section 36(1) of the *Gas Pipelines Access (Western Australia) Act 1998*;
- (d) the functions referred to in section 20(1) of the *Railways (Access) Act 1998*;
- (e) the functions referred to in section 4 of the *Water Services Licensing Act 1995*; and
- (f) the functions it is given by or under any other enactment.

## **26. Authority to have regard to certain matters**

- (1) In performing its functions, other than the functions described in section 25(c) and (d), the Authority must have regard to —
  - (a) the need to promote regulatory outcomes that are in the public interest;
  - (b) the long-term interests of consumers in relation to the price, quality and reliability of goods and services provided in relevant markets;
  - (c) the need to encourage investment in relevant markets;
  - (d) the legitimate business interests of investors and service providers in relevant markets;
  - (e) the need to promote competitive and fair market conduct;
  - (f) the need to prevent abuse of monopoly or market power;

- (g) the need to promote transparent decision-making processes that involve public consultation.

The ERA has been commissioned to investigate and report on the following matters related to the pricing of water and wastewater services in Western Australia:

- The appropriate charging structures and recommended tariff levels for the Water Corporation's and the Bunbury and Busselton Water Board's urban water supply services (residential and non residential).
- The appropriate charging structure and recommended tariff level for the Water Corporation's urban wastewater services (residential and non residential).

The draft report has highlighted areas where the ERA is incongruent to the regard they must have in performing their functions under the Act.

Section 26(g) of the Act states;

*"The need to promote transparent decision-making processes that involve public consultation"*

The Department of Premier and Cabinet, Citizens and Civics unit have explored public consultation processes. Their report, Consulting Citizens: A Resource Guide makes a number of comments about effective consultation processes, including;

- Ample time should be provided for consultees to participate throughout the consultation process, to become informed of the issues, reflect upon the information and make considered responses.
- Consideration should be given to the meeting cycles of different organisations, and the time it takes for groups and individuals to be involved in formal discussions, debate and awareness raising.
- Using language that is clearly written and free from unnecessary jargon.
- Incorporating mechanisms to address differing levels of literacy in the community.

The draft report is almost 200 pages long, and includes many economic terms and phrases (jargon) that are inadequately explained. The draft report

submissions were to be submitted within six weeks of the draft report being released (and a subsequent one week extension was granted to all). Public forums on the draft report will commence after the submission date closes.

In addition to public consultation processes, section 26(a) of the Act states, the Authority must have regard to;

*“the need to promote regulatory outcomes that are in the public interest.”*

The term “Public Interest” is open to subjective interpretation, however there are some general principles that can be attached to the term. The Public Interest test as outlined by the National Competition Council is below.

The factors used to determine what is in the public interest are outlined in clause 1(3) of the Competition Principles Policy Agreements (1995). They include:

- Laws and policies relating to ecologically sustainable development;
- Social welfare and equity, including community service obligations;
- Laws and policies relating to matters such as occupational health and safety, industrial relations, access and equity;
- Economic and regional development, including employment and investment growth.;
- The interests of consumers generally or a class of consumers;
- The competitiveness of Australian business; and
- The efficient allocation of resources.

There is no doubt the ERA has a role to play in not just considering, but factoring in broader public interest matters such as social and environmental impacts in price setting. Although the power of the Economic Regulation Authority does not extend to price setting, they have the power to make recommendations to Government on price setting. Economic decisions produce social and environmental outcomes. If the ERA are relied upon to make recommendations that affect the ‘triple bottom line (economic, environmental, social) then they also have a responsibility to equally consider those affects.

The draft report has highlighted the significant regard the ERA has placed on economic principles, to the detriment of the poorest people in our society. For example, the adoption of Long Run Marginal Cost Pricing because it “has a role

to play" without any analysis of and factoring into the findings of the impact on low-income households.

Governments are under pressure to accept the recommendations of the Regulator, despite some recommendations made by the ERA being contradictions to the social policy direction and programs of the elected State Government. The ERA should not be setting the social policy agenda for water resources, however given the ERA have the potential to detrimentally impact upon low income and disadvantaged West Australians, they should be ensuring their decisions are in line with government policy in meeting social and environmental goals.

The ERA draft report highlights that the current regulatory framework allows for an unelected economic regulatory authority to both directly change companies' practices, or promote various policy solutions that are contrary to the state governments policy and program objectives including "that a central plank of my Government's forward social agenda is to assist in the alleviation of poverty".<sup>4</sup>

Such recommendations by the ERA significantly change the nature and the scope of the democratic process with regards to essential water services. This highlights that public servants can make and implement policy that is directly contrary to the wishes and commitments of Governments.

In addition, given the terms of this Inquiry state that the Authority must give consideration to, inter alia, the social impact, the ERA should place more emphasis on a balance between economic, environmental and social outcomes. The OECD report into *Social Issues in the Provisions and Pricing of Water Services* considered the balance between the triple bottom line objectives; "The question is often framed as one of efficiency versus equity. However these two approaches do not necessarily have to result in conflicting policy options. Under certain conditions, water-pricing systems can promote efficiency while addressing equity goals."<sup>5</sup>

The ERA has the capacity, within the scope of this inquiry, to research and recommend best practice models of water pricing to meet economic, social,

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<sup>4</sup> Premier Geoff Gallop, Speech to WACOSS Conference 2004. 17 June 2004.

<sup>5</sup>*Social Issues in the Provisions and Pricing of Water Services*. Organisation for Economic Cooperation and Development, Paris 2003 pg 18

and environmental objectives. In this context, we look forward to the final recommendations of the ERA having more regard to the triple bottom line.

## ECONOMIC REGULATION AUTHORITY DRAFT FINDINGS AND RECOMMENDATIONS

### Service Standards

The measurement by the ERA of the Service Standards are those that are set out in the provider's operating licence, under legislation administered by the Authority, the Water and Rivers Commission and the Department of Environmental Protection. These standards include minimum levels of customer service, environmental management and health standards.

The ERA has made the following comments regarding the Water Corporations service standards:

**The Corporation's proposed levels of service provision are consistent with required standards. These areas include customer complaints; drinking water quality; continuity, leaks and bursts; telephone answering, sewerage overflows on property and blockages; and services provided by agreement.**

**The Authority is satisfied that the Corporation is meeting its mandatory performance targets in an efficient way, and in particular that it is not over-investing in levels of service that exceed the requirements of its operating license.**

Whilst the ERA considers the Water Corporation not in breach of the required standards and are meeting mandatory performance targets, further independent analysis would be useful for the Water Corporation to improve customer related issues, such as credit management and conservation strategies. In addition, despite the satisfaction with the Corporation meeting the service standards, perhaps this illustrates deficiencies with the standards themselves.

The Standards that are applied to the Water Corporation Licence include:

- Drinking water quality;
- Drinking water pressure and flow;
- Drinking water continuity;
- Drought response standards;
- Irrigation water quality;
- Irrigation water delivery;
- Sewerage service standards;
- Drains and drainage standards;

- Complaints handling; and
- Response to customer calls.

WACOSS would support additional independent analysis, which focuses on broader more qualitative analysis of customer experience with the Water Corporation as meeting *required standards or mandatory performance targets* does not examine important consumer issues, including the impact of restrictions and how financial hardship cases are managed.

In addition to the above matters, Given that 35% of residential customers were dissatisfied with the taste of their water, and the number of complaints about water quality in WA exceeds the national average it is surprising that, despite these high figures, there is no recommendation for service standards to improve. WACOSS is also concerned about the potential of the Iceberg Principle effect, which is a theory that suggests aggregated data can hide information that is important for the proper evaluation of a situation- highlighting the need for qualitative analysis.

In 2001, WACOSS made a submission to the Review of Western Australian Water Utility Service Standards, Customer Services Standards Review. The comments made in that submission also reflect the desire to have service standards in licences that better reflect customer priorities. In addition, that the measures of service standards are comprehensive, and acted upon when there appears to be a concern about service standards. An extract of some of those comments made in that submission are included below.

The Western Australian Council of Social Service (WACOSS) believes the existing service standards do not reflect the needs or priorities of the majority of customers that contact community service organisations in WA. Hundreds of community organisations provide services to thousands of clients every year who are experiencing financial hardship and facing the prospect of water restrictions or further financial difficulties due to the unfair and insensitive debt management and customer service practices of their Water Service Provider. The resultant social cost of water restrictions and unreasonable payment demands is immense and should be of great concern to all Western Australians.

The current service standards do not include any framework for Water Service Providers in relation to debt management practices. In particular, the standards



in relation to Customer Service are insufficient and superficial in their current form.

### Issues

A summary of issues regarding Water identified by Emergency Relief Agencies and Financial Counsellors is outlined below:

- Debts in relation to water are attached to the land and current landowner rather than to the person / people who accrued the debt.
- The lack of existence or availability to the public of clear policies, procedures and guidelines in relation to the Water Corporation practices, particularly in the area of debt management, results in the removal of the right to natural justice and procedural fairness for customers who have had adverse decisions made against them.
- Lack of availability or provision by the Water Corporation of information in relation to current complaints processes either internal to the Water Corporation or via the Office of Water Regulation.
- Inconsistency between different Water Corporation Officers responses in relation to the management of outstanding debts.
- The use of water restrictions as a debt management practice is unacceptable in terms of it's impact on low income families and individuals. There are often reports of families who are unable to send their children to school due to the fact that water restriction has left them without water to maintain their children's personal hygiene, washing or feeding.
- Unrealistic expectations of the Water Corporation in relation to the repayment schedule that can be maintained by those with outstanding debts. There are continual reports of the Water Corporation demanding large payment amounts that would constitute a large percentage of a person's income.
- The Water Corporation has not yet implemented participation in the Centrepay scheme, which provides a convenient, voluntary direct debit

payment arrangement assisting those in receipt of Centrelink benefits to maintain their payment schedule.

- Increasing referrals to Emergency Relief agencies by the Water Corporation as a debt recovery method. Water Corporation Officers are aware that Emergency Relief Agencies have, in certain circumstances, paid clients outstanding Utility bill to prevent disconnection and have informed customers with outstanding accounts of this fact. This creates an expectation by clients, that Emergency Relief agencies are, in fact, able to assist in all cases, which is beyond the capacity of Emergency Relief agencies.
- In 1999/2000 Emergency Relief Agencies reported that approximately \$830,000 per year was being paid by welfare agencies to Utilities to cover clients outstanding accounts. Whilst the Utility may not see an issue in the welfare agency providing payment for the clients bill, there is significant opportunity cost to those in poverty. In other words, the money paid to Utilities to prevent restriction or disconnection is desperately needed to feed hungry children of families living in poverty.
- Lack of information and education provided to the public regarding concession eligibility.
- Unreasonably high interest rates are applied by the Water Corporation on outstanding debts. Whilst we now understand that the Water Corporation has the power to vary or remove the interest rate, this information is not widely available and Emergency Relief agencies report that they have never seen this occur. We understand that the reduction of interest is applicable in cases of extreme financial hardship, however the power to make this decision is completely discretionary at this stage. The practice of applying unreasonably high interest and the Water Corporations failure to waive the interest in relation to debts accrued by poor families and individuals is unconscionable. This practice represents a punitive attitude towards those least able to pay and most likely to suffer as a result.
- The format and layout of bills provided by the Water Corporation is confusing for many people.

- The absence of independent meter testing impacts on the consumers ability to be able to challenge the Water Corporation in relation to the account even where they suspect it is not accurate.
- Lack of provision of consumption bill directly to the tenant who accrued the bill where the property is a rental premises.
- Outstanding sewerage and drainage rates incurred by the owner of rental premises resulting in tenants suffering water restrictions.

### Strategies

#### **Suggestions for improvement which are relevant to the development of further Service Standards include:**

- The provision of easier to read billing information, including the provision of bi-monthly account statements for rates and charges other than consumption.
- Separation of sewerage / drainage account from consumption account.
- Allowance for tenants to register with the Water Corporation as the tenant of the premises and receive consumption bill directly at the property.
- Removal or reduction of interest rate on outstanding debts to the Water Corporation with the encouragement to waive interest in circumstances of hardship.
- Introduction of automatic waive or reduction of interest where debtor is a Health Care Card holder.
- Abolition of the use water restrictions as a debt management tool.
- Increased awareness of social impact of debt management practices in particular water restrictions.
- Participation in the Centrepay Scheme and any other program that enhances the ability of customers to repay their debt.
- Provision of Water Corporation policies, procedures and guidelines, free of charge, and available.

- Provision of information and education to customers regarding concession eligibility.
- Abolition of policy, which removes concession eligibility if current account not paid within the year and the outstanding debt is reconverted to the full non-rebated amount.
- Immediate cessation of practice whereby concession eligibility is cancelled for the year where the customer has been unable to pay the rebated amount in full within that year.
- Removal of the compulsion on the tenant to enter into a debt repayment schedule on deferred amounts before being eligible for rebate on the current account.

The ERA considered the Water Corporation's research on customer's willingness to pay for unregulated services, including:

- Increased wastewater treatment (nutrient reduction) prior to ocean outfall
- Reduced odour surrounding wastewater treatment plants
- Improved management of urban stormwater prior to entering waterways
- Increased green energy use from 10 per cent to 30 per cent

The ERA recommendation highlights the need for more research to be conducted in order to adequately justify any action taken by the Water Corporation.

**While the Water Corporation has assessed its customer's willingness to pay for improvements to unregulated services, the Authority considers that additional work using more reliable methods may be warranted.**

Service standard issues not addressed by the ERA include the commitment to, and lack of progression of a Multi-Utility Ombudsman that would perform a dispute resolution function across electricity, gas and water. While the Energy Industry Ombudsman Scheme is set to take effect from July this year, the inclusion of water service standard complaints within this scheme has not been progressed.

As outlined on page 10 of the *final report of the Water Services Coordination Act review panel*:

“The Panel believes that customer dispute resolution needs to continue to be available and recommends the establishment of a multi-utility ombudsman, with the ability to handle water services customer complaints.”

In 2001, WACOSS made a submission to the Review of Western Australian Water Utility Service Standards, Customer Services Standards Review. An extract of that submission is below.

WACOSS strongly support the inception of a separate, independent multi-utility ombudsman to investigate consumer complaints and resolve disputes.

We believe that it is important to have a multifaceted approach to consumer complaints mechanisms and dispute resolution. The multi-utility ombudsman represents an integral aspect in consumer protection for individuals when dealing with large Utilities. As part of the multifaceted approach to consumer protection the licensee and the Regulator (licenser) should also continue and further develop avenues of appeal and dispute resolution to maximise access opportunities and hopefully reduce the number of disputes that result in complaints to the multi-utility ombudsman.

We believe the following principles related to improving customer protection must be considered in further development of appeals mechanisms including the introduction of the multi-utility ombudsman:<sup>6</sup>

#### Accessibility

- Scope of appeal to encompass all clients (customers) and all grievances... (The multi-utility ombudsman should have jurisdiction to hear complaints regarding Utilities that are broader than purely the issues covered by the licensing agreement.)
- Processes, staff and facilities to be ‘user friendly’ and consumer oriented in all aspects.
- Barriers to utilisation to be acknowledged and removed or compensatory action taken.

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<sup>6</sup> Core Principles taken from “House Rules: Decision Making and Appeal Rights in State Housing Authorities” by Colin Kent and Associates. Although, principles are applicable in relation to any form of disputes resolution process.

## Redress

- Establishment in statute of right to appeal and clear specification of all appealable matters. Negotiated on an understood and accepted basis by all parties to implementation.
- Implementation of remedy (appeal mechanism) which incorporates all aspects of procedural fairness and principles of administrative justice.
- Appeal process to incorporate capability to enforce outcomes of appeals, effecting real system reform through capacity to provide ultimate sanction for non-compliance.

## Accountability

- That the process is vested with authority through legislation and thus Minister and Director.
- That all levels of the process operate with appropriate autonomy.
- All phases of appeal process to be transparent. Roles, procedures, decisions to be fully documented and publicly available. All level of appeal processes to report regularly through Director and Minister, to Parliament and public.

The multi-utility ombudsman would provide an alternative remedy for consumer complaints as well as providing feedback to the licensor, the licensee and the State Government in relation to the provision of essential services to all Western Australians.

WACOSS also made similar comments in March 2003, in the Response to Draft Review Panel Report of the Water Services Coordination Act submission.

## Balancing Water Supply and Demand

The ERA highlights the limitation of their jurisdiction in examining matters outside of the scope of the inquiry.

**While rural water pricing and trading issues are not within the scope of this Inquiry, the prices paid for irrigation water are clearly relevant for setting efficient urban prices.**

The term efficient is quite clearly indicating economic efficiency, which is about producing something (in this case, the supply of water) and pricing it to achieve the maximum dollar value out of it. With the limitation of urban price

recommendations only, the current disproportionate charges for urban-based households compared to rural irrigators cannot be adequately addressed.

WACOSS supports price setting and consumption targets being considered within a State-wide context to ensure consistent and equitable pricing structures. The ERA has considered price setting from an economic perspective only. Whilst WACOSS supports a system of price setting that equally considers equity measures, if economic modeling is used to develop recommended pricing structures then it is important to consider the total supply of water across Western Australia. In the context of the current inquiry, urban consumers may end up paying increased disproportionate prices to rural irrigators.

Given the recommendations to use price as a demand management strategy (Which WACOSS and economic evidence doesn't support), it is important that water conservation strategies are considered in the context of water users. The percentage of water use (across Western Australia, urban and rural) is detailed below<sup>7</sup>:

Households	13%
Irrigated Agriculture	40%
Mining Industry	24%
Services	7%
Private Household Bores	5%
Industry	4%
Parks and Gardens	4%
Stock Water	3%

Household consumption accounting for only 13% proportion of total water use has the potential to affect the net water conservation (either through bans, pricing or other mechanisms) to a smaller degree than other water users who use a larger proportion of Western Australia's water. Some demand reduction strategies (such as pricing) targeting household water users will also produce unacceptable high social costs.

It is also important to note, as outlined in the State Water Strategy, the highest projected increase in water demand between 1999 and 2020 will be in the

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<sup>7</sup> *Securing our water future, A State Water Strategy for Western Australia*. Government of Western Australia February 2003

irrigated agriculture and mining sectors, highlighting a need for further attention on water saving to be placed on these sectors, concurrently with households.

## Water Availability and Use

The ERA makes a series of comments that indicates their strong support for using pricing as a demand management strategy, including:

**A basic principle of efficient water pricing is to ensure that prices reflect the relative scarcity of the resource – in terms of the economic cost of securing additional supplies for urban water users.**

The ERA also makes a series of similar findings under the demand management heading of their report. WACOSS is concerned about how much water is available for West Australian consumers and the price paid for that water, and offer the following comments:

- *Price should not be used as a demand management strategy.*
- *Pricing models that reflect the size of the household (number of occupants) and can therefore better assess discretionary use, and the ability of the household to respond to price signals would be more appropriate to ensure efficient pricing, increased water conservation, and lower social costs.*
- *Water should be ascribed a high value within society. Everyone has a role to play in conserving water. The ascription of a high value of water should not necessarily occur via price mechanisms*

Price should not be used as a demand management strategy because:

- The social costs would outweigh the potential benefit.
- There is a large body of research and evidence that concludes that water is price inelastic, that is demand that is not greatly affected by a change in the price of the product.
- There is further evidence that suggests low-income households have even lower demand elasticity than high-income households.

In the 2003 WACOSS submission to the Standing Committee on Public Administration and Finance, Water Services Inquiry evidence was presented



regarding the impact of price increases as demand management strategies. An extract is below.

In particular, it is a regressive approach in terms of social equity as it ignores the range of capacities to pay. Current water prices and debt management policies already create difficulties for many low-income and disadvantaged households. On any one day of the week there are in excess of 100 Western Australian households who have their water restricted for failing to meet the Water Corporation’s payment schedule<sup>8</sup>. There is a real risk that managing demand through price increases will result in an increasing number of low-income households being placed on restricted supply.

The use of water supply restriction (from a standard water flow of at least 20 litres per minute to a trickle of 2.3 litres per minute<sup>9</sup>) as a debt management tool by the Water Corporation has a range of serious negative health and social impacts. Emergency relief agencies report that families with restricted supply have insufficient water for bathing or laundering<sup>10</sup>. As a consequence, children may be reluctant to attend school for fear of being stigmatised, and in some cases children have been excluded from school altogether due to poor hygiene. Furthermore, for low-income earners struggling with the rising costs of energy and the cost of living in general, decisions about whether to pay the water bill first rather than the electricity bill add to the stress already associated with trying to live on a very limited income.

In addition, current research suggests that increases in price have a limited affect on a reduction in consumption, however the impact of price increases on low income and large families would further strain household budgets. The table below indicates research studies conducted over time, in various locations<sup>11</sup>

Researcher/s	Date	Location	Price Elasticity
Carver and Boland	1969	Washington D.C.	-0,1
Agthee and	1974	Tucson, Arizona	-0,18

<sup>8</sup> Social Impacts of Water Pricing as a Component of the Draft State Water Conservation Strategy. WACOSS, 2002.

<sup>9</sup> Information provided by the Water Corporation.

<sup>10</sup> Would You Like a Bit of Heat with that Trickle of Water? WACOSS, 2003.

<sup>11</sup> Estimation of the residential price elasticity of demand for water by means of a contingent valuation approach. Foundation of Water Research, 2000.

Billings			
Martin et al	1976	Tucson, Arizona	-0,26
Hanke and de Mare	1971	Malmö, Sweden	-0,15
Gallagher et al	1972/3 & 1976/7	Toowoomba, Queensland	-0,26
Boistard	1985	France	-0,17
Thomas and Syme	1979	Perth, Australia.	0,18
Veck and Bill	1998	Alberton & Thokoza, South Africa	-0,17

The research above indicates a consistent trend in the price elasticity (a measure of the degree to which any change in the price of a product will affect the demand for it)- an increase in the cost of water will have little effect on the reducing consumption of water. Therefore, any price increase will merely become revenue raising at a cost to consumers, and an increased social cost to the poorest in our community.

It should also be acknowledged that many low-income households are already imposing restrictions on their use of essential services. Low-income households already eliminate discretionary use of water, such as watering gardens, to ensure they can meet their budgets. In such cases, these families will have limited ability to reduce their water use to balance the impact on their budget an increase in price will have. Research undertaken by the Foundation for Water Research indicates that low-income earners are least responsive to price indicators.

Price Elasticity of Demand				
Description of group	No of respondents	Indoors	Outdoors	Total
Upper, middle &	161	-0.13	-0.38	-0.17

lower income group				
Upper income group	52	-0.14	-0.47	-0.19
Middle income Group	59	-0.12	-0.46	-0.17
Lower income group	50	-0.14	-0.19	-0.14
Upper and middle income groups	111	-0.13	-0.47	-0.18

In addition to the lower elasticity of low income groups, upper income groups have greater capacity to afford any price increases, as outlined by the Public Interest Advocacy Centre; "Short of cutting themselves off from supply, customers can only respond to an environmental premium by a proportional reduction in their consumption. However, differences in the level of residential consumption of utility services such as energy and water are related closely to variations in the wealth or income of consumers – those with higher incomes tend to use more water and energy on a per capita basis. If the aim of price signals is to encourage reduced use of water then clearly this will not be an effective strategy where consumers can afford to maintain their consumption and pay the higher price." <sup>12</sup>

The go on to comments that "Since consumption levels reflect income, for price signals to be effective in reducing amongst the more wealthy, the rate of price change required would be so great as to have a dramatic impact on poorer households – giving rise to the question of distinguishing between efficient use and what is, in effect, self disconnection from supply."

WACOSS believes that any demand management water strategy for residential consumers should focus on incentives and support to reduce consumption, and

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<sup>12</sup> Managing Water Use: Submission to Senate Standing Committee on the Environment, Communications, Information Technology and the Arts. Public Interest Advocacy Centre, 2001.

we note the success of Sydney Water in achieving a sustained reduction in demand through water efficiency programs rather than changes in pricing<sup>13</sup>.

*Pricing models that reflect the size of the household (number of occupants) and can therefore better assess discretionary use, and the ability of the household to respond to price signals would be more appropriate to ensure efficient pricing, increased water conservation, and lower social costs.*

On page 95 of the draft report, the ERA makes the comment:

*"...the single largest determinant of household water use is the number of occupants"*

The Independent Pricing and Regulatory Tribunal of NSW, *Investigations into price structures to reduce demand for water in the Sydney basin* report commented on the use of price structures to reduce demand for water;

*"...larger households are likely to use more water to meet basic, non-discretionary needs and so have less ability to respond to price signals by reducing their consumption. IPART believes that, ideally, the retail price structure should not expose a high number of vulnerable customers to higher water bills, should target discretionary water use, and should be set to minimise the extent to which larger households are required to pay higher charges for efficient or non-discretionary water use."*<sup>14</sup>

Large families (and particularly low-income large families) have limited capacity to further reduce their water use. WACOSS explores the impact of the ERA proposed price models on large families later in this submission.

*Water should be ascribed a high value within society.*

Everyone has a role to play in conserving water. The ascription of a high value of water should not necessarily occur via price mechanisms.

A 2002 CSIRO survey found that 98% of respondents sometimes and always thought about water as a scarce resource in Australia and that it must be

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<sup>13</sup> Managing Water Use: Submission to Senate Standing Committee on the Environment, Communications, Information Technology and the Arts. Public Interest Advocacy Centre, 2001.

<sup>14</sup> *Investigations into price structures to reduce demand for water in the Sydney basin*. Independent Pricing and Regulatory Tribunal of NSW, 2003 pg 5

carefully conserved.<sup>15</sup> “Very few respondents thought about water as replaceable or saw no need to conserve it.”<sup>16</sup>

WACOSS does not support efficient price setting at the expense of equitable price setting. The OECD report into *Social Issues in the Provisions and Pricing of Water Services* identifies situations that create conflict between efficient pricing, and equity pricing;

“The trade-offs between efficiency and equity objectives in the provision of household water services typically occur when moving from an unmeasured to metered charging structure, when rebalancing tariffs away from fixed charges towards volumetric charges, **and when increasing fees and tariffs towards full-cost pricing**. There is considerable experience in OECD countries with policy measures to address water affordability for vulnerable groups, while attempting to make water pricing reveal the full economic and environmental costs of water services.”

The OECD report also comments on how efficient pricing can be balanced with equity pricing;

“One such approach would define the basic needs part of water demand, access to which should be guaranteed for all (especially low income) households and beyond which the prices for water services should reflect economic and environmental policy objectives.”

WACOSS believes that the ERA recommendations should address rather than only acknowledge potential equity impacts through adoption of efficient/equity balanced pricing structures.

All households should aim to conserve water where possible. The 2002 CSIRO study into community attitudes to water restriction policies indicate that household users are very aware of, and committed to water conservation. The ERA finding suggest that households need to become more responsive to conservation of water and whilst acknowledging studies proving the relative price inelasticity of water, still advocate the use of price as a demand management strategy.

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<sup>15</sup> *Perth Domestic Water-Use study Household Appliance Ownership and Community Attitudinal Analysis 1999-2000*. Australian Research centre for Water in Society, CSIRO Land and Water, December 2002.

<sup>16</sup> *Ibid.* pg 20

One area the ERA did not explore in detail are the information campaigns being conducted by the Water Corporation. WACOSS believes that an important component of water reduction is education campaigns and in order for consumer to reduce their water usage, they first need to understand what the current level of their water usage is, and more particularly, how they compare with usage in the community.

Customer bills are the most direct form of communication the Water Corporation has with its customers. Attached are copies of sample Water Corporation and Yarra Valley Water bills. Whilst WACOSS does not believe the ERA should be making operational decisions for the Water Corporation, a comparison of the two bills illustrates a number of features;

- Consumption levels are on the front of the Yarra Valley bill
- Consumption comparisons are also available on the Yarra Valley bill
- The breakdown of prices is clear, concise and on the front of the Yarra Valley bill

Whilst there is a general awareness in the community of the need to conserve water, the ability of individual consumer to respond to price signals is limited by the lack of information about their individual consumption patterns.

In addition once consumers are more aware of their individual consumption levels, increased retrofitting should be encouraged, and in particular in the private rental and government housing markets.

Tenants (private and government) lack the opportunity to reduce consumption and costs, as they have no opportunity to install water efficient products. This could be done through the introduction of mandatory water efficient standards for rental properties, and the government implementing retrofitting for all Homeswest properties.

#### Source Development Plan

**For example, while a delay in constructing the desalination plant would increase the risk of sprinkler bans in 2006/07, customers may be willing to bear this short-**

**term risk if it means that a cheaper source of water from South West Yarragadee could be developed.**

The estimated price per kilolitre of water produced by the desalination plant is \$1.16. If the ERA recommendation of price being set at the **economic cost of securing additional supplies for urban water users** then the impact on low income users will have to be balanced and managed to ensure they are not disadvantaged by new water sources. The ERA has acknowledged equity impacts of such pricing models, and although indicating 'free water saving packages' could be made available to larger families, there is inadequate detail in the draft findings to assess the relative impact on large families. The water saving packages for large families need to consider the volume and cost savings that can be made, and whether these offset the impact of pricing models. There is also inadequate consideration of small families who may be facing financial hardship and can least afford price rises associated with source cost pricing.

## Demand Management

**A close examination of the Waterwise Rebate Program would appear warranted, particularly the rebates offered for the installation of rainwater tanks and private bores.**

WACOSS supports the initiatives introduced as part of the State Water Strategy, which provide incentives to reduce water consumption through rebates on water saving appliances such as water efficient showerheads, rainwater tanks and frontloading washing machines. These rebates are however mostly inaccessible for low-income families as many are unable to afford to purchase these items regardless of the rebate. The result is that middle to high-income families are better able to conserve water and reduce their water consumption bills whilst low-income households continue to incur higher water bills due to the inefficiency of older or cheaper alternatives.

Rebates on water saving appliances such as water efficient shower-heads, rainwater tanks and garden bores are mostly inaccessible for low-income families as many are unable to afford to purchase these items even with the rebate. Rainwater tanks are a luxury item for those on a low-income. The result is

that middle to high-income families are better able to conserve water and reduce their water consumption bills.

WACOSS supports an examination of the program, and would encourage the examination to consider the uptake of such rebates from low-income families. Given 'water saving packages' for large families features heavily in the ERA draft findings as an offset to the price hikes, it is necessary to have a comprehensive understanding of volume and cost savings that can be made, and whether these offset the impact of pricing models.

The ERA makes comments about how prices should be set, including:

**Marginal cost pricing has a role to play in managing water demand. Not only does it fulfill a revenue-generating function for funding new capital investments and demand management programs, it has the potential to shape customer's long-term consumption decisions.**

and

**Demand management pricing can also be utilised as a tactical instrument in times of shortages. There is scope for *rebalancing tariffs* or *increasing prices* in times of scarcity to meet specific demand management objectives**

The adoption of Long Run Marginal Cost Pricing because it "has a role to play" without any analysis of and factoring into the findings of the impact on low-income households quite clearly indicates the necessity for the Government to reject the price recommendations, if the final report continues down this path.

The questions consumers, and particularly low income consumers would be asking include, exactly what will the increased revenue be used for, and what level of community support exists for their money to be spent in that manner. To make a finding that generates income for; purposes not yet specified, and as a demand management tool despite the evidence indicating price is not an effective demand management tool is irresponsible and socially unacceptable.

Increasing prices during times of scarcity would have a similar effect to seasonal pricing and therefore would not be supported. In WACOSS's first submission to the ERA, the concern relating to seasonal pricing was outlined. The limited impact of seasonal pricing due to the current billing and collection cycles, resulting in customers not being aware of the price signal until up to four months after the water consumption has occurred is a similar argument against specific price hikes at various points in time.



Despite the Economic Regulation Authority not providing any detailed analysis of the impact of seasonal pricing, an unpublished study undertaken by Yarra Valley Water concluded the impacts of seasonal pricing included;

- Larger households on average would experience greater increases in charges
- Houses on average would experience increases in charges, flats on average would experience a small decrease in charges
- Tenants on average would experience a large increase, substantially greater than the home owner
- The average pensioner would experience a significant increase in charges
- Substantial change in the concessions would be required if the impact of price changes of disadvantaged customers was to be offset

In addition, the relative price inelasticity of water would not significantly affect water conservation in the short term- unless water was priced out of the reach of customers (which is neither likely nor moral) however, it would generate increased revenue and price some users (particularly low incomes earners and large families with limited ability to reduce water use) out of the water market or further into financial hardship.

**Indications are that residential demand for water is relatively insensitive to price, implying that minor changes in price would not bring about significant reductions in water consumption. Further research is required to determine the demand elasticity of Perth households and commercial users.**

Price should not be used as a demand management strategy because:

- The social costs would outweigh the potential benefit.
- There is a large body of research and evidence that concludes that water is price inelastic, that is demand that is not greatly affected by a change in the price of the product.
- There is further evidence that suggests low-income households have even lower demand inelasticity than high-income households

## Revenue Requirement

### Operating Expenditure

**While the Corporation's operating costs per property are among the lowest of all water providers in Australia, its staff levels are relatively high. There may be scope for up to 15 per cent reduction in total staff numbers, which would result in a saving of \$20 million in operational costs in 2004/05, increasing to \$34 million in 2008/09.**

There is concern about the impact on the provision of high quality customer service with any significant reduction in staff. Staff reductions often result in a decline in standards for customers seeking assistance, or the ability of organisations to meet environmental and social goals.

However, if there is evidence of significant inefficiencies that could result in a price reduction for consumers if removed, or re-allocation of resources to greater meet consumer service standards then this should be subject to further consideration.

## Tariff Structures

### Meeting Efficiency Objectives

**In order to signal water scarcity to customers, the usage component of a two part tariff should reflect LRMC.**

There are other ways in which water scarcity signals can be made to consumers. WACOSS re-iterates the comments made above that:

- *Price should not be used as a demand management strategy.*
- *Pricing models that reflect the size of the household (number of occupants) and can therefore better assess discretionary use, and the ability of the household to respond to price signals would be more appropriate to ensure efficient pricing, increased water conservation, and lower social costs.*

- *Water should be ascribed a high value within society. Everyone has a role to play in conserving water. The ascription of a high value of water should not necessarily occur via price mechanisms*

Price should not be used as a demand management strategy because:

- The social costs would outweigh the potential benefit.
- There is a large body of research and evidence that concludes that water is price inelastic, that is demand that is not greatly affected by a change in the price of the product.
- There is further evidence that suggests low-income households have even lower demand inelasticity than high-income households

### Managing Demand/Meeting Demand Management Objectives

The Economic Regulation Authority continues to advocate Price as a Demand Management Strategy.

**From an efficiency perspective, price-based demand management would only be efficient if the loss in customer welfare associated with a price increase is less than the total cost of alternative options such as improving reliability through supply augmentation.**

WACOSS will continue to argue against using price as a demand management strategy

Price should not be used as a demand management strategy because:

- The social costs would outweigh the potential benefit.
- There is a large body of research and evidence that concludes that water is price inelastic, that is demand that is not greatly affected by a change in the price of the product.
- There is further evidence that suggests low-income households have even lower demand inelasticity than high-income households

**Compared to most other states, Western Australia's water prices are weighted more heavily towards the fixed charge component. In the Eastern States, a greater emphasis is being placed on the use of price as a demand**

**management instrument. One of the possible trade-offs of tariff rebalancing is greater revenue instability for the service provider.**

In Victoria they have recently banned late payment fees for some utility providers, via legislative mechanisms. New South Wales in years ahead of Western Australia with retrofitting programs. South Australians pay a dollar per kilolitre of water, wherever they are and whatever it costs to supply them. Many other states are also moving to an inclining block tariff system, and the Economic Regulation Authority is suggesting we should move further away from this. What programs run, models adopted, and emphasis other states place on water is at the discretion of their regulators/governments. Because another state is adopting a particular 'weighting' is not reason enough for Western Australia to follow.

The most detrimental effect of adopting a lower fixed charge and increasing consumption charges would be the burden of the cost shift from owners to tenants -those who can least afford it.

The cost sharing arrangements for owners/tenants vary. As indicated by the Real Estate Institute of Western Australia, annual service charges for residential premises are generally the responsibility of the owner. Water consumption charges for residential premises are generally the responsibility of the tenant, however, the tenancy agreement can provide for sharing the costs of water consumption. In addition, a 2002 CSIRO study also found that "Of those who rented, most paid for the water themselves, 16.5% had the water paid for by the owner and 8.7% shared the cost evenly with the owner." <sup>17</sup>

The 2003 Australian Council of Social Service report *The Bare Necessities: Poverty and deprivation in Australia today* articulates the point that the NATSEM-Smith Family study and the ABS Financial Stress study all suggest -that renters face a much higher risk of poverty than home buyers or owners.

The NATSEM-Smith Family study found that 28% of renters were at risk of financial hardship, compared to 18% of purchasers, 16% of others, and 8% of owners.

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<sup>17</sup> Perth Domestic Water-Use study Household Appliance Ownership and Community Attitudinal Analysis 1999-2000. Australian Research centre for Water in Society, CSIRO Land and Water, December 2002.

Further to this evidence, the Australian Council of Social Service report *People in Financial Crisis: National emergency relief data collection project* found that “People living in rental accommodation, both public and private, are over represented among ER applicants compared to their numbers in the general population”.

The people in society that can least afford price increases will be the major losers in any move to cost shift from fixed charges to consumption charges because:

- Tenants are responsible for up to 100% of the water consumption charge
- Tenants are not usually responsible for the fixed charge, so would not benefit from a reduction in fixed rate charges
- Tenants are at greatest risk of financial hardship and can least afford cost increases

**Inclining block tariffs aim to reduce demand by targeting discretionary water use, which tends to be more price-elastic. One of the disadvantages of this tariff structure is the penalty it imposes on large families with high non-discretionary requirements.**

Inclining Block Tariffs are intended to target high-consuming households. However, it is inevitable that large and low-income families would be heavily impacted. Large families in particular have very little discretionary use of water and would therefore be unable to respond to price signals.

The impact of moving to a 2 block inclining tariff with the ‘step’ being introduced at 600 kilolitres is addressed below.

**Seasonal pricing involves charging higher prices in summer periods when demand is at its peak. Very few urban water providers have implemented seasonal pricing because of limitations in metering technology. As peak demand does not appear to contribute significantly to the Corporation’s supply system costs, there is not a strong efficiency argument to introduce seasonal pricing in Western Australia. Furthermore, tactical price increases during times of shortages may confound longer-term price signals (that is LRMC), which are desirable for signalling long run scarcity.**

As outlined in WACOSS’s first submission to the ERA for the Inquiry

If the aim of seasonal pricing is primarily to signal to customers the real cost of water supply, including social and environmental costs, then there appears to be significant structural barriers limiting the effectiveness of such strategies. In particular, it is likely that if the current billing and collection cycles remain, customers will not be aware of the price signal until up to four months after the water consumption has occurred. This could result in payment of water consumed in late Winter / Spring being paid for in Summer, and consumption in Summer being paid for in Autumn/ early Winter. This system would appear then to undermine the basic rationale for implementing seasonal water tariffs as a means of conserving water.

Seasonal pricing would detrimentally impact on large families who have a limited ability to reduce their water consumption. Despite the Economic Regulation Authority not providing any detailed analysis of the impact of seasonal pricing, an unpublished study undertaken by Yarra Valley Water concluded the impacts of seasonal pricing included;

- Larger households on average would experience greater increases in charges
- Houses on average would experience increases in charges, flats on average would experience a small decrease in charges
- Tenants on average would experience a large increase, substantially greater than the home owner
- The average pensioner would experience a significant increase in charges
- Substantial change in the concessions would be required if the impact of price changes of disadvantaged customers was to be offset

**Quarterly consumption charging is a system by which customers are billed on their quarterly consumption rather than their annual water use. The aim is to communicate price signals more effectively to customers regarding the cost of their water use. But, it can lead to inconsistent charging across customers, if all meters cannot be read simultaneously.**

This assumes the effectiveness of the bills in sending signals to consumers about reducing their water usage.

Customer bills are the most direct form of communication the Water Corporation has with its customers. Attached are copies of sample Water Corporation and Yarra Valley Water bills. Whilst WACOSS does not believe the ERA should be making operational decisions for the Water Corporation, a comparison of the two bills illustrates a number of features;

- Consumption levels are on the front of the Yarra Valley bill
- Consumption comparisons are also available on the Yarra Valley bill
- The breakdown of prices is clear, concise and on the front of the Yarra Valley bill

Whilst there is a general awareness in the community of the need to conserve water, the ability of individual consumer to respond to price signals is limited by the lack of information about their individual consumption patterns.

More frequent billing, with indicators of previous consumption may make people consider their consumption use more. There would however, be an increased cost in metre reading and the ERA has not adequately justified that consumers would save water and money by having more frequent bills.

### Meeting Social Objectives

The ERA considers that

**Inclining block tariffs** (price increases at certain levels of consumption) **can be used to improve the affordability of water for basic needs. However, providing concessions on the fixed charge would be a more efficient way of achieving this social objective.**

and

**One of the drawbacks of inclining tariffs is that, depending on where the step is positioned, they can penalise large families that have above-average non-discretionary water requirements. Consideration should be given to compensating affected households.**

Further research and modeling on how to adequately structure concessions, and adequately compensate large families in the current 5-step inclining tariff or a 2-step inclining tariff, if adopted needs to be conducted. It should be acknowledged that disadvantage in water pricing can be effect by both the tariff, the structure of the tariff, and models of concessions. WACOSS is not

convinced that adequate analysis has occurred to justify the tariff changes recommended by the ERA.

Flat pricing structures do not acknowledge water use as either essential or discretionary. An inclining tariff ensures a premium is paid for discretionary water use. However, there is no commitment within the ERA recommendations to distinguish household water use as either essential or discretionary, which will result in large families being penalised.

Increasing the water consumption price will not necessarily decrease demand from large families (where there is a large number of children or extended family living within the one house). There is a danger that the substantial tariff increase, even if confined to the over 600kl consumption level, has the potential to impact negatively on large families and particularly on low-income families who are least likely to be able to afford the increased cost and are already doing everything they can to limit their consumption.

Water Corporation statistics show that last year there were over 70,000 residential households across Western Australia with consumption over 550kl per annum. Alarming, many of the locations of highest demographic disadvantage showed higher rates of consumption over 550kl. Regional towns such as Geraldton, Karratha and Broome and first homeowner "mortgage belt" or low-income suburbs such as Thornlie, Canning Vale and Kinross experience the highest number of households with consumption over 550kl. Of great concern to WACOSS is the fact that over 10,000 (14%) of the households who consumed over 550kl were low-income or disadvantaged consumers with income limits low enough to qualify for a Concession Card.

The ERA could consider a model advocated by Yarra Valley Water, where people can self identify with the water provider as a large family. This could then entitle them to an increased water allocation at a lower rate as recognition of their inability to reduce their essential water use.

The ERA makes comments on the Community Service Obligations that have general support from WACOSS; that they should be transparent, and administered via government.



On Tuesday 14 October 2003, Nick Griffiths, the then Minister for Government Enterprises, during the second reading debate of the Economic Regulation Authority Bill 2002 made the following comments:

“Social welfare and equity remains a core government policy issue. Community service obligations will continue to be the main instrument by which government trading enterprises are encouraged to implement the Government’s social welfare and equity policy. That is important for not only social welfare considerations but also the equitable treatment of various parts of Western Australia. That issue is very significant for the non-metropolitan-based regions. It is not proposed that the ERA will have a deterministic power over debt-recovery or retail pricing matters. Those issues will continue to be set by the responsible industry minister. However, the Economic Regulation Authority’s role in inquiring and reporting could be used to assist the Government in making decisions on such matters.”

In the 2003 WACOSS submission to the Standing Committee on Public Administration and Finance, Water Services Inquiry made the following comments on CSO’s and Concessions:

Whilst concessions and rebates provide much needed assistance for particular low-income and disadvantaged households they are not available to all low-income households, nor do they provide adequate assistance. WACOSS urges the Government to undertake an urgent review of the current community services obligations and existing pensioner rebates and concessions on water (taking into consideration rebates for large low-income families) as soon as possible. In addition, a more equitable pricing system than that of tiered consumption level pricing should be instigated (perhaps based on household consumption allowances calculated on the number of individuals in a residence). Furthermore, in light of a recent survey indicating that in the past twelve months Emergency Relief Agencies paid approximately \$1.35 million to the utility service providers to prevent disconnection or restriction of supply to low-income and disadvantaged consumers<sup>18</sup>, an external review of the appropriateness and ethicality of the Water Corporation’s debt collection practices (including the practice of charging interest on outstanding debts and restricting supply), should be conducted.

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<sup>18</sup> Would You Like a Bit of Heat with that Trickle of Water? WACOSS, 2003. Raw data showed that 22 emergency relief agencies paid out \$6922 to the Water Corporation (ie: an average of \$314.64 per agency) to avoid restriction of supply. The Water Corporation’s Annual Report indicates that it recorded an annual net profit of \$296 million for 2001-2002.

Whilst concessions for pensioners and seniors for water consumption provide much-needed assistance for these groups, they are not universally available for low-income households. There is an urgent need for concessions to be reviewed to: firstly, ensure that they adequately provide assistance to low-income households; and secondly, expand eligibility to allow Health Care Card holders to also access concessions on water usage. In addition the current CSO's only apply for the Water Corporation, and not for other water providers resulting in inadequate concessions for non Water Corporation consumers.

The current transparency and application of the Water Corporation CSO's is questionable. In September 2001 the Water Corporation released the following press statement:

"The Chairman said dividend and taxation payments to the State Government would amount to \$396 million. Much of that had already been paid, with the final dividend to be paid in October."

The State Budget Actual Expenditure on CSO payments to the Water Corporation in the following year was \$238,781,000.00, leaving a surplus of \$157,219,000.00 at least for an increase in CSO payments. WACOSS believes that revenue from the Water Corporation can be put towards the CSO payments in an expanded concession on water consumption for those with Health Care Cards.

**Due to limitations in metering technology, charges for consumption in multiple dwellings must be averaged across all tenants. This produces some inequities and possibly inefficiencies but the costs of moving to a system of individual metering would be cost prohibitive.**

Where technology exists to more adequately measure individual water usage, this should be implemented. The family of two that uses as much water as a family of five should be targeted to reduce their water consumption, similarly, individual billing in housing complexes would be a more fair system for individual tenants. As technology becomes more affordable, and no longer cost prohibitive, new meters should be implemented.

**Western Australia and South Australia are the only states to base residential wastewater charges on property values. A more transparent pricing arrangement would be to set a charge equal to the 'per property' average cost of service delivery. This would remove the need for property valuation assessments, with a cost saving of \$2.4 million each year, and the need to make routine adjustments to charge rates in line with changes in property values.**

**While a valuation-based charge may be viewed as more equitable, because it recovers a higher proportion of costs from high-income households, it is an imperfect way of achieving this social objective.**

**On balance, the Authority is of the view that decoupling wastewater charges from property values has merit, principally because it makes pricing more cost reflective and transparent. However, distributional issues would need to be addressed.**

In Victoria they have recently banned late payment fees for some utility providers, via legislative mechanisms. New South Wales in years ahead of Western Australia with retrofitting programs. South Australians pay a dollar per kilolitre of water, wherever they are and whatever it costs to supply them. Many other states are also moving to an inclining block tariff system, and the Economic Regulation Authority is suggesting we should move further away from this. What programs run, models adopted, and emphasis other states place on water is at the discretion of their regulators/governments. Because other states have adopted alternative wastewater charging systems is not reason enough for Western Australia to follow.

The move to introduce a flat wastewater fixed charge for all houses should not be implemented and it is important that progressive systems of charges remain. The potential increase in wastewater charges for lower value properties may be over \$200, which is a significant burden for low-income earners. It is also important that progressive charges continue to be supported to ensure those in our community who have the greatest capacity to pay make an additional contribution to important services.

The introduction of a flat charge for wastewater will see a significant increase in prices for affordable housing areas. Attachment one illustrates the housing

value of properties in the Perth metropolitan region. Attachment two illustrates housing affordability between 2001 and 2004 (the geographical location of the suburbs that are still affordable for low to medium income earners). The correlation between the most affordable areas, and the lower value properties is clearly evident.

The conclusions to draw from comparison of the two documents in the context of the introduction of a flat wastewater charge is that the most affordable suburbs in 2004 are also the lower value properties. This indicates the overall locations that low to medium income earners live, and therefore clearly illustrates that a fixed charge for all houses will have the most impact on low to medium income earners as they live where wastewater prices are recommended to increase.

It is important that progressive wastewater charges, based on property valuation, continue to be applied. This ensures that those in our community who have the greatest capacity to pay make an additional contribution to important services.

### Options for Pricing Reforms and Their Impacts

Under the ERA findings, it appears the people who will most benefit from the restructure in pricing are small families who own a high value property in a wealthy suburb.

The options for pricing reforms as outlined by the ERA model the comments and findings made earlier in the draft report, so the WACOSS responses to those comments and findings apply when discussing the specific options.

#### Option 1: Set the usage charge to LRMC

**The Authority suggests that the Water Corporation give further consideration to rebalancing tariffs so that usage charges reflect LRMC. This would improve efficiency by more clearly signalling to customers the underlying long run cost of supplying water, where scarcity constraints exist.**

The adoption of Long Run Marginal Cost Pricing because it “has a role to play” without any analysis of and factoring into the findings of the impact on low-

income households quite clearly indicates the necessity for the Government to reject the price recommendations, if the final report continues down this path.

The questions consumers, and particularly low income consumers would be asking include, exactly what will the increased revenue be used for, and what level of community support exists for their money to be spent in that manner. To make a finding that generates income for; purposes not yet specified, and as a demand management tool despite the evidence indicating price is not an effective demand management tool is irresponsible and socially unfair.

**The Authority proposes that, in conjunction with tariff rebalancing, the number of tariff steps be reduced in order to simplify the price signals to customers and to bring the tariff structure into line with those in other States.**

**For the purpose of collecting views and perspectives from stakeholders, the Authority has developed two options – a flat rate usage charge and a two-block inclining tariff. Both result in low volume users experiencing a reduction in their water bill due to a lower fixed component. At average consumption levels of 250 kL per annum, customers would experience a small increase in their bill of \$12 (flat rate) or \$6 (two-step).**

Again, what programs run, models adopted, and emphasis other states place on water is at the direction of their regulators/governments. Because another state is adopting a particular tariff structure is not reason enough for Western Australia to follow.

The changes to tariff steps can not be justified on the basis of that it would simplify the price signals to consumers, as it assumes that consumers currently have adequate information to analyse their current water usage. In particular, tenants don't receive consumption bills; so have limited knowledge of the current tariff steps. Whilst there is a general awareness in the community of the need to conserve water, the ability of individual consumer to respond to price signals is limited by the lack of information about their individual consumption patterns.

A \$1 per kilolitre for the first 600 kL and \$1.50 for each kL over 600 kL is a significant rise in price from the current price structure. The increased price per kilolitre of water will be between 9 cents to 58 cents for all consumers. Only owner/occupiers will benefit from an associated reduction in the fixed rate

charge. There has not been adequate analysis conducted by the ERA to justify these price increases.

#### Option2: Introduce a two-block inclining tariff

**The choice between a flat rate or two step charge essentially hinges on whether a desired role for the tariff structure is to reduce demand. On balance, the Authority considers that a two-step inclining tariff does have a beneficial role to play in managing demand.**

**The analysis indicates that under the proposed two-step tariff, large families with above-average water requirements would be likely to experience an increased bill, in the order of \$60 per annum for a household using 600 kL per annum. Therefore, it is recommended that ways to compensate these customers be examined, such as free water savings packages to assist households in managing their water consumption.**

Further research and modeling on how to adequately structure concessions, and adequately compensate large families in the current 5-step inclining tariff or a 2-step inclining tariff, if adopted needs to be conducted. It should be acknowledged that disadvantage in water pricing can be effect by both the tariff, the structure of the tariff, and models of concessions. WACOSS is not convinced that adequate analysis has occurred to justify the tariff changes recommended by the ERA.

Flat pricing structures do not acknowledge water use as either essential or discretionary. An inclining tariff ensures a premium is paid for discretionary water use. However, there is no commitment within the ERA recommendations to distinguish household water use as either essential or discretionary, which will result in large families being penalised.

Increasing the water consumption price will not necessarily decrease demand from large families (where there is a large number of children or extended family living within the one house). There is a danger that the substantial tariff increase, even if confined to the over 600kl consumption level, has the potential to impact negatively on large families and particularly on low-income families who are least likely to be able to afford the increased cost and are already doing everything they can to limit their consumption.

Water Corporation statistics show that last year there were over 70,000 residential households across Western Australia with consumption over 550kl per annum. Alarmingly, many of the locations of highest demographic disadvantage showed higher rates of consumption over 550kl. Regional towns such as Geraldton, Karratha and Broome and first homeowner "mortgage belt" or low-income suburbs such as Thornlie, Canning Vale and Kinross experience the highest number of households with consumption over 550kl. Of great concern to WACOSS is the fact that over 10,000 (14%) of the households who consumed over 550kl were low-income or disadvantaged consumers with income limits low enough to qualify for a Concession Card.

The ERA could consider a model advocated by Yarra Valley Water, where people can self identify with the water provider as a large family. This could then entitle them to an increased water allocation at a lower rate as recognition of their inability to reduce their essential water use.

The ERA has acknowledged equity impacts of such pricing models, and although indicating free water saving packages could be made available to larger families, there is inadequate detail in the draft findings to assess the relative impact on large families. The water saving packages for large families need to consider the volume and cost savings that can be made, and whether these offset the impact of pricing models. There is also inadequate consideration of other families who may be facing financial hardship and can least afford price rises.

#### **AQWEST/Busselton Water**

The pricing reforms of Bunbury and Busselton water as recommended by the ERA appear to be linked to the price setting models recommended for the Water Corporation. In that context, WACOSS reiterates the comments made above.

## REFERENCES

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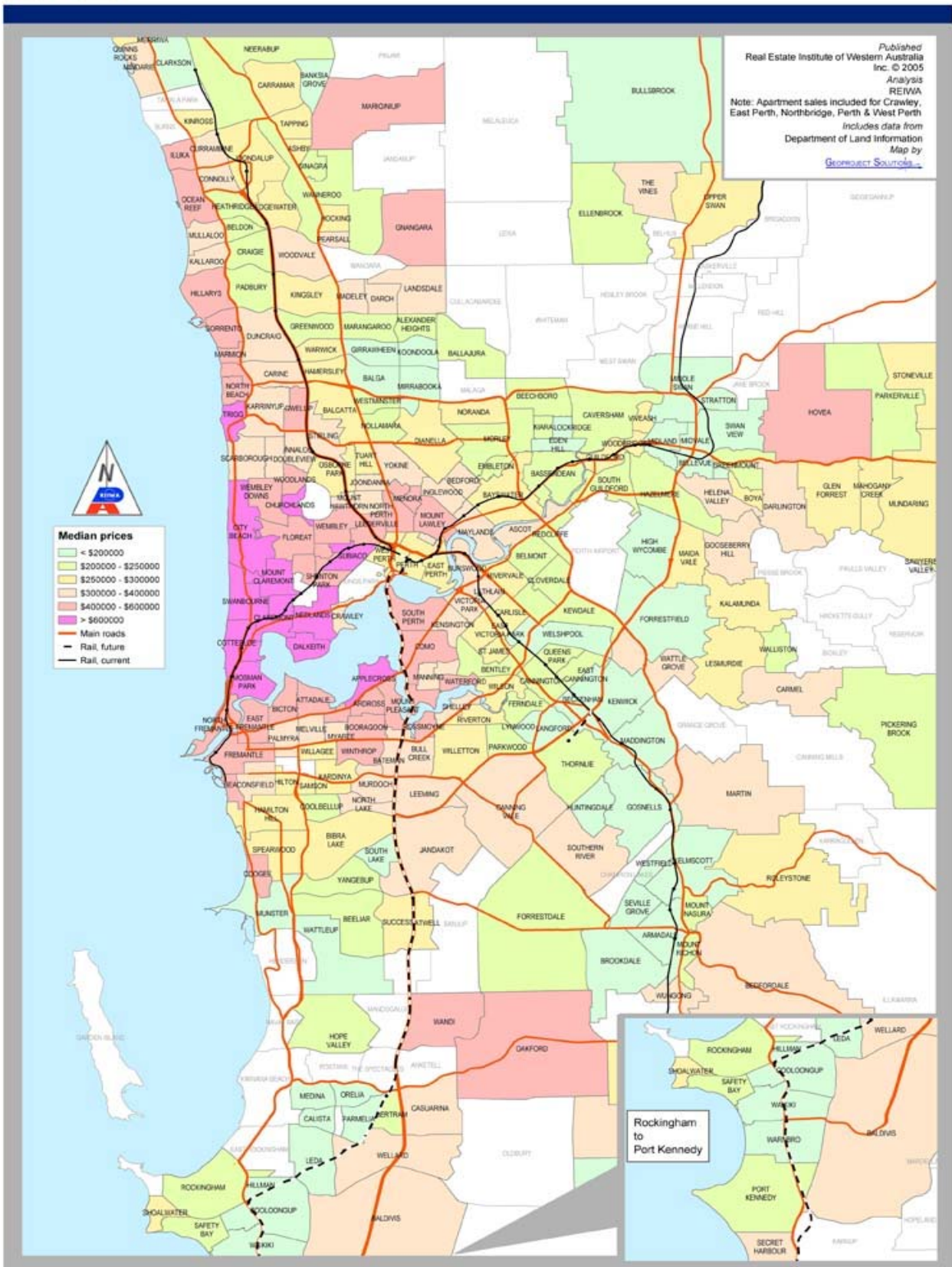


www.reiwa.com.au

Real Estate Institute of Western Australia

# Perth house prices: December 2004

Median prices established house sales in 2004





Account Enquiries 13 13 85

### Water Usage Account

001

MR SAM SAMPLE  
CARE SAM SAMPLE  
119 SAMPLE STREET  
SAMPLEVILLE

Issue Date 16 March 2004

Account Number **99 99999 99 9**

Please Pay **\$317.00**

Payment Due By **13 Apr 2004**

Account for HOUSE AT 119 SAMPLE STREET SAMPLEVILLE

Opening Balance	+	New Charges	=	Total
\$146.20		\$170.80		\$317.00

Water Usage Charges From 10 September 2003 to 10 March 2004

To make paying your account easier, you can now apply to pay by Direct Debit over the phone. If you sign up by 30 June 2004 you will automatically be in the draw to win one of five AAAA rated water efficient washing machines\*. To apply call 13 13 85. For further details visit [www.watercorporation.com.au](http://www.watercorporation.com.au) \*Conditions apply

No GST applies to this account.

SEE BACK FOR IMPORTANT INFORMATION



### Payment Slip

#### Concessions

If you hold a current Pensioner Concession Card or State Concession Card and have not registered with us, you may be missing out on a concession. For more information contact us on 1300 659 951 before the payment due date on this account.

#### Payment Difficulties?

If you are having difficulty paying this account, please call 13 13 85.

#### We're on the Web

Website: [www.watercorporation.com.au](http://www.watercorporation.com.au)  
E-mail: [cust\\_centre@watercorporation.com.au](mailto:cust_centre@watercorporation.com.au)

Account Number 99 99999 99 9

Please Pay \$317.00

Payment Due By 13 April 2004



100 999999999

0010008

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**Water Usage Account**

119 SAMPLE STREET SAMPLEVILLE

**Meter Reading Details**

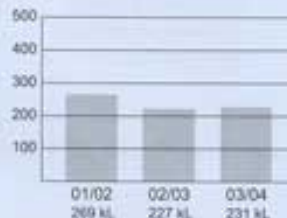
Meter Number	This Reading	Last Reading	Usage (kL)
BK9999999	10 Mar 2004 5488	10 Sep 2003 5257	231

Total water used in 182 days was 231 kilolitres (1 kL = 1000 litres)

**How Your Water Use Charges Have Been Calculated**

Water Usage:	167kL at \$0.674	\$112.56
	64kL at \$0.910	\$58.24
<b>Total</b>		<b>\$170.80</b>

Your average daily usage for the current reading period was 1.27 kL at a cost of \$0.94 per day.

**Property water use for same reading period****Customer Information****Reading or Estimate Query**

If you have reason to query the reading or water usage, contact us on 1800 624 377. The account should still be paid by the due date and, if required, an adjustment will be made and a revised account sent to you.

**Hearing Impaired Customers**

Call TTY 1800 063 508

**Are you moving?**

Please let us know of any change in your address or ownership.

Interest is charged on overdue amounts @ 11.85% p.a.

**WAYS TO PAY YOUR ACCOUNT****Direct Debit**

To establish automatic payment of accounts from your nominated bank or financial institution, call 1800 624 377 to make application over the phone.

**Mail**

Send your cheque made payable to 'Water Corporation' with your payment slip to:  
WATER CORPORATION  
PO BOX 1600, OSBORNE PARK DC, WA 6916

**B-Pay**

Contact your bank or financial institution to arrange payment  
**Billers Code: 8805\* Ref: 99 99999 99 9**

**Internet\***

Follow the prompts to 'Pay Your Account Online' at:  
[www.watercorporation.com.au](http://www.watercorporation.com.au)

**POST Billpay**

Pay your account at any Post Office or go to:  
[www.postbillpay.com.au](http://www.postbillpay.com.au)

**Billpay Code: 0690 Ref: 99 99999 99 9**

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**Billers ID: 612700 Customer ID: 99 99999 99 9**

**Telephone\***

Call 1300 366 067 to pay your account using your Visa card, MasterCard or Bankcard.

\* The MAXIMUM you can pay by credit card is \$5,000



Yarra Valley Water Ltd. ABN 93 066 902 501

Yarra Valley Water

SAMPLEFORVW.DAT/GJ/0000001/P000001/H1

MR AB SAMPLE & MRS SAMPLE  
1 SAMPLE STREET  
SAMPLETOWN VIC 3000

**Tax Invoice** Issued 15 Jan 2005

**Account Summary**

1 SAMPLE STREET, SAMPLETOWN

Property Number 1111 1111, LOT P PLAN 111

Product/Service	Description	Amount
Water Usage	14 Oct 04 to 14 Jan 05	
	Block 1 @ \$0.75 per kilolitre	\$30.36
	Block 2 @ \$0.88 per kilolitre	\$35.62
	Block 3 @ \$1.30 per kilolitre	\$90.73
	14 Oct 04 to 14 Jan 05	\$15.39
Sewage Disposal	01 Jan 05 to 31 Mar 05	\$ 07
Service Charges	On behalf of Melbourne Water	\$1.00
Drainage Charge		
<b>TOTAL (GST does not apply)</b>		<b>\$208.79</b>

See reverse for details



\*874 33 824 0000 0000

1 SAMPLE STREET, SAMPLETOWN

Be a Water Saver and still have a beautiful garden!  
Find out how at [www.ourwater.vic.gov.au](http://www.ourwater.vic.gov.au)

To claim an automatic concession on your account, please call 131 721.  
Please see reverse for details.

**Quarterly Account**

Enquiries 131 721 (24 hrs)  
Emergency 132 762 (24 hrs)

Customer Number a000 000  
Invoice Number 824 0000 0000

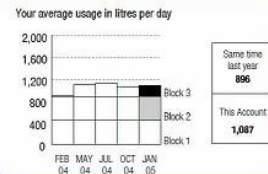
Total Due \$208.75  
Due Date 30 January 2005

If eligible for a concession  
the amount due is: \$172.75

**Payment Summary**

Last Account \$403.00  
Paid/Adjusted \$3.95  
Balance \$0.00  
Total this Account +\$208.79  
Amount Due \$208.75

**Compare your Usage**



**Payment Slip**

Customer Number a000 000  
Invoice Number 824 0000 0000

Total Due \$208.75  
Due Date 30 January 2005

If eligible for a concession  
the amount due is: \$172.75



Yarra Valley Water

**Water Smart**

**How does your household compare?**

At this time of year, half of the households supplied by Yarra Valley Water use less water than shown below.

Household numbers	Litres per day
No garden	208
Small garden	279
Medium garden	378
Large garden	493

No garden	373
Small garden	444
Medium garden	542
Large garden	657

No garden	482
Small garden	553
Medium garden	651
Large garden	767

No garden	581
Small garden	652
Medium garden	750
Large garden	865

No garden	690
Small garden	762
Medium garden	860
Large garden	975

No garden	822
Small garden	893
Medium garden	991
Large garden	1106

**Is your household water efficient?**

Yarra Valley Water studies suggest households using less than three quarters of the above amounts are water efficient!

**Become a Water Saver today, visit**

[www.ourwater.vic.gov.au](http://www.ourwater.vic.gov.au)  
[www.savewater.com.au](http://www.savewater.com.au)

**A Fresh Approach**

**A beautiful garden can be water smart**

Congratulations to George and Marj of Templestowe!

A water audit conducted by Holmesglen Institute's Horticulture Department found their traditional ornamental garden to be water efficient.

Like many of us, the couple love their garden and in their case, their devotion to it has resulted in a low maintenance, water wise garden.

'This year the lawns are green and lush, the result of reasonable rainfall,' George explains.

'Previously the drought caused large cracks in the backyard lawn area. However it has recovered well and water restrictions have made us garden smarter, not harder,' says George.

'Just because the lawn wasn't at its best didn't keep us from maintaining the rest of the garden'.

**George and Marj's good gardening habits:**

- The lawn is kept long; at least 25cms. This protects the soil and roots from the burning effects of the sun.
- Large trees shade much of the lawn and many of the plants are grouped according to their water needs.
- Good use of organic fertilizer around plants and in pots helps with water retention.

**Where George and Marj could save even more:**

- They could replace their micro spray watering system with a drip watering system. Drip watering delivers the right amount of water at a rate the soil can absorb.
- All the garden beds could be mulched. Mulch reduces evaporation by as much as 70%
- The lawn size could be reduced.

Please refer to the enclosed *Summer 05 News* for more information on the new *Our Water Our Future Water Saver Garden* program and how to enter the *savewater!*<sup>TM</sup> competition.

824 0000 0000

**Account Details**

**Water Usage** from 14/10/2004 to 14/01/2005.

Meter Number	Current Reading	Last Reading	Usage
MAF123456	5,204kL	5,104kL	100kL

In 92 days you used 100,000 kilolitres, equalling 1,087 litres per day.

Usage*	Price \$/kL	Amount
BLOCK 1	40.480 x 0.7500	= \$30.36
BLOCK 2	40.480 x 0.8800	= \$35.62
BLOCK 3	19.040 x 1.3000	= \$24.75
<b>Total</b>	<b>100.000</b>	<b>\$90.73</b>

\*Rising block tariffs are adjusted according to the days in your meter reading period, and applied on a daily basis.

**Water Service** \$16.12  
**Sewerage Service** \$33.85  
**Total Service Charges** \$50.07

**Drainage Charge** from 01/01/2005 to 31/03/2005. Collected on behalf of Melbourne Water for regional drainage services.  
Your NAI\* is at a sufficiently low level to attract the minimum charge of \$12.60.

**Additional Information**

If you are moving in or out of a separately metered property, we require 48 hours notice to arrange a meter reading at no charge.

Tenants in separately metered properties are liable for water usage and sewerage disposal charges only.

Payment Assistance is available if you are having difficulty paying your account, call 131 721.

Concessions are available to eligible customers if you are unable to pay your bill. Contacting us will be useful to confirm your going and can be revoked by contacting us.

Large print and Braille accounts call 131 721.

Hearing impaired customers who require a Telephone Typewriter Service call 131 721. Open 8am and 5.30pm Mon-Fri.

Private State: Yarra Valley Water collects personal information for the provision of water and related services and products, providing such services and products and market research. We may disclose your personal information to our contractors for these purposes and other third parties including Melbourne Water and the Minister for Environment and Water relating to Parks Victoria services. You may request access to your personal information that we hold by writing to the Privacy Officer at Private Bag 1, Mitcham VIC 3132. Please note we may charge you the reasonable cost of providing you with access to your personal information.

For Language assistance call (TIS) 131 450. المساعدة في مجال اللغة لإصل بخدمة TIS على 131 450. برای گرفتن خدمات ترجمه تلفنی با تیس TIS به شماره 131 450. 语言协助 · 請打電話 131 450 到口譯服務處(TIS)。

За pomoć u sporazumjevanju nazovite TIS na 131 450. Much dupe giup đō bāng ngôn ngō của qui vj, xin gọi cho TIS qua điện thoại số 131 450.

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Tercümsünä gerekşinim duyduğunuzda Telefonla Tercümanlık Servisi (TIS) 131 450 numaradan arayınız. За помош на вашиот јазик јавете се на TIS на 131 450.

За јазичку помоћ назовите TIS 131 450. 언어소통에 도움을 원하시면 TIS 전화 131 450번으로 연락하십시오.

Visit our website at [www.yvw.com.au](http://www.yvw.com.au) or e-mail [enquiry@yvw.com.au](mailto:enquiry@yvw.com.au)

**Yarra Valley Water is pleased to help you in any matter regarding our water services.** If you have any concern, please call us on 131 721. If we are unable to resolve the matter you can call the Energy and Water Ombudsman (Victoria) on FREECALL 1800 500 509.

**How to Pay**

Customer Number: a000 000 Invoice Number: 824 0000 0000

**Direct Debit** your account automatically, call 131 721.

**Mail a Cheque** with this portion of the account to Yarra Valley Water, GPO Box 2755, Melbourne VIC 3001.

**Credit Card Payments** call 1300 362 332, 24hrs, 7 days.

**Bill EXPRESS** Biller Code: 533 827 Ref: 824 0000 0000

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Amount Due **\$208.75** Amount Paid \_\_\_\_\_ Date Paid \_\_\_\_\_ Receipt Number \_\_\_\_\_



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## **The State of Affordable Housing in WA, 2004**

Shelter WA Occasional Paper 2004-2

prepared by Karel Eringa

September 2004

## **Introduction**

*The State of Affordable Housing in WA* is Shelter WA's annual overview of the extent to which West Australians are able to access affordable housing. The overview is based on a range of key housing indicators, and focuses on families in the bottom half of the income range.

Last year, Shelter WA identified affordability as the most significant barrier for low income families to access appropriate housing. Since then, housing affordability in has deteriorated further, particularly with regard to purchasing.

## **Overview**

The central issue for housing in WA in 2003-04 was another major decline in housing affordability for home purchasers. Two interest rate rises and house price growth of 14.4% saw the household income required to purchase a median priced Perth home rise to over \$100,000 per year. By comparison, the median household income is \$55,084 per year.

Another illustration that home ownership is becoming very difficult to achieve is that in June 2001, a family earning at the top of the second income quintile (currently just under \$48,000) had a choice of 49 Perth suburbs in which it could afford to buy a median priced home. By June 2004, the choice had reduced to just 9 suburbs: Armadale, Brookdale, Calista, Koongamia, Medina, Parmelia, Swan View, Wattleup and Westfield.

This analysis does not indicate that prospective home purchasers earning lower incomes cannot buy houses priced below the median outside of these nine suburbs. In fact, there are some indications that a significant number of affordable properties priced below the median are on the market in many suburbs.

However, the above figures do indicate that these home purchasers can no longer rely on their traditional strategy of buying a median priced house in a suburb that they can afford. Instead, they have to spend time and effort in order to find a suitable house that they can afford in areas where most properties will be out of their reach, and where they will be competing with better-heeled investors for the ones that they can afford.

In other words, recent developments in the housing market have increased the transaction costs associated with finding and purchasing properties at the bottom end of the market. The immediate effect, as has been well documented, has been a severe decline in the number of first home buyers.<sup>1</sup>

Until the March quarter of 2004, this fall in first home buyer activity was more than compensated for by investors. While disastrous for first home purchasers, a side effect of this investor activity has been an ample supply of properties for rent. The result has been a limited increase in rents, with the median rent increasing from \$157 per week in June 2003 to \$164 per week in June 2004.

However, there are several indications that rents are about to rise. Firstly, investor activity fell in the June quarter, prompting a slight decline in house prices. Secondly, rising house prices and steady rents have produced a further decline in rental returns: the gross return yield for a median priced house in Perth was 3.5% in June 2004, down from 3.9% in June 2003 and 5.0% in June 1999.

These extremely low rental returns and limited prospects of further capital gains mean that many investors will be looking to sell off their properties over the next few years in order to invest their funds in more promising assets. Barring further interest

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<sup>1</sup> For instance, see Productivity Commission, *First Home Ownership - Productivity Commission Inquiry Report No.28*, March 2004

rate rises, this would benefit some first home buyers. At the same time, it would also reduce rental stock and put upward pressure on rents.

Despite the small increase in rents, however, housing stress levels in the private rental market remain high. One of the prime factors is that Commonwealth Rent Assistance, the Government's main demand side assistance program, continues to be particularly ineffective in increasing housing affordability. One third of CRA recipients were not in housing stress before receiving the payment and another third remained in housing stress after receiving the payment. CRA was effective in eliminating housing stress only for the remaining third of recipients.

With home ownership becoming unaffordable, the continuing high degree of housing stress in the private rental sector, and continuing high levels of homelessness and overcrowding, the pressure on social housing to provide an affordable safety net for people on lower incomes is increasing. In 2003/04, the news regarding social housing has been mixed.

On the positive side, the State Government has continued to provide some funding for social housing from its Consolidated Revenue Fund. This appears to have halted the decline of social housing at around 4.9% of total housing stock. However, Shelter WA believes that social housing should be increased to at least 6% of housing stock in order to address the current housing affordability crisis. This would require a funding injection in the order of \$150 million per year in addition to current capital expenditure of around \$130 million.

A second way of increasing the amount of funds available for expansion is to amend the policy of 'targeting' people with high needs and low incomes. This policy jeopardises the financial viability of the sector as it increases tenancy management costs and reduces rental revenue. Unfortunately, there are no signs that this policy is about to be changed.

However, the State Government has pursued a two different ways of increasing affordable housing stock. Firstly, as of 1 July 2004 it has abolished stamp duty for first home purchasers on dwellings below \$220,000, with discounts available for dwellings up to \$300,000. At the time of writing, the impact of this measure was yet to be revealed. Secondly, it is developing a Not For Profit Housing Company, which may create a new source of affordable housing.

While these initiatives are commendable, their scope is insufficient to address the housing affordability crisis. The main obstacle to achieving this is the lack of coherent policy direction at a national level. As the National Shelter 2004 Policy Platform argues, "Government intervention in the housing system lacks coherence and is disjointed and ineffective, although extremely expensive. Despite housing assistance and housing related tax exemptions valued at over \$25 billion per year, nearly 100,000 people are homeless, and housing affordability is at an historic low." It is worth pointing out that 11.7% (11,697) of homeless people live in Western Australia.<sup>2</sup>

## **Home Purchasing**

Figure 1 shows the Perth median house price and household incomes for Western Australia over the last ten years. The figure shows that while housing affordability has fluctuated over the period, the reduction in affordability brought on by recent house price rises has been exceptionally large.

The figure shows three distinct periods. Firstly, between 1994 and 1997, house prices increased slowly at an average 3.6% per year. However, the 'affordability gap' between the income required to affordably purchase a median priced house and the

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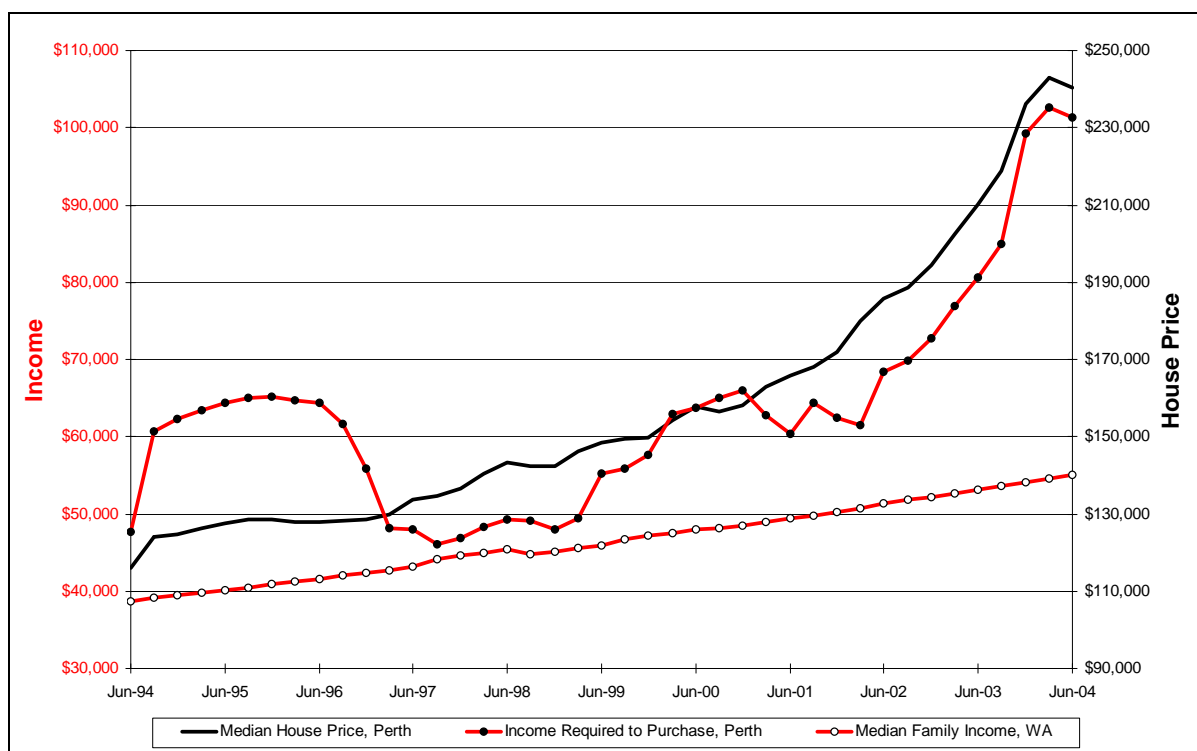
<sup>2</sup> Chris Chamberlain and David MacKenzie, *Counting the Homeless 2001: Western Australia*, Swinburne University and RMIT University, 2004



actual median household income increased from 22.9% in June 1994 to 60.6% in September 1995 and subsequently fell to 4.5% in September 1997. This was a result of interest rate movements: the average standard variable mortgage rate first increased from 8.75% to 10.50%, then fell to 6.70%.

In the second period, from 1997 to 2002, interest rates were by and large steady. House price growth increased to 6.8% per year, and as a consequence the affordability gap increased slowly to 33.2% in June 2002.

However, over the last two years house price growth has averaged 13.8% per year, while mortgage interest rates have increased from 6.55% to 7.05%. As a result, the affordability gap has widened to 84.0%. The income required to purchase a median priced house has increased from \$68,388 to \$101,359, while median household income has only increased from \$51,324 to \$55,084. Put differently, in June 2002 the median household income was \$17,064 below the income required to purchase a median priced Perth house. By June 2004 this gap had risen to \$46,275.



**Figure 1: House Prices, Household Income and Affordability, Perth 1994-2004**

Data Sources: Real Estate Institute of WA, Reserve Bank of Australia. The income required to purchase a median priced dwelling was calculated assuming a deposit of 10% of the median property value plus 5% costs, average standard variable home loan over 25 years with repayments at 30% of household disposable income.

Figure 2 illustrates that rising house prices and interest rates have particularly affected low to median income households. In June 2001, there were 49 suburbs in which a household earning at the top of the second income quintile (currently \$47,756 per year) could purchase a median priced house. By June 2004 the same household could only afford to purchase a median priced house in 9 of these suburbs; 82% of the suburbs that were affordable in June 2001 were no longer affordable three years later. Suburbs such as Girrawheen, Gosnells, Lockridge, Midvale and Orelia have become unaffordable for low to middle income earners over the last twelve months.<sup>3</sup>

<sup>3</sup> One suburb, Swan View, was affordable at the second income quintile cut-off until 2002 and after annual growth of 13.9% became unaffordable in 2003. However, a fall of 5.8% saw this suburb become affordable once more in 2004.

	Suburbs affordable for low-median income households					Suburbs affordable for low-median income households			
	June 2004	June 2003	June 2002	June 2001		June 2004	June 2003	June 2002	June 2001
Armadale	✓	✓	✓	✓	Leda		✓	✓	✓
Balga			✓	✓	Lockridge		✓	✓	✓
Banksia Grove			✓	✓	Lynwood			✓	✓
Beckenham			✓	✓	Maddington		✓	✓	✓
Beechboro				✓	Medina	✓	✓	✓	✓
Bellevue		✓	✓	✓	Merriwa			✓	✓
Brookdale	✓	✓	✓	✓	Middle Swan		✓	✓	✓
Calista	✓	✓	✓	✓	Midland			✓	✓
Clarkson			✓	✓	Midvale		✓	✓	✓
Coolbellup				✓	Mirrabooka			✓	✓
Cooloongup		✓	✓	✓	Orelia		✓	✓	✓
Craigie				✓	Parmelia	✓	✓	✓	✓
East Cannington				✓	Queens Park			✓	✓
Forrestfield			✓	✓	Rockingham				✓
Girrawheen		✓	✓	✓	South Lake				✓
Gosnells		✓	✓	✓	Stratton		✓	✓	✓
Heathridge				✓	Swan View	✓		✓	✓
High Wycombe				✓	Two Rocks			✓	✓
Hillman		✓	✓	✓	Waikiki				✓
Huntingdale				✓	Wanneroo				✓
Kelmscott		✓	✓	✓	Warbro			✓	✓
Kenwick		✓	✓	✓	Wattleup	✓	✓	✓	✓
Koondoola		✓	✓	✓	Westfield	✓	✓	✓	✓
Koongamia	✓	✓	✓	✓	Westminster				✓
Langford		✓	✓	✓					

**Figure 2: Affordable Suburbs, Perth 2001-2004**

Data Sources: Real Estate Institute of WA, Reserve Bank of Australia. The income required to purchase a median priced dwelling was calculated assuming a deposit of 10% of the median property value plus 5% costs, average standard variable home loan over 25 years with repayments at 30% of household disposable income.

Figure 3 shows the geographical location of the suburbs that are still affordable for low to median income earners. This map indicates that these affordable suburbs are now exclusively concentrated around Armadale, Midland and Kwinana. As was noted in last year's edition of this paper, all "three of these areas are characterised by higher than average unemployment and a relative lack of accessibility to services such as public transport. This implies that low to middle income families can't afford housing with access to jobs or education, affecting not only their own life prospects but also those of their children."<sup>4</sup>

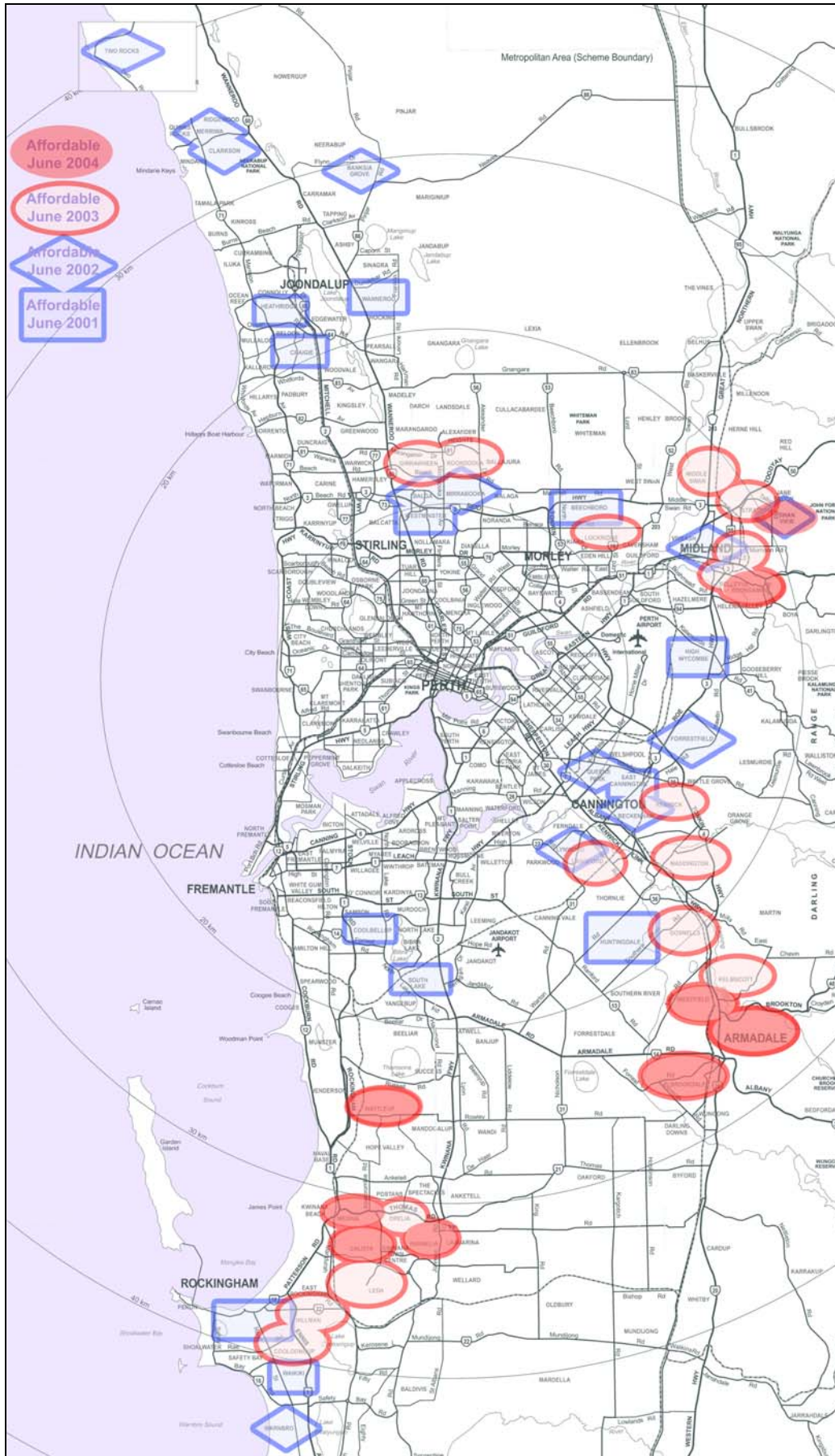
However, it should be noted that the above figures should not be taken to read that there is no affordable housing outside of these nine suburbs. In fact, there are indications that there is a good supply of below-median houses in many more expensive suburbs. On the other hand, there is also ample qualitative evidence that low to median income earners have difficulty purchasing these properties.

Instead, most first home buyers rely on buying a median priced house in a suburb that they can afford. When prices go up, first home buyer activity tends to shift to cheaper suburbs, rather than cheaper houses in previously affordable suburbs.<sup>5</sup>

There are three factors that might explain this behaviour. Firstly, other things being equal, first home buyers can purchase a better dwelling or bigger block of land in a cheaper suburb. Secondly, focusing on a suburb where most properties are within the purchaser's price range avoids substantial transaction costs in terms of time and effort spent searching for a suitable property. Finally, a substantial proportion of investors focuses on cheaper properties in slightly more expensive suburbs, where rental returns are higher. By shifting to similar priced properties in cheaper suburbs, first home buyers may be able to avoid having to compete with relatively well-heeled investors for a small number of lower priced properties in higher priced suburbs.

<sup>4</sup> Karel Eringa, *The State of Affordable Housing in WA*, Shelter WA Occasional Paper 2003-2, August 2003

<sup>5</sup> See Reserve Bank of Australia, *Submission to the Productivity Commission Inquiry on First Home Ownership*, Occasional Paper No 16, November 2003.



**Figure 3: Affordable Suburbs, Perth, 2001-2004**

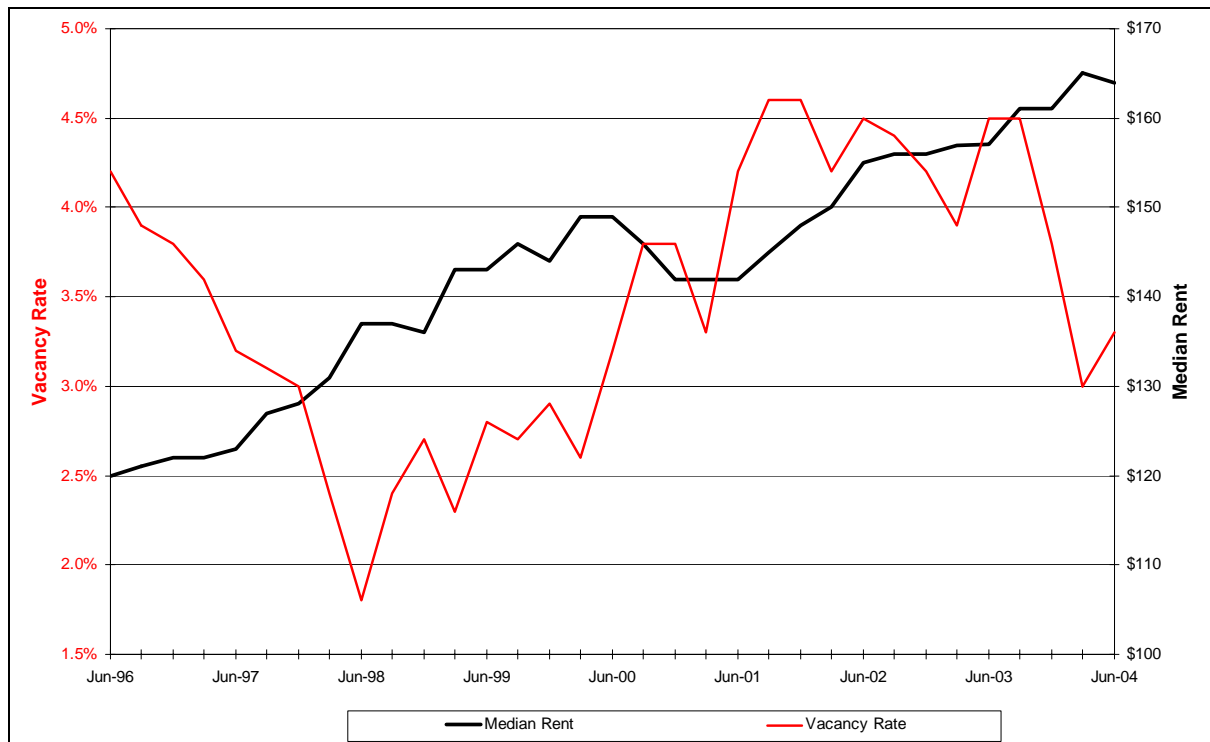
Base map reproduced with permission of the Department of Land Information, P321: see [www.dli.wa.gov.au](http://www.dli.wa.gov.au).

Overall, home ownership has become much more difficult to achieve over the last few years. The income required to purchase a median priced property has increased dramatically, and the number of suburbs where the majority of properties are affordable at the second income quintile has fallen from 24 to just nine over the last twelve months. While there are still affordable dwellings in many suburbs, high search costs and competition from investors make these properties difficult to access for many low to median income earners. The result has been a much-publicised fall in the number of first home purchasers in the market.<sup>6</sup>

## Private Rental

The big reduction in affordability for home purchasers could be expected to increase pressure on the private rental market by increasing demand for rental accommodation. The associated fall in the number of first home buyers reported above highlights that a proportion of young households are remaining in the private sector for longer.

However, Figure 4 indicates that the associated rent increases have not been as large as might be expected. In fact, over the last three years, Perth's median rent has increased by around 2.5% per year in real terms. This is well below the growth rate of 4.2% experienced between 1996 and 2000.<sup>7</sup>



**Figure 4: Rent and Vacancy Rate, Perth, 1996-2004**

Base map reproduced with permission of the Department of Land Information, P321: see [www.dli.wa.gov.au](http://www.dli.wa.gov.au).

The underlying reason why significant rent increases have failed to materialise over the last few years is likely to be vacancy rates, which were consistently been above 4% between 2001 and early 2004. The sustained high vacancy rate appears to be the result of the interplay of three factors.

<sup>6</sup> For instance, see Productivity Commission, *First Home Ownership - Productivity Commission Inquiry Report No.28*, March 2004

<sup>7</sup> Perth's real median rent fell by 10.1% in the 2000/01 financial year. However, this year has been left out of consideration in this analysis due to the impact of the introduction of the GST.

The first factor is the number of first home buyers, which soared after the introduction of the First Home Owners Grant in 2001, thus reducing demand for rental accommodation. In addition, net migration into Western Australia was negative, further reducing demand. This resulted in high vacancy rates in this period.

In 2002 and 2003, the number of first home buyers fell, increasing demand for rental accommodation. However, at the same time the number of investors in the housing sector also rose, leading to an increase in the supply of private rental accommodation. The outcome was continued high vacancy rates high.

More recently, however, demand for rental accommodation has increased as a result of further falls in the number of first home buyers and a marked increase in migration into the state. In addition, investor demand has dropped after house prices reached their peak. As a result, vacancy rates have fallen from 4.5% to 3.3% over the last twelve months, although this is yet to feed through into increases in real rents.

Unless house prices fall or rents rise, investment in housing is likely to become a relatively unattractive proposition. Figure 5 shows that prior to 2000, rents rose roughly in line with house prices, leaving a median rental return of around 5%. While low by international standards,<sup>8</sup> this return allowed investors to cover property management costs, maintenance and some finance costs.

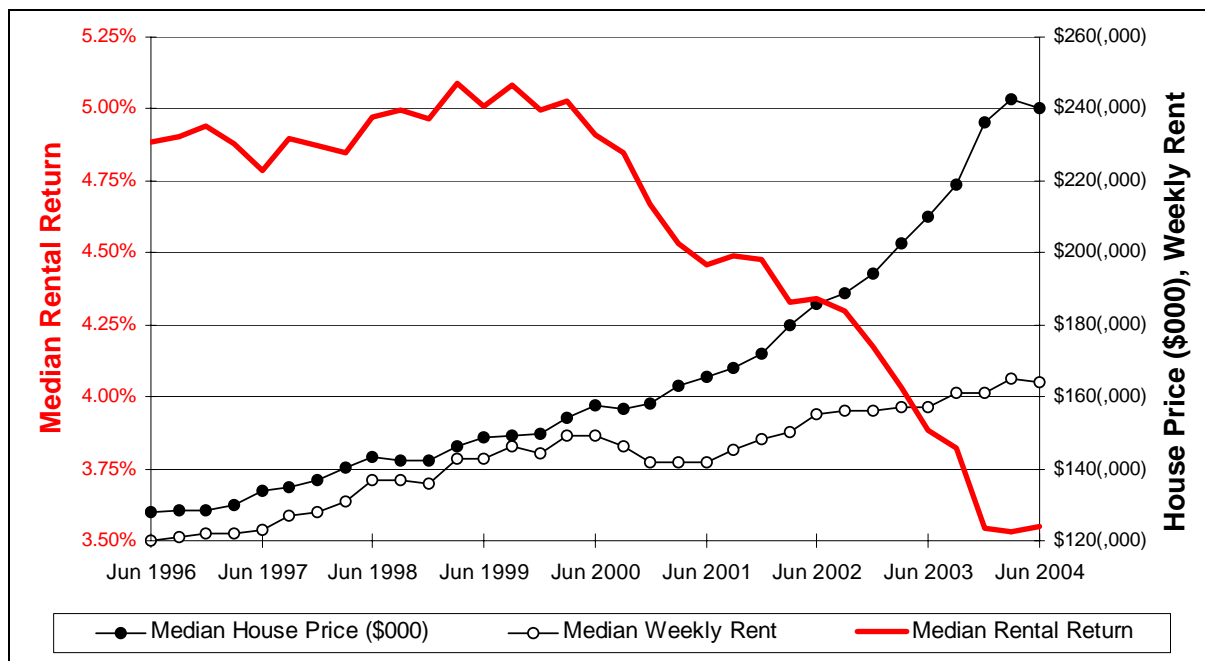


Figure 5: Gross Rental Return, Perth 1996-2004

However, over the last three years rent increases have not kept pace with increases in property values. As a result, the median rental return has fallen to just over 3.5% in recent times. This return is insufficient to cover property management costs and maintenance, let alone the costs of finance. In this type of market, investors purchase properties with the expectation that rental losses will be covered by future capital gains.

Finally, it should be noted that while overall affordability in the private rental sector appears to be much better than for home purchasers, it does not follow that there is no affordability problem in this sector. In particular, the use of averages may mask developments in different market segments. Research by AHURI has confirmed that

<sup>8</sup> See Productivity Commission, *First Home Ownership - Productivity Commission Inquiry Report No.28*, March 2004, pp.22-23

very little accommodation is available at the bottom (affordable) end of the market,<sup>9</sup> while vacancy rates are substantially higher at the top end. This implies that housing affordability in the rental sector is much more of an issue for people on lower incomes.

This is confirmed by data on Commonwealth Rent Assistance (CRA), which “is a non-taxable supplementary payment to help with the additional cost of private rental housing.”<sup>10</sup> CRA aims to provide “customers with more choice about where they live and the quality of their housing.”<sup>11</sup> However, figures collated in the Productivity Commission 2004 Report on Government Services indicate that CRA failed dismally in delivering such choice.

The report indicates that in June 2003, 86,244 West Australians received CRA payments.<sup>12</sup> 54.6% received the maximum amount payable and the average entitlement was \$73.89 per fortnight.<sup>13</sup> 28.7% of recipients were still in housing stress after taking CRA into account, and 33.9% of recipients were not in housing stress even before they received CRA. This means that CRA was successful in eliminating housing stress for only 37.4% of recipients.<sup>14</sup>

In addition, some groups who experience housing stress are unable to access CRA. This includes working families on low incomes, who are ineligible for CRA as well as single young people, who have to spend in excess of 25% of their Youth Allowance on rent before they receive a single dollar of CRA due to the impact of the rental threshold.

One outcome has been that homelessness and overcrowding rates in the state continue to be high, particularly among Indigenous people. Despite this, expenditure on CRA is increasing while expenditure on social housing under the CSHA is falling. In 2002/03, government expenditure on the CSHA was \$1.39 billion, while expenditure on CRA was \$1.85 billion.

## **Social Housing**

The final tenure, social housing, has continued to decline in importance relative to home ownership and private rental. Figure 6 shows that while the total number of dwellings owned by the Department of Housing and Works increased slightly in 2003/04 (from 39,181 to 39,215), social housing as a proportion of total housing stock has fallen from 5.4% to 5.2% over the year.<sup>15</sup>

Social housing stock has increased by around 0.5% since 1997, when it represented 6.1% of all occupied dwellings. This decline is caused by two factors. Firstly, funding for social housing in WA under the Commonwealth State Housing Agreement (CSHA) has fallen by 26.5% since 1996/97 in real terms.<sup>16</sup> This has coincided with a move to ‘target’ social housing increasingly to people with high needs and low incomes. As a result of targeting, tenancy management costs for social housing providers have increased while rental income has fallen.

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<sup>9</sup> Maryann Wulff, Judith Yates and Terry Burke, *Low Rent Housing in Australia 1986 to 1996*, 2001. See also Judith Yates, Maryann Wulff and Margaret Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, Australian Housing and Urban Research Institute, March 2004

<sup>10</sup> Productivity Commission, *Report on Government Services 2004*, Canberra, 2004, p.16.13.

<sup>11</sup> *Ibid*, p.16.72.

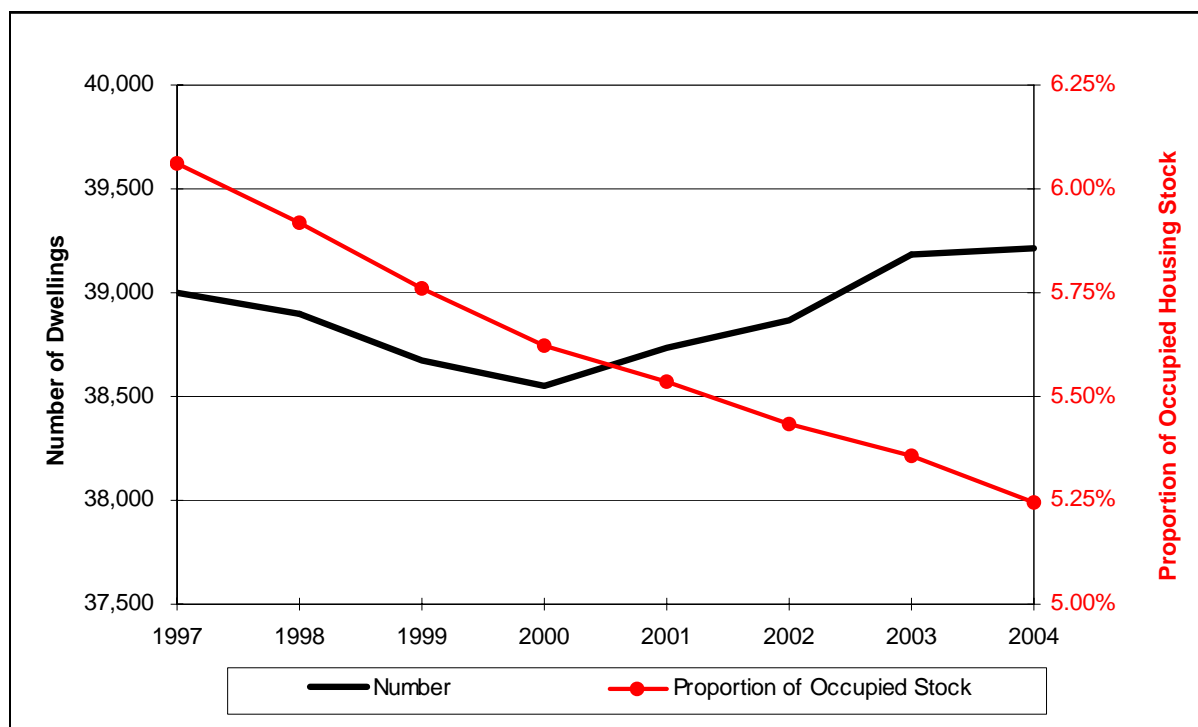
<sup>12</sup> *Ibid*, Table 16A.44

<sup>13</sup> *Ibid*, Tables 16A.50 and 16A.52

<sup>14</sup> *Ibid*, Table 16A.63

<sup>15</sup> These proportions are based on occupied housing stock, which increased from 731,660 to 747,740 dwellings in 2003/04. If the around 75,000 unoccupied dwellings in the state are included, social housing stock fell from 4.9% to 4.8% of total housing stock.

<sup>16</sup> From \$148.7 million to \$133.0 million.



**Figure 6: Social Housing Stock, WA, 1997-2004**

Data Source: Department of Housing and Works Annual Reports 1997-2004

In order to make some inroads into housing needs, Shelter WA believes that social housing must be increased to at least 6% of total housing stock.<sup>17</sup> This would allow the social housing sector to house all of the people on the waiting list, which has oscillated around the 13,000 mark for the last two decades. In addition, it would allow the sector to house a small proportion of households who are currently living in housing stress in the private rental sector.

In order to achieve this by 2025, social housing stock must increase by around 1,500 dwellings per year. Even maintaining social housing stock at its current level of 5.2% of total housing stock would require funding an additional 800 dwellings per year. Shelter WA estimates that this would require a total CSHA funding of around \$260 million per year – nearly double the current amount of \$133 million.

## Addressing the Housing Crisis

The continuing decline in housing affordability in WA has produced a situation in which households earning less than \$50,000 per year now have severe difficulty accessing housing that they can afford and that is appropriate to their needs. Perth is now suffering a housing affordability crisis, with affordability a major issue for both home purchasers and private renters. The social housing sector is unable to meet existing need.

Addressing the housing crisis can be done either by increasing housing assistance or by increasing the effectiveness of existing subsidies. As noted above, Shelter WA believes that funding for public housing should be doubled, and the policy of targeting amended. In addition, Commonwealth Rent Assistance should be retargeted towards delivering affordability. Finally, all grants and tax incentives should be reviewed in order to ensure consistency.

In view of the magnitude of the crisis, the response should include all three levels of government. In this regard, Shelter WA is happy to report that on the State

<sup>17</sup> The target of 6% is advocated by a number of organisations, including the Australian Council of Social Service (ACOSS), National Shelter,

Government level, the housing affordability crisis has been taken seriously. In 2003/04, the Western Australian Government has developed a number of initiatives aimed at delivering more affordable housing, including:

- Stamp duty exemptions and concessions for lower priced dwellings starting 1 July 2004,
- Developing a Not For Profit Housing Company,
- A requirement for 15% of all new developments on State Government land to be set aside for affordable housing, and
- Continuing limited funding for social housing from consolidated revenue.

While the scope of these initiatives is insufficient to make any real difference, they do indicate that the WA Government has taken the housing affordability crisis seriously. The same cannot be said about the Commonwealth Government, which has chosen to ignore its responsibilities, trying to pass on responsibility for addressing the crisis to the States and Territories.<sup>18</sup> This is despite increasingly urgent calls to address the affordable housing crisis from sources as varied as the Senate Community Affairs Committee,<sup>19</sup> the Productivity Commission,<sup>20</sup> National Shelter,<sup>21</sup> and a National Housing Affordability Summit conducted by a coalition of building unions, industry associations and community organisations.<sup>22</sup>

The Commonwealth Government's inaction is particularly worrying in view of National Shelter's finding that a lack of consistency and coordination in the way housing assistance and housing related tax exemptions valued at over \$25 billion per year are allocated. "For instance, the First Home Owners' Grant aims to reduce the deposit gap faced by prospective home owners. However, negative gearing provisions encourage investment demand, thus putting upward pressure on house prices."<sup>23</sup> Shelter WA strongly supports developing a National Housing Strategy and establishing a Commonwealth Housing Minister as a first step to finding a solution to the housing affordability crisis.

Finally, at the local government level, responses to housing affordability have been patchy. Most local governments have, at least to some extent, developed housing strategies that focus on planning issues but include some reference to social responsibilities including housing affordability. In addition, a number of country shires provide subsidised accommodation for employees and one local government, the City of Subiaco, has developed a housing strategy that explicitly recognises affordability as a key issue that the City needs to address. On the other hand, a small number of local governments, including the Cities of Perth and Fremantle, continue to deny their responsibilities with regard to homelessness and housing affordability.

On the whole, if our housing crisis is to be addressed, all levels of government must increase their efforts, preferably guided by a National Housing Strategy.

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<sup>18</sup> For an example of this, see a press release by Treasurer Peter Costello, Release Of The Productivity Commission Report On First Home Ownership, 23/6/2004, <http://www.treasurer.gov.au/tsr/content/pressreleases/2004/051.asp>

<sup>19</sup> See Senate Community Affairs References Committee, *A hand up not a hand out: Renewing the fight against poverty - Report on poverty and financial hardship*, March 2004

<sup>20</sup> See Productivity Commission, *First Home Ownership - Productivity Commission Inquiry Report No.28*, March 2004

<sup>21</sup> See National Shelter, *Rebuilding the Australian Dream - National Shelter Policy Platform 2004*, June 2004

<sup>22</sup> National Housing Alliance, *Four-point Plan*, May 2004 and National Summit Housing On Affordability, *Improving Housing Affordability - A Call for Action*, June 2004

<sup>23</sup> National Shelter, *Rebuilding the Australian Dream: A National Approach - National Shelter Election Platform 2004*, June 2004