

St Vincent de Paul Society NSW

Submission to the Rebuilding NSW Discussion Paper

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1. Introduction

The St Vincent de Paul Society welcomes the opportunity to respond to the Rebuilding NSW Discussion Paper.

The submission is structured in two sections. The first section identifies actions that will address gaps in the NSW energy customer protection framework, and provide the community with greater confidence that the proposed reforms will deliver the expected benefits for all energy customers. The second section focuses on priorities for infrastructure investment in NSW, and puts forward recommendations that will support the economic growth of the State and improve our wellbeing.

2. About the St Vincent de Paul Society

The Society is a member and volunteer based organisation that has been assisting people experiencing disadvantage in New South Wales for over 130 years. Our community outreach is extensive, with over 26,000 members and volunteers who actively assist people in over 420 communities across the state.

Our member network is at the front line, providing assistance to almost 600 families and individuals each day of the year. This work includes preventing people in crisis from being disconnected from their energy supply. In 2013-14 the Society distributed over \$23 million in financial assistance, including approximately \$4 million in Energy Accounts Payment Assistance. In addition to providing financial assistance, the Society offers budget counselling support, assists clients to access energy retailer's hardship programs and seeks the support of the Energy Ombudsman (EWON) when necessary.

The Society recognises the potential for some customers to benefit from greater deregulation, competition and choice in the energy market. We are concerned that the existing consumer protection framework will not ensure that those who are on low incomes and experiencing disadvantage will also benefit from these changes.

If the Government is to proceed with leasing the State's electricity networks, it is essential that the NSW energy customer protection framework is reformed to make it more effective.

3. Recommendations

3.1 Creating a customer protection framework that works for NSW

The Society supports the Government's view that electricity is an essential service and acknowledges its commitment to discount electricity network prices by 1% off the regulated prices until 2019.

We do, however, believe that more needs to be done to ensure that all energy customers are better off in the future. The increasing numbers of households accruing large debts and experiencing disconnections due to non-payment of electricity bills demonstrates that the existing customer protection system is broken. In the five years from 2007-08 to 2012-13 the number of households being disconnected has increased by 37%, with a total of 24,888 customers disconnected in the 2012-13 financial year alone¹.

¹ *Customer Service Performance of Electricity Retail Suppliers*, IPART, December 2013.



The Rebuilding NSW Discussion Paper notes “the Government expects that NSW electricity networks will become more efficient over time as a result of partial leasing, and that consumers will benefit as has occurred in other States”. We must ensure that vulnerable customers and households in regional and rural communities, who suffer the greatest impacts when the regulatory framework fails, are not only protected but are able to share in the benefits that the Government expects these reforms to generate.

The Government now has a unique window of opportunity to address community concerns and take steps to deliver a fairer, more responsive and sustainable customer protection framework for energy customers in NSW.

A deregulated energy market will assist customers to proactively shop around for a better deal; however, we are concerned that many of the people we assist do not have the capacity to do this effectively. Research conducted by the St Vincent de Paul Society highlights the risks that vulnerable customers face in signing onto market contracts that appear attractive but can actually leave people worse off. This is driven in large part by discounts being offered on the condition of on time payment and the presence of additional fees and charges, like late payment fees, which add complexity and make it difficult for customers to compare market offers².

These customers, who are likely to remain on the fringes of the competitive market, must be adequately protected so they can remain connected and maintain access to an essential supply of energy without accruing unsustainable debts.

The Society believes that there are three key areas that need to be addressed:

Reform the Energy Concessions System in NSW

The existing fixed annual amount concession creates inequities, and provides inadequate assistance for households in greatest need. Currently, the NSW energy concessions system fails to discriminate between households’ size, as well as the costs related to regional location³. For example, a low income family of four, with high energy needs, will receive the same rebate as a single person in a smaller property. And regional customers who typically pay more for their electricity costs receive the same rebate as city customers.

Under the current system the relative value of the fixed concession is also lower for dual fuel households than all electric households⁴. As NSW gas customers will continue to experience significant price shocks over coming years, it is essential that dual fuel households receive the same assistance as all electric households.

NSW energy customers need a stronger, more equitable and sustainable energy concessions system that is responsive to future changes in electricity and gas prices.

Recommendation 1: The NSW Government adopt a concession system that is based on the percentage of a household bill rather than a fixed rebate for all. Such a system has been operating successfully in Victoria for the past decade.

² *Energy Retail Market: Additional Fees and Charges*, St Vincent de Paul Society, May 2014. Online at: www.vinnies.org.au/icms_docs/187454_Energy_Retail_Market_Additional_Fees_and_Charges.pdf

³ *Preventing shocks and addressing energy poverty*, ACOSS Discussion Paper, 2013.

⁴ *The relative value of energy concessions: 2009 to 2012*, St Vincent de Paul Society, March 2013. Online at: www.vinnies.org.au/icms_docs/169080_The_Relative_Value_of_Energy_Concessions_2009-2012_Part_2.pdf



A Strong Consumer Voice in NSW

The discussion paper emphasises the critical role the regulatory framework plays in keeping prices down and protecting the interests of energy customers. It notes, for instance, that regulation is a much more effective control on prices than State ownership; that the national economic regulatory framework has recently been strengthened to ensure prices are set for the long-term benefits of consumers; and that EWON will continue to play an important role in providing high quality, independent dispute resolution and to help raise customer service standards in the energy and water industries.

The Society agrees that an effective regulatory framework has the potential to deliver positive outcomes that are in the interests of energy customers. We also believe that it is essential that the impact of regulation is monitored to ensure it is working effectively and in particular, protecting customers who are disadvantaged and vulnerable.

Consumer advocacy groups and organisations like the St Vincent de Paul Society NSW, with its 26,000 members and volunteers, have an important role to play in supporting the AER and EWON in monitoring the enforcement of regulated consumer protection measures and customer service standards. These regulatory agencies rely upon feedback from consumer advocacy groups and community organisations who engage directly with energy customers.

The growing demand for engagement from energy retailers, networks and state and national regulators means that community organisations are constrained in their ability to contribute fully and effectively to discussions that will have significant impacts on energy customers. We need the meaningful engagement of consumer advocacy groups and community organisations to know whether the energy market and customer protection framework is working well and delivering the support that the community needs.

Recommendation 2: The NSW Government fund consumer advocacy bodies and community organisations that provide direct support to energy customers to ensure they have the resources to support the work of regulators and report on customer impacts.

Assist low income households to reduce their energy use

A sustainable and effective way to reduce the bills of low income and vulnerable energy consumers in NSW is to help them reduce their use of energy. The NSW Government's Home Power Saver Program assisted 220,000 low income households to take up low cost energy savings measures. With the conclusion of this program and the Commonwealth Government's Home Energy Saver Scheme this important work is no longer occurring.

The No Interest Loan Scheme (NILS), which the Society administers in conjunction with Good Shepard microfinance, is a highly successful program that could be leveraged to maximise energy savings for low income households. The Scheme assists low income households to replace old inefficient appliances such as hot water systems or fridges with new more efficient equipment, which results in higher energy efficiency returns and more substantial ongoing cost savings. Evaluation shows 82% of NILS' clients have experienced a net improvement in economic outcomes and 74% experienced a net improvement in social and health outcomes⁵.

Recommendation 3: If the partial lease of networks proceeds, a permanent fund should be established to support proven energy efficiency programs for low income households.

⁵ *Life changing loans at no interest: An outcomes evaluation of the Good Shepard Microfinance's NILS*, UNSW.



3.2 Priority Infrastructure Projects

Discussion Paper Question: Which potential projects would create the greatest benefit in terms of economic growth, productivity and quality of life?

The Society is encouraged by the discussion paper's recognition that our growing population means that as a State we 'need to keep ahead of future requirements for **housing**, education, health, water, roads and public transport'. We believe that housing must be included as a priority focus area for infrastructure investment.

The Society's 26,000 members and volunteers are witness to the impacts of NSW's housing affordability crisis on a day to day basis. While people approach the Society for assistance with food or paying their energy bills, it soon becomes clear that in many cases the underlying problem is the high housing costs they must pay, leaving very little for other household essentials.

The evidence and case for action is compelling:

- NSW has the highest rate of low income households in rental stress of all states;
- Social Housing is not meeting ever increasing demand, with Housing NSW estimating that the current supply of social housing dwellings only meets 44% of the need; and
- Young people are increasingly being pushed further out into the outer suburbs of Sydney, disconnecting themselves from job opportunities and productive employment hubs.

The Society is witnessing increasing numbers of people and families being forced to relocate to the outer fringes of Sydney and beyond because of increasing housing costs. Rising house prices are threatening Sydney's economy by locking a generation of productive young people out of the city.

The Grattan Institute in its report 'cities as engines of prosperity' highlights the impact this disconnect will have on our economy's productivity, concluding that "if current settings remain unchanged, Australian cities are likely to continue to spread outwards, further increasing the distance between where many people live and the most productive parts of large cities, with implications for both productivity and opportunity"⁶.

The discussion paper notes that the Government's infrastructure investment should increase labour market participation. There is a significant body of evidence that demonstrates the positive impacts that increasing the supply of affordable housing options will have on labour market participation.

For example, the Grattan Institute report goes on to recommend that Governments need to respond "by enabling people to choose to live in areas with access to large numbers of jobs, thereby also giving employers a wide choice of employees"⁷.

In addition to appropriate and affordable housing, the Society recognises that productivity benefits will be unlocked by investing in public transport options for the residents of NSW. The Society therefore also encourages the Government to invest in public transport as a matter of priority.

Recommendation 4: Investment in the construction of affordable housing is a priority and should be recognised as an approved form of infrastructure for the purpose of the Restart NSW Fund.

⁶ Mapping Australia's economy: Cities as engines of prosperity, Grattan Institute, July 2014, p.25

⁷ Ibid, p.26



Discussion Paper Question: Are there other ways to leverage NSW Government investment to expand infrastructure services across the State (eg: deliver more infrastructure for the same amount of Government funding)?

The Society recognises the importance of leveraging Government funds to maximise the private sector's investment / contribution in productive infrastructure. The Society recommends the NSW Government allocate \$3 billion from the proceeds of leasing the electricity networks to a dedicated *Restart NSW Affordable Housing Fund* to leverage a blended investment stream in affordable and social housing.

The *Restart NSW Affordable Housing Fund* will maximise the Government's return on investment through incentivising innovative co-investment in new affordable and social housing infrastructure by the private, financial and community sectors.

This Fund will generate maximum leverage by:

- i. providing incentives to create an investment product to fund the construction of affordable housing that is attractive to superannuation funds;
- ii. creating opportunities for community housing providers (CHP) to combine private finance with Government capital funding;
- iii. providing incentives for churches, councils and community housing providers to use their land to build social and affordable housing; and
- iv. bridging the investment gap between the investment needs of community housing providers and the risk return from investors.

Establishing the *Restart NSW Affordable Housing Fund* will provide the NSW Government with the option to incentivise investment in new affordable housing construction projects by means of non-repayable grants or repayable loans.

The Society acknowledges that the NSW Government alone is unable to fund the cost of meeting the shortfall in social and affordable housing need. We believe that the *Restart NSW Affordable Housing Fund* should primarily operate on a repayable loan basis. This will make the Fund sustainable and maximise a blending of contributions from land holding agencies, community housing providers and their private funders.

To maximise innovative co-investment, proponents of new affordable housing projects should qualify for loans at discounted interest rates and the discount they qualify for should increase as their contribution to the cost of projects increases.

In this way the *Restart NSW Affordable Housing Fund* will:

- **Provide scale** – through partnership between Government and private / community sectors;
- **Provide funding innovation and flexibility** - Incentivise the agility and responsiveness of community housing providers and for profit partners (financial institutions);
- **Create a sustainable funding model** - creating an ongoing investment incentive for the construction of new affordable and social housing; and
- **Provide mixed development models** - Social and financial advantages of co-location of social, affordable and market rental.



Recommendation 5: Establish the *Restart NSW Affordable Housing Fund* with proceeds from the proposed lease of electricity networks being invested to incentivise the construction of new affordable and social housing.

Recommendation 6: The *Restart NSW Affordable Housing Fund* should maximise leverage and sustainability by offering repayable loans at discounted interest rates. Proponents of new affordable housing projects should be incentivised to maximise contributions by qualifying for greater levels of interest rate discount as their contribution to the cost of projects increases.

Discussion Paper Question: In addition to asset recycling, what other avenues are available to the Government to bring forward significant capital expenditure on infrastructure?

The NSW Parliamentary Select Committee on Social, Public and Affordable Housing recently recommended that the NSW Government expedite the transfer of public housing properties to community housing providers via long term leases to⁸:

- ensure future growth in the supply of social and affordable housing; and
- promote the expansion of 'wrap around' services.

Long term lease transfers will allow community housing providers to raise more private finance from assets and income, thereby enabling them to build new social and affordable housing dwellings.

This would create significant capital expenditure on new affordable housing infrastructure without an adverse impact on State finances.

Recommendation 7: The NSW Government expedite the transfer of public housing properties to community housing providers via long term leases.

⁸ *Social, Public and Affordable Housing*, Legislative Council Select Committee on Social, Public and Affordable Housing, September 2014, recommendation 21. Available online at:
<http://www.parliament.nsw.gov.au/prod/parlment/committee.nsf/0/68200E56DA33F640CA257C22001661A8>