

# **NCOSS Submission to the Rebuilding NSW Discussion Paper**

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# About NCOSS

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The Council of Social Service of NSW (NCOSS) is a peak body for the not-for-profit community sector in New South Wales. NCOSS provides independent and informed policy advice, and plays a key coordination and leadership role for the sector. We work on behalf of disadvantaged people and communities towards achieving social justice in NSW.

## Summary of Recommendations

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- 1. The construction of social and affordable/intermediate housing should be recognised as an approved form of infrastructure for the purposes of the Restart NSW Fund.*
- 2. A significant allocation of funds be made under Rebuilding NSW to fund the construction of new social and affordable/intermediate housing over the next parliamentary term.*
- 3. The NSW Government should review energy concessions in NSW, with a view to moving to a percentage-based concessions system.*
- 4. If the part-lease of the networks proceeds, it should be linked to the establishment of a fund supporting energy efficiency for low-income households.*
- 5. The NSW Government should update consumer protections in advance of the proposed part-privatisation of the electricity networks.*
- 6. Ongoing funding for consumer advocacy at the NSW should form part of the package of responses to the proposed part-lease of the electricity networks*

# Introduction

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The Council of Social Service of NSW (NCOSS) has prepared this submission in response to the Rebuilding NSW Discussion Paper, which outlines the NSW Government's intention to part-lease the NSW electricity networks.

If the part-lease proceeds, the NSW Government estimates that approximately \$20 billion in capital funding will become available, and proposes investing this money in productive infrastructure through the vehicle of Restart NSW. The first part of our submission focuses on priorities for infrastructure investment in NSW.

The second part of our proposal addresses the need to ensure the long-term interests of electricity customers are not compromised as a result of this sale. We are particularly concerned about the interests of low-income and vulnerable customers, and propose a number of strategies that should be implemented in order to minimise the risk of adverse consequences for residential consumers.

## 1 Proposed infrastructure investment program

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In June the Government announced Rebuilding NSW, a plan to invest \$20 billion in new infrastructure funded from the partial lease of the state's electricity networks.

While the priority infrastructure projects to be funded from the electricity transaction would be dealt with separately, NCOSS notes that the Government has indicated that they will be funded via Restart NSW, its existing dedicated fund for priority infrastructure projects. The Government has also indicated that Infrastructure NSW is preparing a new State Infrastructure Strategy that takes into account proposed new infrastructure investments made possible by the proceeds of the electricity transaction.

Given this, NCOSS believes it is necessary to reflect on the experience of Restart NSW to date, before considering the additional projects canvassed in the Rebuilding NSW discussion paper.

### Restart NSW

The Restart NSW Fund is an initiative of the current Government and was established by legislation in 2011.

It is funded primarily from asset sales, plus windfall gains in state revenue and the proceeds of its Waratah Bonds investment product. As at June 2014 total inflows into the Fund stood at \$6.7 billion, of which \$6.25 billion came from completed asset sales, \$355 million from Waratah Bonds<sup>1</sup>, \$96 million from windfall tax revenue and \$77 million from interest earned<sup>2</sup>.

The types of infrastructure that can be supported with Restart NSW funds are specified in legislation. Specifically the *Restart NSW Fund Act 2011* refers to "infrastructure projects that will improve (i) public transport, (ii) roads, (iii) infrastructure required for the economic competitiveness of the State (including the movement of freight, inter-modal facilities and access to water), (iv) local infrastructure in regional areas that are affected by mining operations, (v) hospital and other health facilities and services, and (vi) workplaces for law

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<sup>1</sup> Including proceeds linked to the Federal Government's Significant Investment Visa program.

<sup>2</sup> *Infrastructure Statement 2014-15*, Budget Paper No. 4, June 2014.

and justice officers, teachers, nurses and other staff providing services to the public” [S.6 (1)].

To date around \$500 million has been spent out of the Restart NSW Fund, but a lot more has been earmarked by cabinet for approved projects. To date there have been \$3.8 billion worth of project commitments, involving final business case approval, and a further \$2.8 billion worth of project reservations, a pipeline of future projects that still needs final business case approval. A status listing of these projects appears in the infrastructure budget statement<sup>3</sup>.

NCOSS notes that the definitions of infrastructure set out in the *Restart NSW Fund Act 2011* exclude several key areas of expenditure included in both the annual infrastructure budget statement and that are proposed by the Government in the Rebuilding NSW discussion paper. In particular capital spending on social and affordable/intermediate housing, which has long been included in the infrastructure budget statement, is not currently an allowable item of expenditure from the Fund.

NCOSS advocated in its most recent Pre Budget Submission that the proceeds of Waratah Bonds should be hypothecated to the construction of new social housing<sup>4</sup>. At the time we acknowledged that this would require amendment to the Act. This proposal has recently been supported by the Legislative Council Select Committee on Social, Public and Affordable Housing<sup>5</sup>.

**Recommendation 1:** *The Restart NSW Fund Act 2011 should be amended to include capital spending on social and affordable/intermediate housing as an approved form of infrastructure investment.*

## Social and affordable housing and Rebuilding NSW

NCOSS considers that the plan for infrastructure investment must include a proposal to increase the supply of social and affordable/intermediate housing over the next parliamentary term.

We make no comment on the other forms of infrastructure spending outlined in the discussion paper but instead offer the following arguments in support of the inclusion of a social and affordable/intermediate housing dividend:

- The shortage of social and affordable housing for people on low incomes in NSW is consistently identified by community sector NGOs as their highest issue of concern<sup>6</sup>;
- NSW has the highest rate of low income households in rental stress of all states and territories<sup>7</sup>;

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<sup>3</sup> *Infrastructure Statement 2014-15*, Budget Paper No. 4, June 2014.

<sup>4</sup> *Sharing the benefits: making NSW fairer*, Pre Budget Submission for 2014-15, NCOSS, October 2013 recommendation 10.1 p.36.

<sup>5</sup> *Social, public and affordable housing*, Legislative Council Select Committee on Social, Public and Affordable Housing, September 2014 recommendation 39 p. 233.

<sup>6</sup> *Australian Community Sector Survey 2013*, ACOSS Paper 202, ACOSS 2013.

<sup>7</sup> *Affordable Housing 2010-11: Comparing performance across Australia*, Report to the Council of Australian Governments, COAG Reform Council, April 2012, p.8.

- Housing NSW has estimated that the current supply of social housing dwellings only meets 44% of the need<sup>8</sup>, applying existing stringent eligibility criteria;
- Achieving the NSW Government's NSW2021 goal of reducing homelessness requires an expanded supply of social and affordable/intermediate housing;
- Locating social and affordable housing close to facilities and services, including jobs and public transport, can contribute to broader economic goals of improving the availability of key workers, reducing travel demand and improving labour force participation by disadvantaged groups; and
- As demonstrated by the social housing component of the Stimulus Package, the construction of social housing positively contributes to construction activity and employment and has a positive multiplier effect on the wider economy<sup>9</sup>.

**Recommendation 2:** A significant allocation of funds be made under Rebuilding NSW to fund the construction of new social and affordable/intermediate housing over the next parliamentary term.

NCOSS is open to further consultation regarding the specific funding allocation required. We note for example that around 3,000 new dwellings, if fully funded, would cost around \$900 million. Alternative procurement methods or leverage requirements would produce different outcomes.

## 2 Protecting the interests of vulnerable customers

As the Rebuilding NSW Discussion Paper note, the NSW Government recognises that electricity is an essential service. But it is an essential service that is becoming increasingly unaffordable for people on low-incomes.

Over the ten years to December 2013 the cost of electricity rose at 4.6 times the rate of CPI.<sup>10</sup> There has been a corresponding increase in the number of households being disconnected from their electricity supply, with a 37% increase in the number of households being disconnected due to non-payment of electricity bills in the five years from 2007-08 to 2012-13. A total of 24,888 customers were disconnected in the 2012-13 financial year alone.

Disconnections are one indicator of the growing affordability problem, but many households who are struggling to pay their electricity bills will never show up in the statistics. We know that some households are rationing their energy consumption to an extent that impacts their physical and mental well-being, while others are cutting back on other essential items – such as food, medicine or transport – in order to cover costs.<sup>11</sup>

The NSW Government has committed to making it a condition of the proposed transaction that electricity prices will be discounted by 1% off the prices set by the Australian Energy Regulator from the time of the transaction until 2019. We welcome this commitment, but

<sup>8</sup> *Making the best use of public housing*, Performance Audit, Audit Office of NSW, July 2013 p.14

<sup>9</sup> *Social Housing Initiative Review*, KPMG for the Housing Ministers' Advisory Committee, September 2012 p.2.

<sup>10</sup> NCOSS (2014) *Cost of Living: Who's Really Hurting?* Available online at <http://ncoss.org.au/costofliving/cost-of-living-0101.pdf>

<sup>11</sup> Chester, L (2013) *The Impacts and Consequences for Low-Income Australian Households of Rising Energy Prices*. University of Sydney.

believe that a broader range of measures is needed to protect the interests of low-income customers and to ensure no-one is left worse off as a result of the sale. We outline the measures we believe should be implemented should the proposed lease of the networks proceed below.

NCOSS is also concerned that the short-term return on the sale should not be maximised at a cost to energy consumers in the medium to long-term. We are seeking funding through the Consumer Advocacy Panel to help us and other consumer representatives better understand the impact of various ownership structures on outcomes for energy consumers. Should we be successful in securing funding we intend to continue working with the NSW Government to ensure conditions optimise benefits and minimise risks for NSW energy consumers.

## Concessions and Hardship

One way the NSW Government can address the growing problem of energy affordability is through an effective and well-targeted concessions program.

In recent years there have been a series of industry and community sector reports highlighting flaws in existing concessions programs and pointing to the need for a comprehensive review.<sup>12</sup> NCOSS supports these calls, and believes that a review of the NSW system should be conducted before the proposed sale of the networks is finalised.

In particular, we believe that the fixed-amount 'flat' concessions currently available in NSW are inadequately targeted to need. They do not, for example, provide adequate assistance to households with larger energy requirements – such as large households, or higher per-unit energy costs – such as households in regional areas. Many people are also unaware of their entitlements or find it difficult to navigate the system.

**Recommendation 3:** *The NSW Government should review energy concessions in NSW, with a view to moving to a percentage-based concessions system.*

Another strategy to address the problem of affordability for low-income and vulnerable consumers in NSW is to help these consumers reduce their energy use. A number of energy efficiency programs have previously been directed at low-income households, including the NSW Government's own Home Power Saver Program. This Program provided assistance to 220,000 low-income households but has now concluded and it is unclear whether or not it will be replaced.

At the same time the Commonwealth Government has ceased funding for the Home Energy Saver Scheme (HESS).

While energy efficiency programs have achieved some success in supported low-income households to implement low-cost energy savings measures, they have been less effective at enabling low-income households to benefit from measures that result in higher efficiency returns and more substantial cost savings. More work is needed to overcome capital barriers to energy efficiency, and to address the problem of split incentives, which has limited the energy efficiency gains flowing to people in low-income public and private rental properties.

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<sup>12</sup> These include the AEMC's *Power of Choice Report*, and the recommendations made following the 2013 National Energy Affordability (NEA) Roundtable held at NSW Parliament House.

Should the part-lease of the networks go ahead, this would provide an opportunity to establish a permanent fund supporting energy efficiency programs for low-income households.

**Recommendation 4:** *If the part-lease of the networks proceeds, it should be linked to the establishment of a fund supporting energy efficiency programs for low-income households.*

## Customer Protections

The energy market in Australia has undergone significant changes in recent years, and there is a need to ensure that customer protections keep pace with this rapid change.

The National Energy Customer Framework (NECF) currently guides the sale and supply of electricity to consumers in NSW. The development of the NECF, however, began in 2004 and some aspects are now out-of-date. In addition, the NECF has clearly not delivered positive outcomes in terms of stemming the growing rate of disconnections or reducing the number of customer complaints.

The proposed part-lease of the networks represents another major shift in the energy market in NSW, and should not occur without a thorough examination of how best to protect the interests of energy consumers, particularly low-income and vulnerable consumers.

We note that the process of privatising electricity assets in Victoria involved a consultation process leading to stronger consumer protections. The Victorian Government subsequently chose to defer its transition to the NECF in order to avoid any reduction in key protections for Victorian consumers.

We recommend that the NSW Government similarly seeks to strengthen consumer protections in advance of the proposed part-privatisation of the electricity networks.

**Recommendation 5:** *The NSW Government should update consumer protections in advance of the proposed part-privatisation of the electricity networks.*

## Advocacy Funding

The Rebuilding NSW Discussion Paper suggests that regulation is more effective for consumer protection than public ownership. However, effective regulation relies on meaningful engagement with consumers and their advocates. Indeed, in response to criticisms of the regulatory process, the Australian Energy Regulator has led the Better Regulation Program through which they have developed a stronger consumer engagement framework and have established the Consumer Challenge Panel.

Advocacy – particular consumer advocacy – assists government make better regulation and law, supports the development and implementation of reform, and improves policymaking. Energy Ministers have recognised the importance of consumer advocacy in agreeing to establish Energy Consumers Australia (ECA) – a body that will increase consumer advocacy on national energy market matters of strategic importance.

The recognition and subsequent resourcing of consumer advocacy at the National level is encouraging. There remains, however, an ongoing need for consumer advocacy within

NSW, to ensure the interests of NSW residents are represented during both State and National policy-making and regulatory processes.

We therefore recommend that ongoing funding for consumer advocacy at the NSW level forms part of the package of responses to the proposed part-lease of the electricity networks. We note that similar provisions were made during the Victorian privatisation process.

***Recommendation 6:*** *Ongoing funding for consumer advocacy at the NSW should form part of the package of responses to the proposed part-lease of the electricity networks.*

## Conclusion

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The proposed part-privatisation of the NSW Networks has the potential to impact all NSW residents. We thank the NSW Government for the opportunity to have our say on what those impacts look like. We are committed to working with the NSW Government to ensure the best possible outcomes for the people of NSW, both during the initial consultation process, and should the Government receive a mandate to continue with this work in the 2015 State Election.

If you wish to discuss any of the issues raised in this submission in further detail please contact John Mikelsons, Deputy CEO ([john@ncoss.org.au](mailto:john@ncoss.org.au)). NCROSS staff can be also be contacted on (02) 9211 2599.