



**SACOSS**

*South Australian Council  
of Social Service*

## **Cost of Living Biannual Update**

**No.4, November 2010**

*SACOSS Cost of Living Biannual Update*  
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## Introduction

This report tracks changes in the cost of living for the least advantaged in South Australia. It differs from the official Cost Price Index (CPI) because the CPI is based on all households, and therefore includes expenditures that are not part of the expenditure of the poorest households. Those poorer households simply can't afford the items that make up the CPI basket of goods. This is important because if expenditure on bare essentials make up the vast bulk (or entirety) of expenditure for low income households, then the price increases in those areas are crucial whilst price increases on other goods are largely irrelevant. However, crucial increases in the prices of bare essentials may be masked in the generic CPI by rises or falls in other goods and services in the CPI basket.

This SACOSS *Cost of Living Update* is the fourth in a series of reports and the second to utilise the Australian Bureau of Statistics' Analytical Living Cost Index (ALCI), which is now being produced quarterly (ABS, 2010a). The ALCI is an index of average expenditures weighted by reference to the last Household Expenditure Survey (2003/04). It uses a different methodology to CPI (see Explanatory Note 1) and it disaggregates expenditure by identifying four different household types. It then tracks changes in the cost of goods and services for the average expenditure in each household type. The household types are categorized as those having their primary income source as:

- employment
- age pension
- other government transfers (hereafter 'other welfare recipients')
- self-funded (retirement).

These make up 90% of households in Australia (ABS, 2010b) although this *Cost of Living Update* focuses only on the "aged pension" and "other government transfer recipient" figures, as these represent the more disadvantaged groups.

While the ALCI is more nuanced than the generic CPI, it still has limitations in being able to represent the real living costs of the most disadvantaged in those broad groups. These limitations are detailed in the Explanatory Note 2, but they largely relate to the fact that any indicator of *average* expenditures for household groups will hide impacts for particular subgroups. For instance, a pensioner owning their own home outright is in a very different financial position from a pensioner who has to pay market rents. The other major issue is that the ALCI is only published with national figures, which means that it may be difficult to trace Adelaide- or South Australia-specific issues. Nonetheless, the ALCI does provide a robust statistical base, a longer time series, and quarterly tracking of changes in the cost of living for welfare recipients.

This report adds to the ALCI by:

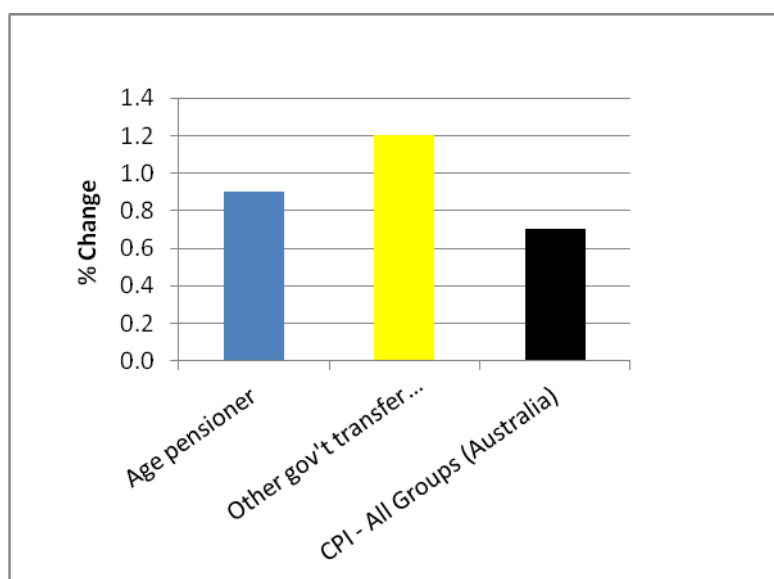
- placing dollar values on the cost of living changes
- including an analysis of the price of utilities (electricity, gas, water and sewerage), as these are becoming an increasingly important driver of poverty for vulnerable and disadvantaged South Australians.

# September Quarter 2010 Cost of Living Changes

## Change from Previous Quarter

In the September 2010 quarter, the ALCI for Aged Pensioners and Other Welfare Recipient households increased by 0.9% and 1.2% respectively (ABSa). That is, the cost of living for the average household in those categories increased by 0.9% and 1.2%. By comparison, the national CPI (All Groups) increased 0.7% (ABS, 2010c). In effect, the cost of living for welfare recipients (other than pensioners) rose faster than for the population as a whole in the last quarter. The differences can be seen in Figure 1:

Figure 1: Increases in ALCI and CPI September Qtr 2010



As an index of price changes the ALCI tracks only percentage changes, but it is possible to extrapolate from those figures to put a dollar value on the price rises.

Given that welfare recipients have very low incomes, it is unlikely that any or any significant amount of the weekly benefit can be saved — at least for those not able to supplement their government transfer with other incomes. For someone on the base level of benefits, and assuming that they spend all their income, the changes in cost of living are shown in Table 1.

Table 1: Cost of Living Change September Qtr 2010

	Base Rate Benefit per week (1 July 2010)	ALCI Change	\$ Amount per week
<b>Aged Pensioner</b>	\$322.10	0.9%	\$2.90
<b>Newstart with two children (Other Welfare Recipient)</b>	\$250.35	1.2%	\$3.00

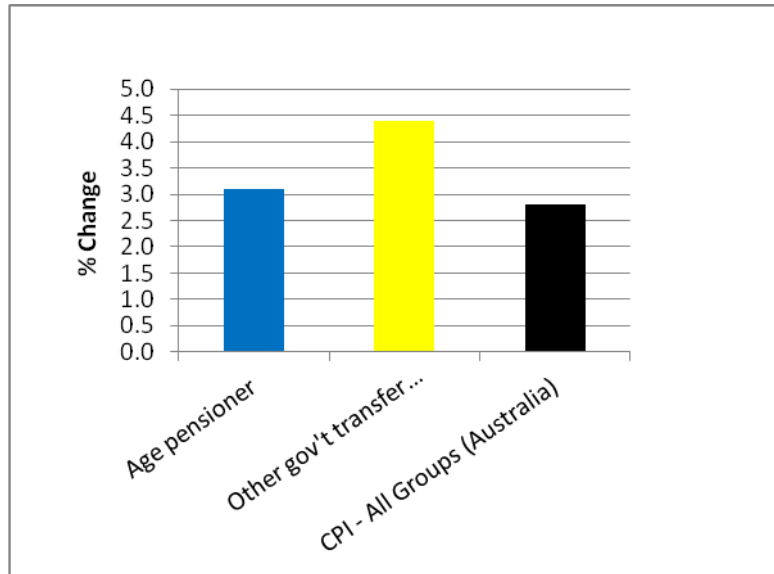
(Source: Centrelink, 2010; ABS, 2010a)

That is to say, for those who fit the assumptions above the cost of living increased in the June Quarter by \$2.90 per week for aged pensioners, and by \$3.00 per person for a Newstart recipient with two children.

## Change from Corresponding Quarter 2009

Over the last year (Sept Qtr 2009 – Sept Qtr 2010), the ALCI for Aged Pensioners and Other Welfare Recipient households increased by 3.1% and 4.4% respectively (ABS, 2010a). That is, the cost of living for the average household in those categories increased by 3.1% and 4.4%. By comparison the national CPI (All Groups) increased 2.8%, with a 2.6% increase for Adelaide (ABS, 2010c). In effect, the cost of living for pensioners and welfare recipients rose faster than for the population as a whole over the last year. The differences can be seen in Figure 2.

Figure 2: Increases in ALCI & CPI September Qtr 2009-10



Using the same assumptions as above, the dollar amounts of the ALCI cost of living increases over the last year are as follows:

Table 2: Cost of Living Change Sept Qtr 2009 - Sept Qtr 2010

	Base Rate Benefit per week (1 October 2009)	ALCI Change	\$ Amount per week
<b>Aged Pensioner</b>	\$307.90	3.1%	\$9.55
<b>Newstart with two children (Other Welfare Recipient)</b>	\$246.65	4.4%	\$10.85

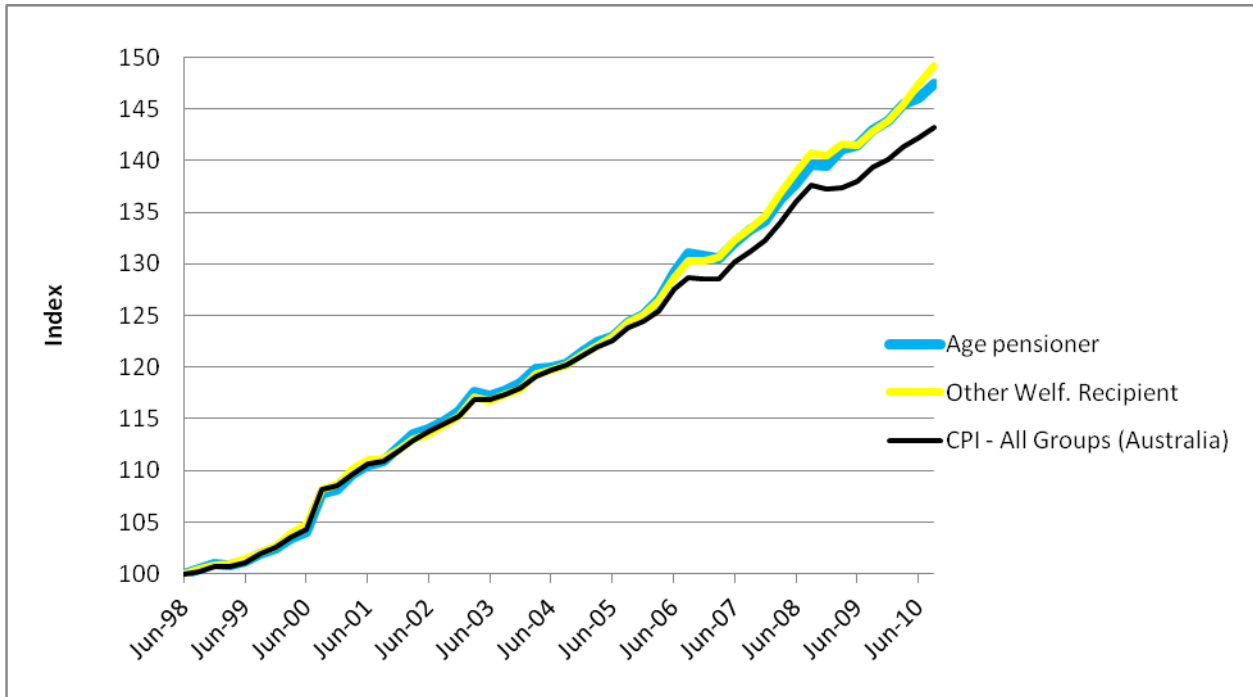
(Source: Centrelink, 2010; ABS, 2010a)

That is to say, for those whose only source of income is a base-rate government benefit and who spend all their income, the cost of living over the last year increased by about \$10 per week. The base rate pension rose by \$21.30 in the same period, while Newstart rose by \$7.45. Thus, while the federal government commitment to raising aged pensions beyond CPI in September 2009 and March 2010 made a difference, those on Newstart are falling further behind, with the cost of living rising faster than their income.

### Longer-term trends

The original SACOSS *Cost of Living* updates noted a trend where the cost of living for welfare recipients had been rising faster than CPI since 2006. The ALCI allows us to compare CPI and costs of living for welfare recipients over a longer time frame. Figure 3 tracks trends since 1998.

Figure 3: ALCI & CPI Indexes



It is evident from Figure 3 that the CPI and the rises in costs for the welfare recipients tracked closely for a period, but that since 2006 the costs for welfare recipients did indeed begin to rise faster than CPI. That trend has continued since. The ALCI for aged pensioners is now 4.2 percentage points higher than CPI, while for other welfare recipients the ALCI is 6 percentage points higher than CPI, which is to say that the prices for goods and services bought by welfare recipients have increased by 4.2 and 6 percentage points more for those groups than prices across the board.

In current dollars, and again using the assumptions above, every percentage point represents the cost of living going up approximately \$3.30 per week for aged pensioners and \$2.55 for a Newstart recipient on base rates.

## Utilities – Rising Prices and Trailing Concessions

### ***Key findings***

- Utilities price rises continue to outstrip CPI and recent price rises are widening the gap
- The value of concessions is declining in real terms despite recent increases:
  - July 2010 combined water & energy concession rise per quarter: \$10
  - August 2010 rise in average bill for water and electricity per quarter: \$36
  - Projected 2011 price increases of 7% for electricity and 21.7% for water will outstrip the July 2011 concession increase of 5%.
- The GST windfall from these recent rises are in fact greater than the recent increases in the value of state government concessions:
  - Annual GST revenue increase due to price rises in 2010-11: \$15m
  - Annual cost of concession increases: \$ 8m.

### ***Utilities Expenditure and Price Trends***

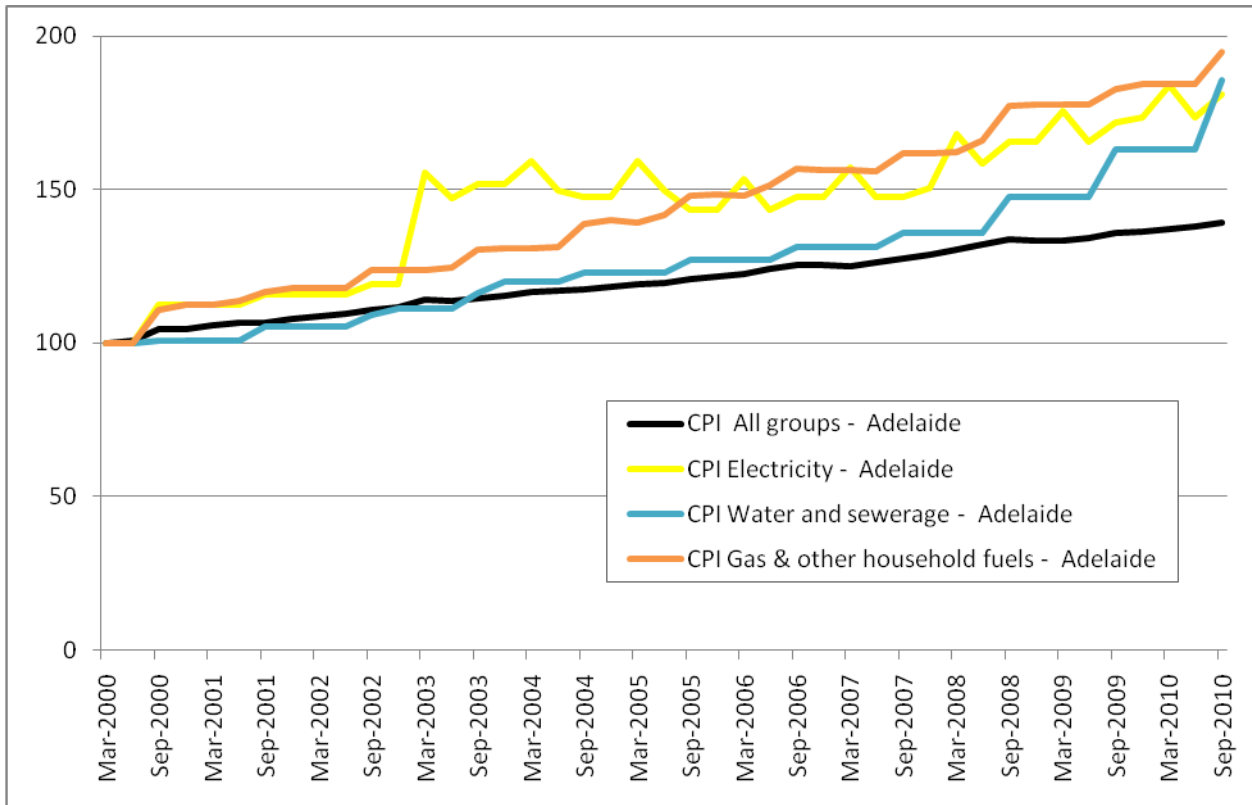
Having access to affordable utilities like electricity, gas, water and sewerage is a necessity and basic right of people living in a modern society. Those services are important to health and wellbeing, and lack of access to those services is a barrier to social participation.

From a consumer's perspective, the cost of utilities is as non-discretionary as rent so it is appropriate to consider utilities as an essential part of the cost of housing.

SACOSS estimates that expenditure on utilities can be up to 9% of expenditure for average welfare recipients and low income earners (see Explanatory Note 3). This exacerbates the situation noted in the last SACOSS *Cost of Living Update: July 2010* which showed that, based on rent alone, welfare recipients were very likely to be living in housing stress or extreme housing stress (ie. where people on low incomes face housing costs amounting to more than 30% of their income, while *extreme* housing stress is where housing costs are more than 50% of income) (SACOSS, 2010).

While the ALCI incorporates utilities as part of housing costs (and does not disaggregate this to show utilities expenditure separately), the CPI does have disaggregated data and includes a time series of changes in utility prices by capital city. Using CPI data, Figure 4 illustrates the trends in utilities costs for Adelaide households over the last decade (CPI data normalised to a base of year 2000).

Figure 4: Consumer Price Index: Various Utilities - Adelaide 2000-2010



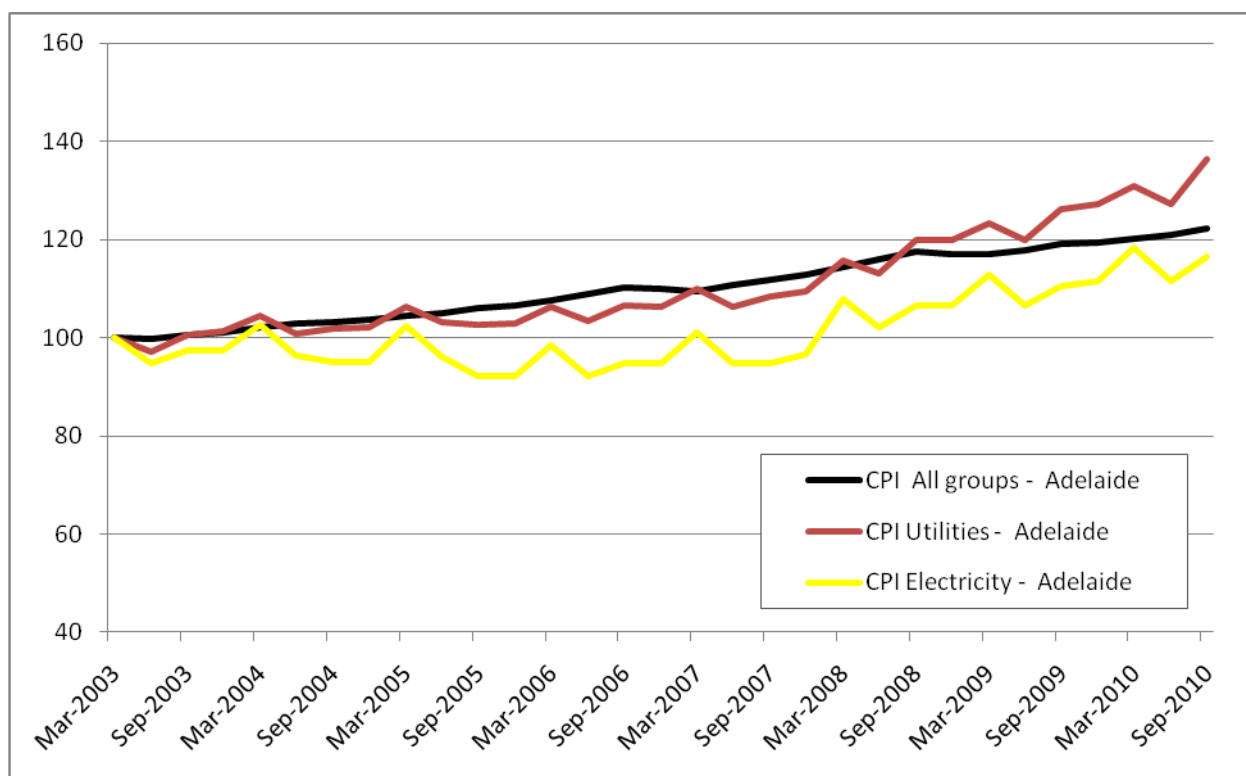
As can be seen, the indices for all the main utilities track well above the general CPI (All Groups) for the entire decade. That is, over the last ten years the price of utilities has increased more than average prices across the economy.

An obvious feature is the spike in electricity costs in 2003. This was related to the introduction of 'Full Retail Contestability' (FRC) for electricity, the systems to allow for consumers to choose retailers, in January 2003. After the initial spike, electricity prices flattened out but have recently begun rising again and are now just short of returning to the point where, in real terms, the rises in the cost of electricity have matched CPI. This can be seen more clearly in Figure 5, which normalises the data back to the March quarter of 2003 (ie resets all indices to 100) to illustrate the trend post-FRC.

Figure 5 also includes the combined CPI Utilities index, which shows price increases for utilities overall. The fact that this line reflects the seasonal movements in CPI Electricity shows the importance of electricity prices relative to the other utilities. The 2003/04 Household Expenditure Survey shows that average expenditure on electricity in Adelaide was three times that of gas, and twice that of water and sewerage (ABS, 2006). However, since that survey (which is the latest published) the price rises in water and gas evident in Figure 4 suggest that the next household expenditure survey may see different relative weightings between the various utilities, and also for the proportion of the household budget dedicated to utilities.

More immediately, it is evident from Figure 5 that the Utilities index has been 'above CPI' since mid-2008 and is getting further away — suggesting that utilities prices are now rising much faster than CPI.

Figure 5: Consumer Price Index: Electricity, Utilities - Adelaide 2000-2010



### Utility Prices and the Value of Increased Concessions 2010

2010 has seen sharp rises in the costs of electricity, gas and water, as is evident from both Figures 4 and 5. Due to the way these industries are regulated, we are able to put dollar figures on these price rises and access information on the reasons why prices rise.

Electricity prices increased from 1<sup>st</sup> August 2010, adding to the 1<sup>st</sup> July increases in gas and water. Based on figures from the Essential Services Commission of SA (ESCoSA, 2010a, b) and SA Water (2010), it is possible to calculate the cost increases a household on the standing contracts and consuming an average amount of electricity and gas will experience this financial year. Table 3 shows the rises expressed as a quarterly amount. It is important to note that these are *not* rises each quarter, rather they are the *impact of the rises across the year* on a quarterly bill.

Table 3: Rise in Utilities Prices in 2010 expressed as a quarterly amount

Utility & yearly usage	Qtrly Bill Rise	Percent Increase
Electricity (5000kWh)	\$15.15	5.6%
Gas (24,000MJ)	\$4.91	3.1%
Water (190kL)	\$21.00	21.7%
<b>Total</b>	<b>\$41.06</b>	

In February 2010, the South Australian Government announced a “Significant Boost for Concessions” with the energy concession increasing by \$7.50 per quarter (\$30 per annum) and the water concession increasing by up to \$2.50 per quarter. These new amounts applied from 1<sup>st</sup> July 2010, but **it can be seen that the concession rise of \$10 per quarter nowhere nearly covered a rise of approximately \$36 - \$41 in the average bill** (depending on gas and/or electricity usage).

Of note is the steady increase in the fixed “supply charges” of these services — the amount paid regardless of the amount of electricity, gas or water consumed. These increases are detailed in Table 4.

Table 4: Rise in Fixed Supply Charges expressed as a quarterly amount

Utility	New Yearly Amount	2010 Rise	Percent Increase
Electricity	\$179.00	\$14.55	9%
Gas	\$218.20	\$9.45	4.5%
Water	\$142.40	\$4.80	3.5%
<b>Total</b>	<b>\$539.60</b>	<b>\$28.80</b>	

These rises in isolation will have only a modest impact on the quarterly bill (between \$1.20 and \$3.60). However, over the course of the year it will now cost nearly \$540 just to have utility services remain connected (not even to pay for what is being used). This is a very significant sum of money — particularly for low income households.

Again, an increase of \$28.80 per annum in fixed supply charges makes a large dent on the combined increase in energy and water concessions of up to \$40, and that is before a drop of water, electricity, or gas is used.

### Looking ahead

ESCoSA has commenced an Inquiry into the Electricity Standing Contract Prices it should fix to apply from 1 January 2011 to 30 June 2014. A DRAFT determination was made in September 2010 and a final decision is expected soon. Any increase in the standing contract price is expected to flow through to market contracts over time. According to ESCoSA (2010c):

*Based on the Commission's Draft Price Determination, a typical residential customer on the standing contract consuming 5,000kWh per annum would experience an overall price increase of 7% on 1 January 2011.*

In relation to future water pricing, the Transparency Statement produced by the South Australian Government (2010) indicates that SA Water’s revenue will need to grow in order to provide a return on the large capital investments of the Water for Good strategy (which includes the Port Stanvac Desalination Plant). According to ESCoSA (2010d):

*The 2010/11 Transparency Statement contains a revised projection of revenue needs to 2014/15. It states that, based on current costs, annual increases in potable water prices of 21.7% in real terms until 2013 will see revenue increase to marginally above its targeted “Go Forward Full Cost Recovery” (GFFCR) in 2013/14. Under this in-principle revenue direction, water prices would almost double over the next four years in order to fully recover costs associated with the Government’s major water security projects, and other costs.*

***In total, for an average (all electric) household consuming 5000kWh electricity and 190kL of water, this represents a rise of \$140 for electricity and \$84 for water, giving a total rise of \$224, or approximately 15%, for utilities in the 2010-11 financial year.***

## Utility Concessions

South Australian households are able to access both state and federal government payments to assist with the cost of utilities. The Australian Government provides a Utilities Allowance to a small group of recipients. The South Australian Government provides Energy and Water concessions to a larger number of households.

The South Australian Government increased concessions from July 2010, and promised further increases as detailed in Table 5.

Table 5: SA Utilities Concessions

	Concession 2003-2010	Current Concession	Concession in 2011/12
Energy	\$120	\$150	\$157.50
Water (maximum, for tenants)	\$160	\$168	\$176.40
Water (maximum, for owner-occupiers)	\$200	\$210	\$220.50
Sewerage	\$95	\$100	\$105

According to the government, there is currently an estimated:

- 215,000 South Australians in receipt of the energy concession
- 130,000 owner-occupied recipients of the water concessions
- 35,000 tenant recipients of the water concession
- 130,000 recipients of the sewerage concession.

The energy concession was last increased in 2003 from \$70 to \$120 and extended to self-funded retirees for the first time. The most recent increase to \$150 also extended eligibility, and a further 5% increase is promised for each of the next two financial years.

The water concession is applied at 20% of the total annual water bill, from a minimum of \$95 to a maximum of \$200. The average water bill (for 190kL annual consumption) would currently be \$470, so 20% (\$94) would see the concession as the minimum amount of \$95. A 5% increase next year will see a concession payment of almost \$99.

***With electricity prices set to rise by 7% and water by 21.7%, the 5% future increase in concessions clearly will not keep pace with rising prices.***

## State Government Concessions and GST Income

The utility bills of households incur the Goods and Service Tax (GST) at the standard rate of 10%. According to ESCoSA (2009) total residential electricity revenue in 2008/09 was \$810m and gas was \$205m, totalling just over \$1bn and generating around \$100m in GST receipts.

According to the same report, there were 219,000 customers in receipt of the energy concession. The July 2010 energy concession increase of \$30pa will have a budget impact of around \$6.5m per annum. Energy price increases over the 2010-11 financial year (ie the August 2010 increase and the expected January 2011 increase) are likely to see 370,000 gas customers paying an average \$20 extra, and 700,000 electricity customers paying around \$140 extra (both ex GST), per annum. These increases will see more than \$100m extra energy expenditure annually, creating extra GST revenue of around \$10m for a full year.

A household consuming the average 190kL of water per annum will see their annual supply and consumption charges increase from \$386 in 2009-10 to \$469 in 2010-11 — an increase of \$84 generating an additional \$7.64 in GST, on average, per customer. Based on 700,000 households, the total increase in GST from residential customers is in the order of \$5m for the 2010-11 financial year. By contrast, the water concession increased by around \$5 on average for tenants and owner-occupiers. The estimated increase in concession payments (including the sewer concession) is in the order of \$1.5m to \$2m per annum (see Explanatory Note 4).

***For both energy and water, the concession increases appear to be less than the windfall gain in GST revenue from increases in electricity, gas and water pricing.***

There is also a further GST windfall for the state government. According to the leaked report of the Sustainable Budget Commission (2010), the Department for Families and Communities (DFC) were expecting to benefit from a recent ruling by the Australian Taxation Office:

*DFC received an ATO private ruling in January 2007 advising that GST was not recoverable on payments made by DFC to energy retailers on account of discounts provided to eligible customers.*

*Following changes to ATO published views, DFC requested a review of this ruling which was received in February 2010 and now enables DFC to recover GST on energy concession payments made to energy providers.*

What this means is that until the February 2010 ruling, DFC was paying \$132 per concession recipient to the recipient's retailer — \$120 as a concession payment for crediting against the customer's account and \$12 for the retailer to forward on to the ATO as part of the GST collected from its customers. The ruling means that DFC is now able to claim this GST expenditure as an offset against any GST it collects, and the 2010-11 state budget papers refer to a \$4.6m once-off recovery of GST revenue relating to energy in 2009/10 (Treasury, 2010, Vol 3, p 10.45).

The impact on consumers should be nil, but it is of note that the 'savings' here have theoretically part-funded the recent concession increases.

The comparison of GST to concessions is also of interest even if one considers the GST raised from just concession recipients. If, for example, the 220,000 energy concession recipients paid, on average, \$1000 each on energy bills (below average electricity and gas expenditure), this would result in \$22m in GST revenue alone, compared to \$33m in concessions *if every concession was paid at the maximum level* (the budget figures do not disaggregate the different concession expenditures).

Given that these are conservative figures (based on underestimating energy expenditure and overestimating the concession payout), it is arguable that, for energy at least, concessions are very close to 'revenue neutral' for the South Australian Government and amount, on average, to not much more than a GST refund for eligible households. Of course, the relative value of the concessions vary with the consumption levels of individual consumers. Many elderly consumers are likely to have well below average consumption and find that the concession is worth much more than GST component of their bills. Families, with higher consumption may well find that the concession is worth less than the GST.

***Overall, the analysis above suggests that increasing the concessions to cope with increasing prices is not as big an impost on the state budget as it would first appear.***

## **The True Value of Indexation & Income Support Payments**

The other issue relevant to energy costs and concessions is the Commonwealth Government Utilities Allowance. This is a discrete quarterly payment made to certain categories of welfare recipients and it has also been rolled into a generic pension supplement for other categories of income support. The current annual rate is \$538.00, or \$134.50 per quarter, and it is indexed to CPI in March and September (Centrelink, 2010).

Clearly, based on the observed relationship between the CPI - Utilities Index and CPI - All Groups Index, the value of the Utilities Allowance diminishes in real terms over time if the CPI - All Groups index is used. From a consumer's perspective and as a minimum, all concessions and allowances need to keep pace with the CPI - Utilities index which, as has been seen, outpaces the 'all groups' CPI by a significant margin.

*This Utilities feature section was researched and developed by Andrew Nance from st.kitts.associates, and edited by SACOSS.*

# Explanatory Notes

## 1. CPI and ALCI

The ALCI uses a different methodology to the CPI in that the CPI is based on acquisition (ie the price at the time of acquisition of a product) while the ALCI is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI traces changes in house prices, while the ALCI traces changes in the amount expended each week on housing (eg mortgage repayments). Further information is available in the Explanatory Notes to the ALCI (ABS, 2010b).

In that sense, the ALCI is not a simple disaggregation of CPI and the two are not strictly comparable. However, the differences do not matter for the way the indexes are used in this report. Both measure changes in the cost of living over time, and given the broadness of the CPI measure and its powerful political and economic status, it is useful to compare the two to highlight the differences for different household types.

## 2. Limitations of the ALCI Data

The ALCI is more nuanced than the generic CPI, but there are still a number of problems with using it to show the cost of living faced by the most vulnerable and disadvantaged in South Australia. While it is safe to assume that welfare recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households says nothing about distribution of power, money and expenditure within a household and may therefore hide particular (and often gendered) structures of vulnerability and disadvantage. Further, the ALCI figures are not state-based so any particular South Australian trends or circumstances may not show up.

At the more technical level, the ALCI figures are for households whose predominant income is from the described source (ie aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the 2003/04 Household Expenditure Survey) (ABS, 2010b) add up to well over the actual welfare payments available (even including other government payments like rent assistance, utilities allowance and family tax benefits). Clearly many households in these categories have other sources of income beyond the welfare payment, or more than one welfare recipient in the same household. Like the CPI, the ALCI figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest or most vulnerable in those categories.

Another example of this “averaging problem” is that expenditures on some items like housing are too low to reflect the real expenditures and changes for the most vulnerable in the housing market — as discussed in the Housing section of this *Update*.

The weightings in the ALCI are also dated (2003/04) and can not be changed until the next Household Expenditure Survey. In the meantime, the price of some necessities (like rent) may increase rapidly, forcing people to change expenditure patterns to cover the increased cost. Alternatively or additionally, expenditure patterns may change for a variety of other reasons. However, the ALCI weighting does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle.

Finally, the ALCI household income figures are based on households that are the average size for that household type — 1.57 people for the aged pensioners, and 2.4 for the other welfare recipients (ABS, 2010b). This makes comparison with welfare allowances difficult. This *Update* tends to focus on single person households or a single person with two children (to align to the other welfare recipient household average of 2.4 persons). However, this is a proxy rather than statistical correlation.

### 3. Utilities Expenditure and Weekly Income/Expenditure

The 2003/04 Household Expenditure Survey gives disaggregated expenditures for households by state, capital city and nationally by income quintile (ABS, 2006). The categories of Domestic Power and Water and Sewerage Rates can be added to give a “utilities” expenditure, which can then be seen as a proportion of total expenditure. The following table lists this expenditure in 2003/04 dollars, and also compares the expenditure of the lowest quintile to the standard pension rate at the time.

Category	Weekly Utilities Expenditure \$(2003/04)	Total Weekly Income or Expenditure	% of Weekly Expenditure
Lowest Quintile and Expenditure	20.28	413.32	4.9%
Lowest Quintile v Pension	20.28	235.35	8.6%
All Adelaide Average	36.48	849.21	4.2%

The figures vary because of different household size, national and local figures, and the expenditure figures being household averages as against a single pension rate. The next Household Expenditure Survey (conducted in 2008/09) is due for release next year and will provide more accurate measures of utility prices, and utility price rises, and arguably the changing expenditure patterns caused by disproportionate increases in prices for one essential item in the consumer basket.

### 4. Water concessions and GST

The increase in concession payments is estimated on the basis of a \$5 average increase in each of the three concession classes: tenants (35,000 recipients), owner-occupier (130,000) and sewerage (130,000 recipients). The \$5 figure is an estimate since the concession is credited at 20% of consumption charges and the average consumption charge is for 190kL per households (for which, in 20010-11, 20% = \$94, the minimum amount of the concession).

The “maximum” concession increase is up 5% to \$168 for tenants, and up 5% to \$210 for owner-occupiers. Consumption charges for the maximum concession would be \$210 (20% = \$1050), which equates to about 425kL of consumption, or over twice the average. The consumption profile of concession recipients is not available, so we have assumed that the majority will receive the minimum concession. However, if we assumed a ‘mid-range’ average increase of \$7.50 for both tenants and owner occupiers, the concession increase would total about \$2m in expenditure.

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