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Introduction

This report tracks changes in the cost of living, particularly for vulnerable and disadvantaged South Australians.

The first part uses the Australian Bureau of Statistics' Selected Living Cost Indexes (ABS, 2012a) and Consumer Price Index (ABS, 2012c) to show changes in the cost of living in the last quarter and over the last 12 months. Previous SACOSS reports have used the ABS Analytical Living Cost Index (ABS, 2012d), but this index has been discontinued and incorporated into the Selected Living Cost Indexes.

As a summary measure, the Selected Living Cost Indexes are preferred over the better known Consumer Price Index because the CPI is technically not a cost of living measure. It tracks changes in the price of a specific basket of goods, but this basket includes goods and services that are not part of the expenditure of all households, and poor households in particular. When considering the cost of living, this is important because if expenditure on bare essentials makes up the vast bulk (or entirety) of expenditure for low income households, then price increases in those areas are crucial whilst price increases or decreases on other discretionary goods are largely irrelevant. However, 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.

The Selected Living Cost Indexes uses a different methodology to CPI (see Explanatory Note 1) and it disaggregates expenditure into a number of different household types (ABS, 2012e), although this *Cost of Living Update* focuses only on the "Aged Pension" and "Other government transfer recipient" (hereafter "other welfare recipients") figures, as these are likely to represent the more disadvantaged households. While the Selected Living Cost Indexes also have limitations in tracking cost of living changes for these groups (see Explanatory Note 2), they do provide a robust statistical base, a long time series, and quarterly tracking of changes. This report also adds to the Selected Living Cost Indexes figures by putting a dollar value on the percentage changes in the indexes, and by using disaggregated CPI data to summarise change in prices of key items.

The second section of the SACOSS *Cost of Living Updates* contains a more in-depth analysis of cost of living trends in one key area of concern in relation to cost of living pressures on vulnerable and disadvantaged South Australians. This *Update* focuses on the cost of utilities (electricity, gas and water) and uses the disaggregated CPI figures for Adelaide, as well as quantitative and qualitative data from other sources.

SECTION 1: September Quarter 2012 Cost of Living Changes

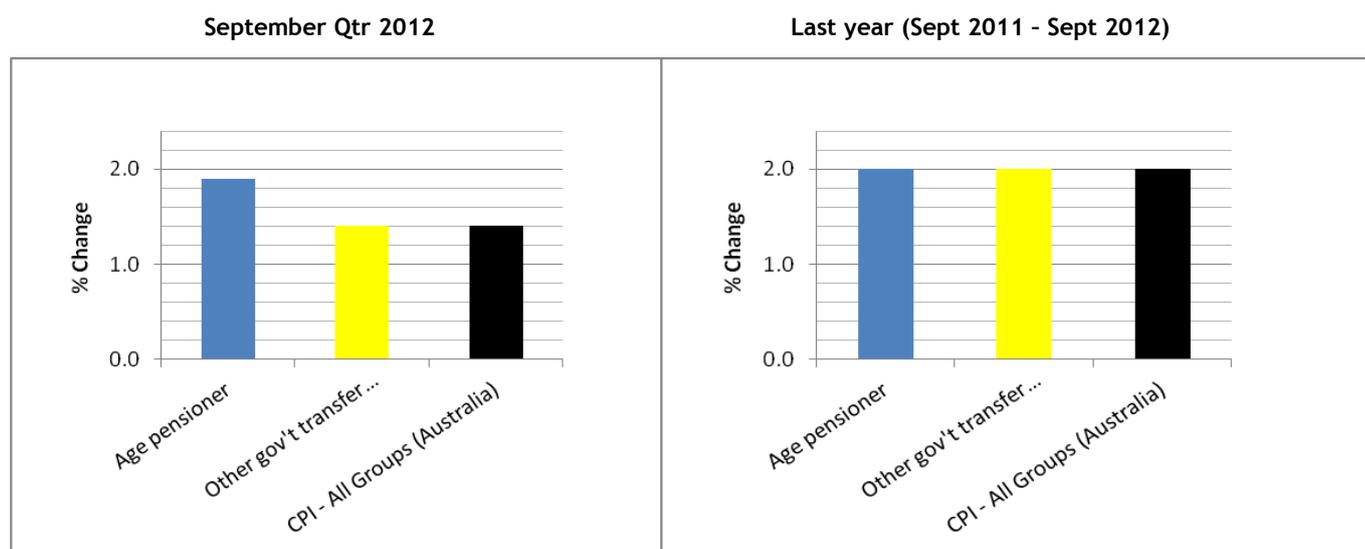
Prices

In the September 2012 quarter, the cost of living (as measured by the ABS Selected Living Cost Indexes) for Aged Pensioners rose by 1.9% and by 1.4% for Other Welfare Recipients. CPI in the same period rose by 1.4 % nationally and 1.5% in Adelaide (ABS, 2012a).

The major contributors to the rise in cost of living for both Aged Pensioners and Other Welfare Recipients were electricity and gas prices, and increases in fruit and vegetables (which increased by 10.4% [Adelaide CPI] - even though food generally had a more modest increase). Health prices also pushed up cost of living for Aged Pensioners, as they spend more on health on average than other groups. Conversely, pensioners receive proportionately less benefit from the fall in petrol prices (ABS, 2012a).

Over the last year (September Qtr 2011 – September Qtr 2012), the living cost indexes for both Aged Pensioners and Other Welfare Recipients increased by 2%, the same as the CPI (ABS, 2012a).

Figure 1: Increases in Living Costs September Qtr 2012



The last Cost of Living Update (SACOSS, 2012) noted that in the June quarter the cost of living pressures eased a bit for Aged Pensioners, with the living cost index going up less than CPI. However, as the above show, this relief was short-lived with the increases in the September Quarter in the price of key commodities they buy.

Overall though, the graph on the right shows that it evened out over the year for both groups, although these figures also do not account for local variations in prices. Table 1 (over the page) compares price changes of a number of basic necessities in Adelaide with the national changes in the last quarter.

Table 1: Cost of Living Changes September Qtr 2012 by expenditure type

Cost of Living Area	Adelaide CPI Sept Qtr change %	Adelaide CPI Sept 2011- Sept 2012 %	National CPI Sept 2011 - Sept 2012 %
Food	1.1	-2.1	-1.1
Housing	4.6	6.3	4.7
• Rent	0.7	3.0	4.0
Utilities	16.0	20.1	14.9
• Electricity	18.2	25.0	18.5
• Water	10.5	10.5	3.8
Health	3.5	8.2	7.2
Transport	-0.7	1.1	1.3
CPI All Groups	1.5	1.7	2.0

(Source: ABS, 2012c)

While the overall Adelaide CPI increase in the last year was lower than the national average, there are a number of concerns in the basic cost of living categories with housing, utilities and health prices all going up faster than the generic CPI.

Incomes

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, SACOSS calculates that the dollar value changes in cost of living is as shown in Table 2.

Table 2: Cost of Living Change Sept Qtr 2011 – Sept Qtr 2012

	Base Rate Benefit per week (30 September 2011)	Selected Living Cost Index change	\$ Amount per week
Aged Pensioner	\$344.50	2%	\$6.89
Newstart with two children (Other Welfare Recipient)	\$263.30	2%	\$5.26

(Source: Centrelink, 2011; ABS, 2012d)

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 \$6.89 a week for pensioners, and about \$5.26 for other welfare recipients. By comparison, the base rate pension rose by \$11.50 in the same period, while Newstart rose by \$3.20 (Centrelink, 2011, 2012). Thus, while there was some relief for pensioners, the paltry rise in Newstart would leave its recipients worse off overall when cost of living pressures are factored in.

SECTION 2: Utilities Costs

The Importance of Utilities Expenditure

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.

Table 3 shows average currently weekly expenditure on utilities in Adelaide. The “domestic power and fuel” category is the summary level category which includes electricity and gas, as well as other fuels. This summary level figure is used here because the disaggregated *Household Expenditure Survey* figures need to be treated with caution as not all households use gas and so the average expenditures for those that do are very different from overall averages in the *HES*.

Table 3: Utilities Expenditure, Adelaide

	Estimated Current Average Weekly Expend	% of H/hold Expend (2009/10 survey)
Domestic Power and Fuel	\$53.01	3.3%
Water	\$17.75	1.1
Utilities - Power and Water	\$70.76	

Source: See Technical Note 3.

The proportion of household expenditure here is probably an underestimate as it is based on the 2009-10 *HES*. With prices rising steeply since then, consumers would probably have been forced to forego more discretionary expenditure in order to pay the rising utilities prices. However, taking the 3.3% figure as the proportion of household expenditure, utilities is clearly not the largest household expenditure and is well behind housing (17.4%), food (17.2%) and transport (14.8%) (ABS, 2011c). This may suggest utilities are less important in terms of cost of living pressures, despite rapidly rising prices, but this is not the case.

Utilities bills can drive economic hardship precisely because they are not a regular weekly expenditure. For most households, they are lumpy expenditures which come with a “bill shock” both because they are large expenditures when they do come and because in recent times they will have gone up considerably from the last payment, making household budgeting difficult. In fact, the ABS uses an inability to pay an electricity, water [or telephone] bill as a marker of financial stress. In 2009/10, some 17.6% of South Australian households had at least one experience of not being able to pay their utilities bills on time (ABS, 2011c, Table 30). This was the third most common indicator of financial stress in the survey.

Interestingly, national figures (ABS, 2011b, Table 31A) show that the average weekly expenditure on electricity was about the same for those who experienced multiple indicators of financial stress throughout the year as for those who experienced none, while expenditure on water and gas was less for those with multiple financial stress indicators. This suggests that those who are experiencing financial stress are not using more electricity than others (and are using less water and gas), it is just that faced with rapidly rising prices their ability to pay may be compromised.

Different Household types

Utilities prices also impact on households differently. The expenditure figures quoted above are Adelaide figures, but based on figures for the whole of the state, SACOSS estimates that non-

metropolitan consumers are probably spending on average \$1 a week or 4% more on electricity than Adelaide consumers (See Technical Note 4). Given that average household income in non-metropolitan areas is less than in Adelaide (ABS, 2011e), it is safe to say that electricity is a greater proportion of household expenditure in non-metropolitan areas than for consumers in Adelaide (although the exact figures are not available).

However, these figures may be balanced by less expenditure on gas in non-metropolitan areas with the whole of state average expenditure on gas being \$2 a week less than the Adelaide figure of \$8.92 per week. This suggests that Adelaide users have a greater reliance on gas (ie. dual fuel) than non-metropolitan users, which could account for the greater expenditure on electricity outside the metro area.

The combined gas and electricity expenditures are slightly less for the whole state, but the same proportion of total expenditure on all goods and services. Similarly, expenditure on water across the state is slightly less than in Adelaide, but this is broadly in line with income differentials and the proportion of weekly expenditure is the same.

Utilities prices also impact differentially on households with different income levels. Table 4 shows the South Australian figures for expenditure based on each income quintile, plus the proportion of total goods and services expenditure for that income quintile.

Table 4: Housing Expenditure by Household Type, South Australia

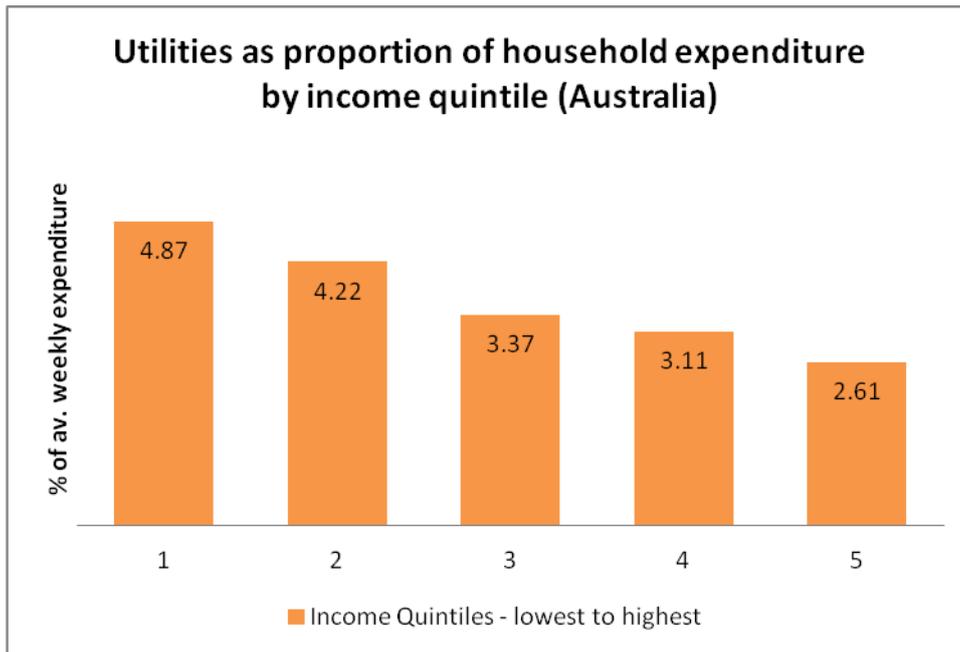
	Domestic Fuel & Power (SA)		Water (national)	
	Av. Weekly Expend \$	% of H/hold Expend	Av. Weekly Expend \$	% of H/hold Expend
Lowest Income Quintile	22.73	5.0	4.89	0.87
Second Income Quintile	28.73	4.2	6.32	0.78
Third Income Quintile	35.93	3.5	7.97	0.68
Fourth Income Quintile	39.51	2.8	9.53	0.64
Highest Income Quintile	48.97	2.5	12.86	0.57

Source: Derived from (ABS 2011c, Table 3; ABS 2011b, Table 3)

The domestic fuel and power figures are stark. Highest income households use greatly more electricity and gas and spend more than twice as much as the lowest income households, but as a percentage of household expenditure it is twice as important for low income households. The figures for water tell a similar story, although they are national figures (the SA data has not been published).

Taken together, low income households clearly spend more on utilities as a proportion of their income than the average or higher income households. Figure 2 shows this using the national figures for both water and for domestic fuel and power.

Figure 2: Utility expenditure by household income

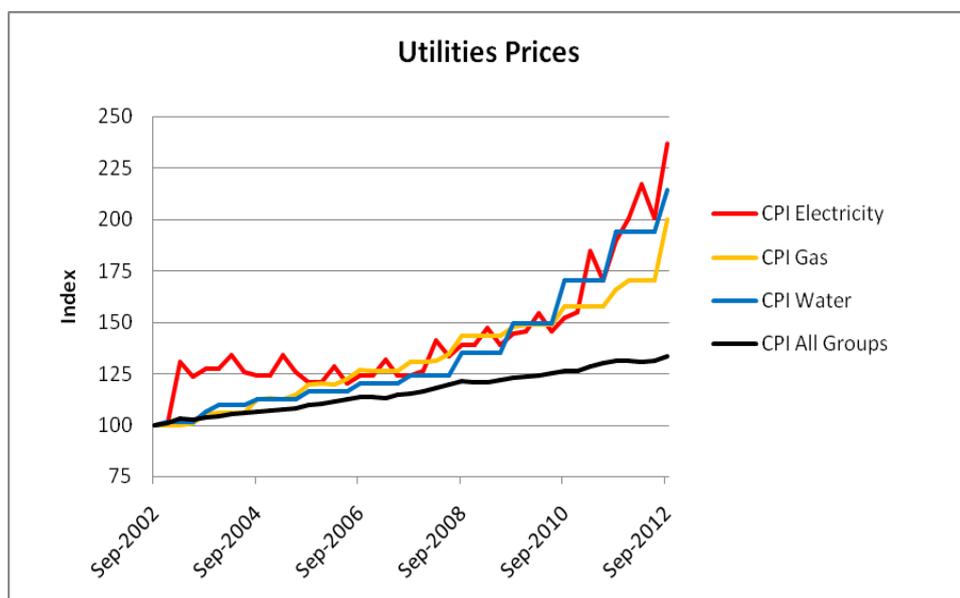


The result of this disproportionate expenditure is that utilities price rises impact disproportionately on low income households both because utilities constitute a greater proportion of their overall expenditure and they have less room to move in their weekly budgets. For this reason, any measure to alleviate cost of living pressures arising from utilities should be directed primarily at low income households.

Summary of Utilities Price Movements

The extent of rises in prices of utilities is evident in the CPI figures. CPI for all utilities in Adelaide over the last quarter rose by 16%, well above and out of all proportion to the 1.5% increase in CPI for all goods (ABS, 2012c). This continues the trend of recent years which has seen utilities prices consistently outstripping other prices. Figure 3 shows the movement of prices for each of the different utilities over the last decade.

Figure 3: Disaggregated Utilities Prices – Adelaide



The lines translate into the percentage increases shown in Table 5, with utilities as a whole having gone up at nearly 4 times the rate of the generic CPI “All Groups” inflation rate.

Table 5: Utilities increases over the last 10 years, South Australia

	% Increase Sept 2002- Sept 2012
Electricity	137.1
Gas	100.3
Water	114.4
Utilities	124.0
CPI - All Groups	33.3

These index increases have real impacts on weekly budgets, as Table 6 below shows.

Table 6: Utilities increases over the last year, South Australia

	Estimated Average Weekly Expend Sept 2011 \$	Adelaide CPI Increase (Sept 2011- Sept 2012) %	Increased expenditure per week \$	Estimated Current Average Weekly Expend \$	Increased expenditure for whole quarter \$
Electricity	\$31.93	25.0	7.98	\$39.91	\$102.57
Gas (for h’holds with gas)	\$18.32	20.6	3.77	\$22.09	\$49.01
Water	\$16.07	10.5	1.69	\$17.75	\$21.93
Utilities*	\$58.87	20.1	\$11.83	\$70.75	\$153.79

Source: Derived from (ABS 2011d, ABS 2012c.) For gas expenditure, see Explanatory Note 5.

* The Utilities total is calculated directly from the CPI data and does not equal the sum of the parts above because of the way the gas figure is calculated – see Explanatory Note 5.

It should be noted that these are *not* cumulative increases for each quarter. The figures show that, based on previous expenditure patterns, **the average household expenditure on utilities at September 2012 would be \$153 more than they would have been at the same time last year.**

Carbon Prices and Compensation

The Essential Services Commission of South Australia has determined that the increase in electricity prices is due to the impact of the solar feed-in tariff scheme on network prices, other increases in network charges, and the introduction of a price on carbon emissions. The proportionate impact of these factors (according to ESCOSA (2012)), is set out in Table 7.

Table 7: Causes of electricity price increases

Increased Feed-in Tariff (FiT) costs	6.9%
Increase in network charge (ex-FiT)	4.0%
Carbon price pass-through	4.6%
Other	2.6%
Total	18%

As these calculations are consistent with the CPI data, it is therefore reasonable to assume the impact of the carbon price on electricity prices is currently around 4.6%. At this stage, it is too early

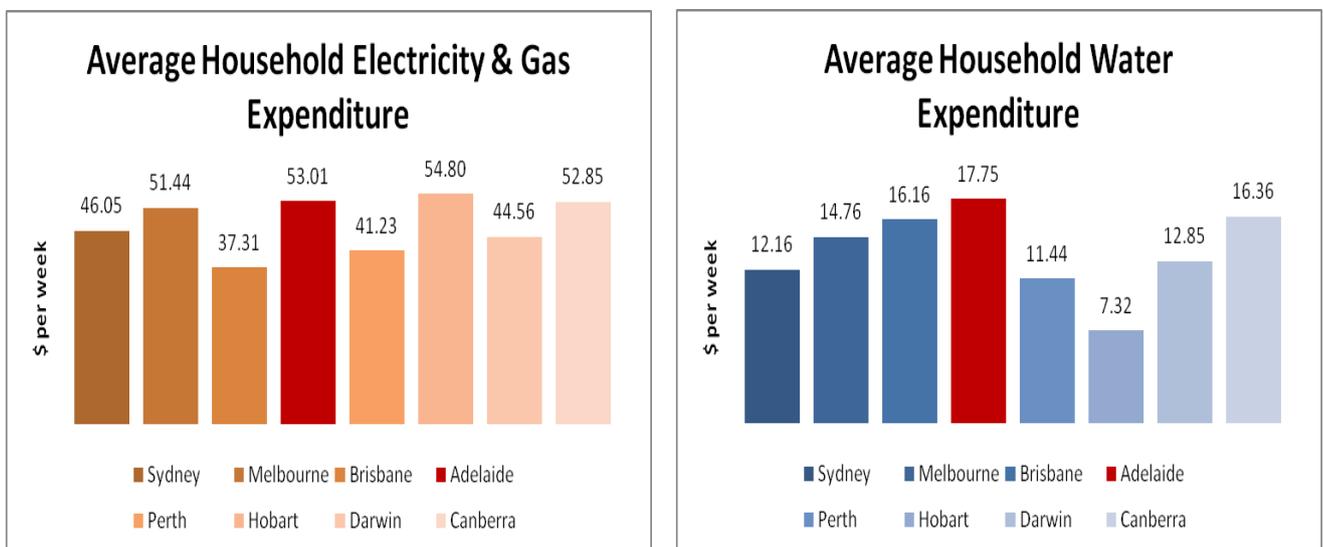
to determine whether the household assistance provided in the Clean Energy Future package will be adequate over the long term, but clearly carbon pricing is only a small proportion of the overall increases in electricity prices.

Interstate Comparisons

Using data in the ABS *Household Expenditure Surveys* and CPI it is possible to compare utilities expenditure in different states. These are expenditure figures and are not price comparisons. For example, electricity in one state may be more expensive than another, but expenditure on electricity may be less because of greater use of gas (or solar or other technologies). For this reason, the comparison below is based on a combined figure for gas and electricity. This combined expenditure comparison, rather than disaggregated prices, is also the most useful cost of living measure because what ultimately matters for the consumer affordability is how much they need to spend to get the necessary power and fuel - not the fuel mix or price per unit.

In 1998 South Australia had the 5th highest average weekly expenditure on electricity and gas and the 4th highest water expenditure among Australian states and territories (ABS, 2001, Table 5). By the 2003/04 *HES* South Australian water expenditure was the highest in the country, where it remains today, while electricity and gas was 3rd highest in the country. In the last *HES*, SA average household electricity and gas expenditure had returned to be 5th highest in the country, but price rises since that survey suggest that South Australia probably now has the 2nd highest (after the ACT) average weekly expenditure on electricity and gas (ABS, 2006, 2011a). The figures below show the comparative capital city expenditures indexed to the September 2012 quarter using the relevant CPI rises (capital city data is used because there is no whole-of-state CPI).

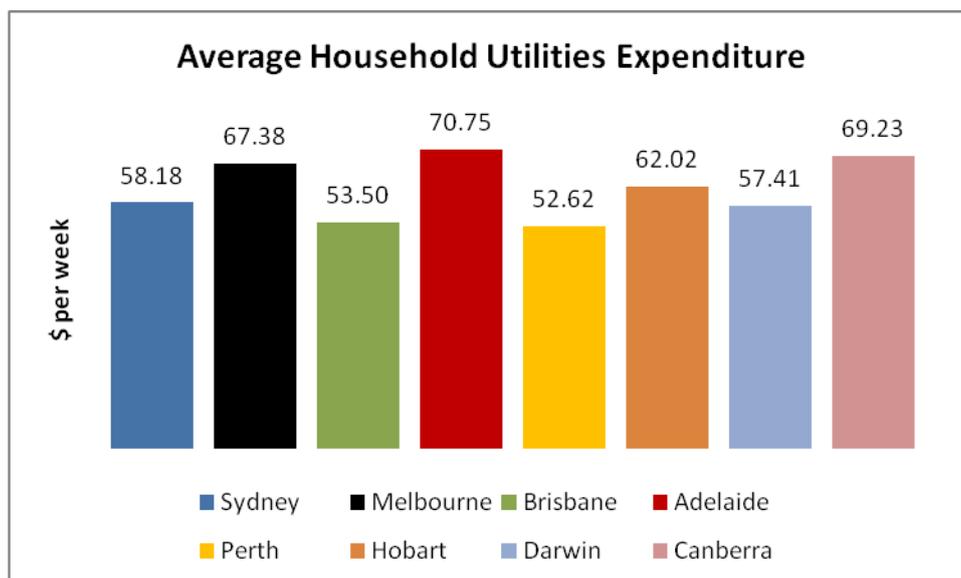
Figure 4: Comparison of Utilities in Capital Cities



Source: Derived from (ABS 2011d, 2012c)

On these figures, Adelaide consumers currently spent more on water than consumers in other Australian capital cities and have the second highest domestic fuel/power expenditure. The result of these two trends is that Adelaide consumers now spend more on average on utilities each week than households in other capital cities. This is a marked change from a year ago, when Adelaide households' utilities expenditure was third highest in the country, behind Canberra and Melbourne.

Figure 5: Comparison of Utilities in Capital Cities



Concessions and rebates

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 number of concession recipients and the current value of concessions are set out in Table 8.

Table 8: SA Utilities Concessions

	Number of Concession Recipients	Current Concession
Energy	194,071	\$165
Water (maximum, for tenants)	35,000	\$200
Water (maximum, for owner-occupiers)	130,000	\$265
Sewerage	130,000	\$110

Source: Energy Concession numbers (ESCOSA, 2011); Water & Sewerage numbers (Govt of SA, 2010)

The water concession is applied at up to 25% of the total annual water bill, from a minimum of \$90 to a maximum of \$265. In addition, in May this year the government announced a one-off water security rebate “in recognition of substantial price increases experienced by consumers over the past few years” (Govt of SA, 2012). Households using up to and including 120 kilolitres per year will receive a one-off rebate of \$45 while those using more than 120 kilolitres will receive a \$75 rebate. The rebate will be based on consumption billed for the 2012 annual year and is to be rebated to consumers in early 2013.

While a \$45 or \$75 rebate is significant, the average household expenditure on water and sewerage in Adelaide is \$932p.a. (see Table 6) and the rebate does not cover the cost of the increase in prices over the last year which would see average household expenditure on water and sewerage increase by \$87.88. Importantly, at a total cost to government of \$45.7m, the rebate to

more than 600,000 water consumers is hard to sustain and was only ever promised as a one-off rebate.

However, given that the rebate was a recognition that substantial water price increases were causing hardship, there is a case to continue to the rebate – at least to those in most need - given that water prices are still going up and remain above the point at which the government recognised that hardship was being caused.

Conclusion and Recommendations

The overwhelming conclusion from the above is that utilities prices are rising much faster than the general inflation rate. Despite being still a smaller part of household expenditure than housing, food and transport, expenditure on utilities is a significant driver of financial hardship. Poorer households spend proportionately more on utilities than richer households and the lumpiness of this rapidly rising expenditure for households with little room to move in their weekly budgets makes it harder to manage. For this reason, any policies aimed at assisting South Australian households with utilities bills should be targeted primarily at low income households.

The state government has recognised the impact of utility prices and cost of living pressures on South Australian households by making affordable living a priority of government, and in particular by a number of actions in the utilities areas such as increasing concessions, providing a one-off water rebate and establishing a utilities literacy program. SACOSS wishes to build on these and other developments and makes the following two recommendations.

1. Confirm and Implement WEC Review Outcome

Earlier this year the Essential Services Commission of SA conducted a review of Wholesale Electricity pricing and in October made a draft recommendation that would see electricity retail prices fall by 8.1% (for customers on the electricity standing contract). SACOSS provided input into the review process and welcomed the outcome as we were concerned that in recent years wholesale prices had been falling while the regulated small customer standing electricity contract prices continued to rise. This mismatch was partly due to the method of cost calculation and was a poor result for South Australian consumers. In fact, SACOSS calculates that there was even more room to move and the final result should be an 8.6% fall (SACOSS, 2012b), but in any case *the use of different costing methodology and a subsequent price fall is important and needs to be confirmed as a final ruling and implemented.*

2. Continue the Water Security Rebate (at a minimum for concession holders)

The SA government's one-off rebate to more than 600,000 water customers to offset (to some degree) rising water prices is a welcome assistance for many, but it was large impost on the state budget and was only provided for one year. However, as we have seen, water prices have continued to go up and are still well above the level where the government thought it appropriate to provide assistance. *The duration of the water rebate should be extended, at a minimum for those with utilities concessions, until water prices fall below the 2011-12 levels (in real terms).*

APPENDIX: Explanatory Notes

1. CPI and Living Cost Indexes

The ABS Selected Living Cost Indexes uses a different methodology to the CPI in that the CPI is based on acquisition (i.e. the price at the time of acquisition of a product) while the living cost index 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 (e.g. mortgage repayments). Further information is available in the Explanatory Notes to the ALCI (ABS, 2012b).

In that sense, the Selected Living Cost Indexes are not a simple disaggregation of CPI and the two are not strictly comparable. However, both indexes are used to measure changes in the cost of living over time (although that is not what CPI was designed to do), and given the general usage of the CPI measure and its powerful political and economic status, it is useful to compare the two and highlight the differences for different household types.

2. Limitations of the Selected Living Cost Indexes

The Selected Living Cost Indexes are more nuanced than the generic CPI in that they measure changes for different household types, but there are still a number of problems with using those indexes to show cost of living changes 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 living cost indexes are not state-based, so any particular South Australian trends or circumstances may not show up.

At the more technical level, the Selected Living Cost Indexes are for households whose predominant income is from the described source (e.g. aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the 2009-10 Household Expenditure Survey) (ABS, 2012b) 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, 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 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 – again, because the worst case scenarios are “averaged out” by those in the category with other resources. For instance, if one pensioner owned their own home outright they would generally be in a better financial position than a pensioner who has to pay market rents – but if the market rent were \$300 per week, the average expenditure on rent between the two would be \$150 per week, much less than what the renting pensioner was actually paying.

The weightings in the Selected Living Cost Indexes are also based on a set point in time (from the 2009-10 *Household Expenditure Survey*) and can't be changed until the next Household Expenditure Survey. In the meantime, the price of some necessities 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 weighting in the indexes does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle.

Finally, the Selected Living Cost Indexes' 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, 2012b). This makes comparison with allowances difficult. This *Update* focuses 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.

It is inevitable that any summary measure will have limitations, and as noted in the main text, the Selected Living Cost Indexes provide a robust statistical base, a long time series, and quarterly tracking of changes in the cost of living which is somewhat sensitive to low income earners.

3. Summary level Utilities Expenditures

Table 3 in the main text, updates the 2009-10 Household Expenditure Survey expenditure figures to the September 2012 Quarter, by simply increasing them in line with Adelaide CPI for each of the categories. Since there is no summary category for "domestic power and fuel" in the CPI, this figure has been indexed using CPI for Adelaide electricity as this is the biggest part of the broader category. This indexing of HES data obviously mixes expenditure with prices and assumes that expenditure patterns remain unchanged. Demand for essential services is fairly inelastic, meaning the expenditure figures for domestics fuel and water are probably a reasonable estimate, but the proportion of total expenditure may be less accurate due to potentially changing expenditure patterns forced by the rapidly rising prices.

4. Metropolitan and Regional Expenditures

The HES does not publish data on metropolitan vs non-metropolitan households, but it does publish Adelaide and whole of state data from which the SACOSS estimates on page 4 are derived. The full data is set out below.

Table 9: Adelaide and Whole of SA Utilities Expenditure, 2009/10

	Adelaide \$	Adelaide % of Total H/hold Expenditure	Whole of SA \$	Whole of SA % of Total H/hold Expend
Electricity	24.83	2.2	25.07	2.4
Gas	8.92	0.8	6.92	0.7
Water	12.35	1.1	10.72	1.0
Total Expenditure on all Goods & Services	1,228.35		1,044.26	

Source: (ABS, 2011b, Tables 23A, 27A)

The calculation of non-metropolitan expenditure from the Adelaide and whole of state figures is an approximation based on population. Adelaide accounts for 73% of the population of the state (as at June 2011 (ABS, 2012f), so for any change in 1 unit of the whole of state figure, the non-metropolitan figures need to change by four times that amount. Hence, to make the 24c difference above in whole-of-state electricity vs Adelaide expenditure in 2009/10, non-metropolitan expenditures would have needed to be about \$1 a week more than Adelaide expenditures.

5. Weekly Gas Expenditures

The average weekly expenditure figures for gas in Table 6 are a SACOSS estimate based on ABS average weekly expenditure (ABS, 2011d), but applied only to those households who have gas (the ABS figures average the total over all households). The ABS figure is \$10.30 for June Qtr 2011, which becomes \$10.86 with CPI adjustment for September Quarter 2011. However, across 654,700 households in South Australia (ABS, 2011c), there are only 388,045 gas customers (ESCOSA, 2011). Hence the total weekly expenditure on gas in SA in September 2011 was \$10.86 x 654,700 households = \$7,110,042. When this total is divided by the number of gas customers, the average weekly expenditure of those houses using gas = \$18.32.

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