

# THE COST OF LIVING & THE CLIMATE PROBLEM

There has been an ongoing debate in Australia, and New South Wales, around the cost of living and household affordability. This debate is being fuelled in particular by concerns about rising costs of energy and the cost of housing.

The perception that climate change policy is driving cost increases is due in part to:

1. Concerns that policies such as the NSW *Solar Bonus Scheme*, the *National Renewable Energy Target* and the proposed Federal carbon tax are driving increases in electricity costs.
2. Concerns that policies which seek to limit the release of land for greenfield development are putting pressures on housing affordability.

Last month's edition of the Kinesis Climate Monitor examined the role city planning could play in reducing greenhouse gas emissions. This month's edition looks at the issue of affordability in how we address the climate problem and ways in which planning and climate policy can address these concerns.

Cost of living issues have been dominating recent debates about sustainability policy.

On the 14th of June 2011, IPART, the NSW independent pricing tribunal, announced that regulated electricity prices for small business and residential customers would rise by 17.3% from the 1st of July 2011. IPART has stated that the drivers for this price rise are 'are clear and are essentially twofold':

- ① An increase in network costs that retailers must pay that sees prices rise by 9 percentage points.
- ① An increase in costs retailers must pay due to the Federal Government's Renewable Energy Target (RET) scheme that sees prices rise by 6 percentage points.

The NSW Government's *Solar Bonus Scheme* could have been another driver of rising electricity costs. However, the State Government has decided to cover all costs associated with this scheme, rather than allowing those costs to be passed onto consumers. This decision has helped to increase the State Government's budget deficit. IPART has also stated that a price on carbon will increase electricity prices if it is implemented, however, it cannot calculate the exact amount of this increase until more details about the scheme are announced.

There are also concerns that the growth of our cities in affecting housing costs. The *Sydney Metropolitan Strategy*, released in December 2010, called for 70% of all new development to be located in existing urban areas, with the remaining 30% in greenfield locations. This policy emphasised the need to build medium and high density developments around existing transport infrastructure, reducing vehicle travel, congestion and associated carbon emissions.

In the lead up to 2011 State elections, then opposition leader (and now Premier) Barry O'Farrell indicated his opposition to the 70-30 development split stating that new development 'should not be through high rise and medium density'. Asked whether he favoured a ratio of 50 per cent, Mr O'Farrell said: 'It will be closer to 50 than 70.' Releasing more housing on the fringe of the city, it was hoped, would speed up the provision of new housing, ease housing demand and thereby reduce housing costs.

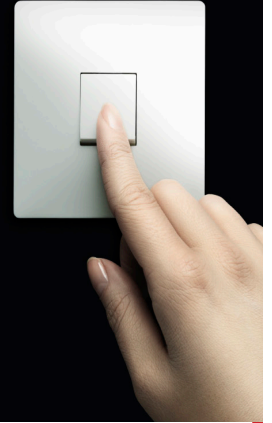
In further support of the relationship between the cost of living and the climate problem, recent research indicates that increasing household affordability will improve our ability to respond to climate change. A recent study commissioned by the ACT Planning and Land Authority demonstrated that reducing Canberra's reliance on private vehicles will reduce greenhouse gas emissions but at the same, reduce household expenditure and increase the resilience of Canberra residents to adapt and respond to rising fuel prices. In addition, reduced fuel consumption provides households with additional budget for climate change responses, such as higher air conditioning needs or insurance costs.

The challenge for policy makers, therefore, is how to respond to climate change in a way that can mitigate the effects of climate change and, at the same time, improve the resilience of households to adapt to and respond to a changing climate.



## WANT TO KNOW MORE?

For more information on IPART's electricity price decision see: <http://www.ipart.nsw.gov.au/consumer-information.asp> To read the ACT PLA report go to: [http://www.actpla.act.gov.au/\\_data/assets/pdf\\_file/0013/21046/ACTPLA\\_Urban\\_Form\\_Scenarios\\_Final\\_Report\\_WEB.pdf](http://www.actpla.act.gov.au/_data/assets/pdf_file/0013/21046/ACTPLA_Urban_Form_Scenarios_Final_Report_WEB.pdf)



### CITIES & AFFORDABILITY

While the debate around affordability has largely focused on the cost of a house and land, households face growing pressures from other areas. Data from the Federal Department of Treasury states that an average household spends 15% of their yearly budget on housing, 15% on food, 12% on transport costs and 2% on electricity and gas bills. With energy prices set to rise as a result of decisions such as the recent IPART price increases, these costs could come to represent a greater percentage of overall household expenditure.

The way we plan our cities will impact on household affordability, and, as the ACT PLA research indicates, our ability to reduce household operating costs will increase the ability of residents to adapt to and respond to the climate problem.

This issue is clear when looking at land use, transport and affordability at the city scale. Independent analysis undertaken by Kinesis for this Climate Monitor sought to understand the travel, affordability and greenhouse gas emission implications of households in different areas of Sydney by comparing the costs of travel in Sydney's northwest and southwest (greenfield) growth areas, versus the costs for a household in existing (infill) areas.

On average, a household living in Sydney's northwest and southwest growth areas own 1.7 cars per household, compared to 1.4 cars per household in existing or infill locations. Based on the existing travel patterns of households located within these areas of Sydney, the average household vehicle kilometres travelled for a family living in a greenfield location is approximately 71 km/household/day, compared to 39 km/household/day across existing urban areas.

Calculating the cost of purchasing a vehicle, insurance, maintenance and fuel costs, household transport expenditure in greenfield areas of Sydney is expected to be approximately \$18,600 per year compared to \$13,800 per year for a household in an existing urban area.

A shift to greater greenfield development, as proposed by the NSW Premier, does not necessarily translate to greater affordability and in fact increases the risk of residents to rising energy prices and reduces residents capacity to respond to the effects of climate change.



#### WANT TO KNOW MORE?

To read the Treasury report on household energy costs go to: [http://www.treasury.gov.au/lowpollutionfuture/report/html/03\\_Chapter3.asp](http://www.treasury.gov.au/lowpollutionfuture/report/html/03_Chapter3.asp)

### CARBON PRICE & AFFORDABILITY

The IPART release on electricity prices stated that a carbon price will cause electricity prices to rise. This has raised concerns about the policy's impact on the cost of living. The Federal Government has sought to address this concern by offering compensation to low and middle income earners, using the revenue raised through the carbon price mechanism. The exact details of how the compensation will be offered have not been announced but it may take the form of income tax cuts or direct rebates.

It has been argued that because households will be compensated for rising energy costs there will be no incentive to reduce energy use. Opposition leader Tony Abbott stated that the carbon price will 'at best' be 'a giant money-go-round'.

Jessica Irvine, economics writer for the Sydney Morning Herald, wrote an article arguing that this wouldn't be the case. She states that there are two ways prices can affect behaviour. The first is the income effect, where real reductions in income force consumers to consume less. Because consumers will be compensated under the Government's plans this effect will not occur. However, a second effect is the substitution effect where a 'higher price for carbon-intensive products, such as electricity, encourages consumers to switch to consuming less carbon-intensive goods and services'.

Through this effect the Government hopes that wherever households are able to reduce their energy consumption they will be actually be better off and where they cannot change their behaviour they will be no worse off because of the compensation being offered.

**The ability of Australia's residents to respond to a carbon tax and reduce greenhouse gas emissions will depend on their ability to change their energy consumption. With new homes in Australia reported to be the biggest in the world and new development in our cities being pushed towards the fringes, this ability is at risk of being eroded.**



#### WANT TO KNOW MORE?

For more information on the possible framework of the Federal Government's carbon price see: <http://www.climatechange.gov.au/en/government/initiatives/multi-party-committee.aspx> To read Jessica Irvine's report article on the role of carbon pricing and household support see: <http://www.nationaltimes.com.au/opinion/politics/jokes-on-us-if-we-dont-read-the-fine-print-on-carbon-tax-20110405-1d2s7.html> For an article on Australian home sizes see: <http://www.smh.com.au/national/home-truths-australia-trumps-us-when-it-comes-to-mcmansions-20091129-jyva.html>

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