

27 September 2018

Committee Secretary
Senate Standing Committee on Environment and Communications
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill 2018

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to comment on the Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill 2018.

Overall concept and intent of the Bill

PIAC commends the overall concept and intent of the bill, which draws attention to fundamental flaws in the interaction between costs and benefits for landlords and tenants. The split incentive between the owner and the occupant of rental properties is well established. Absent any other incentives, standards or requirements, owners experience measures to improve dwelling energy efficiency only as an increased expense, with the occupant deriving all of the benefits. This flaw is exacerbated by an established culture that regards rental tenancy as a short-term circumstance. These issues are difficult to overcome without significant government interventions.

Energy efficient homes are crucial to the health and wellbeing of the occupants. Improvements to thermal performance have been shown to help mitigate the negative health impacts of extreme temperatures, with flow on benefits in reduced health costs to individuals and the health system as a whole. Homes that are overly reliant on active heating and cooling systems are not only expensive to run year-round but can also be a further health risk during outages, especially in extreme temperatures.

Equally importantly, improved energy efficiency substantially reduces the running costs of homes. This is particularly relevant to rental housing because a significant proportion of it is older and much less efficient than newly built stock. In a soon to be released report exploring

disconnections by UMR on behalf of PIAC¹, it was found that a significant number of people who were either disconnected or at risk of disconnection and in private rental said that their energy bills were affected by energy efficiency issues. This included:

- 50% said that their home was hard to cool
- 40% said that their home was hard to heat
- 28% said that they had appliances that were broken or using excessive energy
- 21% said that they had leaking showers, pipes, toilets

Only 21% said that they did not think any of the above was affecting their energy bill.

Considering that energy costs are a major concern for the community, particularly for low income households who are more likely to be renters, reforms that help to address this issue are a crucial step forward.

More broadly, there are ongoing environmental benefits to energy efficiency through the associated reduction in carbon emissions. In addition, energy efficiency also has overall energy system benefits through lower wholesale, transmission and distribution network costs. In particular, reductions in peak demand that flow from energy efficiency improvements lead to significant system-wide savings and reduced requirements for capital investment, which benefits all consumers in both the short and longer term.

In identifying the range of significant, overlapping benefits that come from improved energy efficiency in rental properties, PIAC is concerned that the current parameters of the Bill will unnecessarily limit the potential to realise these benefits.

Eligibility

Although PIAC appreciates that the Bill is deliberately designed to have modest take-up and that part of its purpose is to “chart a way for Australia to transition towards more ambitious and transformative energy efficiency initiatives”², the \$300 per week maximum leasing requirement will exclude many needy households. For example, there are very few rental properties available for \$300 or less per week in NSW, even in many regional towns. Further, many lower income individuals, couples and families live in compound or shared households due to an absence of affordable housing. These larger dwellings are often some of the least efficient and would benefit greatly from improvements to energy efficiency, yet, as we understand it, they are unlikely to be included in this initiative because whilst the individual’s or family’s share of rent might be \$300 or less, if the total rent for the property is greater than \$300 then it will not be eligible for the benefits proposed under this Bill.

Similarly, using a 30:40 indicator is also a crude measure to assess need and would nevertheless also exclude a lot of people who would benefit from this Bill. Importantly, in addition to excluding large numbers of potentially vulnerable tenants from the financial and health benefits of improved dwelling energy efficiency, any scheme that ties eligibility to rental limits, is likely to involve significant administrative complexity (and cost) disproportionate to the smaller number of households who would eventually benefit.

Accordingly, PIAC recommends that there should be no maximum rental amount or restrictive eligibility criteria imposed. The majority of renters can be considered disadvantaged by not

¹ UMR, *Close to the Edge*, yet to be published

² The Senate Proof Bills, Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill 2018, Second Reading Speech, p75.

being able to afford to buy their own home in the long term, and having little or no control over their home's energy efficiency. Renters are excluded from undertaking many actions that would improve the thermal performance of the home and reduce their energy bills, such as installing insulation, draft proofing and solar PV. Where there are entrenched issues of poor energy efficiency in a large proportion of rental housing, the widest possible application of measures to encourage improvements is needed.

Appliance replacement

Having a minimum of 3 stars required to qualify as an energy efficient appliance under the Bill is an unsuitable definition of energy efficiency and could result in rewarding owners with a tax offset for replacing broken appliances with an appliance they were going to replace it with anyway. This minimal definition of an energy efficient product is a missed opportunity to significantly improve the energy efficiency of rental opportunities. Meaningful and realistic minimum star ratings should be set depending on options available in each category. For example, a minimum of 6 stars is likely to be appropriate for split system air conditioners.

In addition, there are important energy efficient products such as solar and heat pump water heaters and evaporative air conditioners which are not given star ratings and PIAC questions whether these products will still be eligible for the tax offset.

\$2,000 pa tax offset

Without further incentive to upgrade a property such as minimum standards, PIAC doubts that the tax offset proposed will be regularly used for anything other than replacing a limited number of broken appliances with slightly more energy efficient appliances. Given the tax offset ceiling, the 3 star minimum appliance eligibility and the cap on weekly rent eligibility, it is unlikely, for example, that a broken inefficient electric stove would be replaced by a significantly more efficient (and safer) induction stove.

The mechanism is also unlikely to give an incentive to an owner to make proactive improvements such as installing insulation or solar PV, yet this would have a significant impact on bill savings (as well as thermal comfort in the case of insulation).

Without a requirement to disclose the energy efficiency of a dwelling and/or meet minimum standards, PIAC also questions what benefits an owner would see in having an energy assessment/appraisal performed.

Where an intended priority of the Bill would appear to be addressing the split incentive to improve the poorest performing rental homes, for the benefit of tenants with lower incomes, the tax offset incentive should be sufficient to address the more significant and potentially structural issues. In this context PIAC recommends that consideration be given to a higher offset allowance, derived with reference to research such as Sustainability Victoria's *Energy Efficiency Upgrade Potential of Existing Victorian Houses*³ and the likely requirements of the poorest existing housing stock.

Education

The benefits of the legislation would need to be well publicised, especially to real estate agents who arrange the majority of repairs. They would need to be equipped with a clear understanding

³ Available at: <https://www.sustainability.vic.gov.au/-/media/SV/Publications/About-Us/Research/Household-retrofit-technical-reports/Energy-Efficiency-Upgrade-Potential-of-Existing-Victorian-Houses-Sep-2016.pdf>

of the benefits to the owners that the provisions would give and they would need to actively encourage it.

Review

PIAC encourages that there be a review of the legislation after 2 years (rather than 3 as proposed), and that this review assesses take up rates, what energy efficient products have been installed and what the benefits to owners and occupiers have been.

Other options to improve the energy efficiency of rental properties

One of the benefits of this Bill is that it is provoking conversation regarding improving the energy efficiency of rental homes. PIAC would like to see this Bill and the discussions around it result in further initiatives to improve the energy efficiency of rental properties in the following ways:

- Minimum energy efficiency standards for rental properties – private and social. These should be identified and implemented in stages that increase over time. Signalling the targets well in advance will help facilitate earlier and more efficient adoption of higher standards.
- Mandatory disclosure of the energy efficiency of a dwelling at the point of lease. This should be implemented at the same time as minimum standards and should be presented in a standardised format, through a national accredited and monitored scheme and accompanied by an education component. This should also be staged to give the industry a clear understanding of future inclusions and be an incentive to reward owners who have gone beyond the minimum. A voluntary scheme is not only unlikely to be effective, but would also create market distortions and perverse incentives ensuring that low value homes will remain less efficient and more costly to run.
- Continuation and expansion of programs to help low income households replace their old inefficient appliances with new, efficient appliances (such as the NSW Government's Appliance Replacement Offer).
- Improvements to urban planning and green canopies to decrease urban heat island effects (particularly in outer suburbs), to make cities more resilient during hot weather
- Behaviour change programs to help households know how to use their energy wisely, to save them money without foregoing comfort and health.

Further engagement

PIAC would welcome the opportunity for further engagement with the Committee and other stakeholders to discuss these issues in more depth. Please do not hesitate to contact Thea Bray on (02) 8898 6520 or tbray@piac.asn.au.

Yours sincerely,



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