



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

**Submission to the Senate Standing Committees on
Environment and Communications**

Brotherhood of St Laurence

September 2018

Summary

The Brotherhood of St Laurence supports the Improving the Energy Efficiency of Rental Properties Bill tabled by Senator Storer.

The Brotherhood agrees that Australians should not have to choose between putting food on the table and heating or cooling their homes, yet energy stress remains a reality for many.

Too many homes are unhealthy and expensive to live in, and landlords typically have no incentive to upgrade them, while tenants often lack the means, incentive, or permission of the property-owner.

The problem is particularly acute for renters and people with low incomes, who often live in the least efficient homes and have the lowest capacity to upgrade them.

The Improving the Energy Efficiency of Rental Properties Bill would begin to address this split-incentive problem by giving landlords a tax incentive to increase the efficiency of their properties. The effect would be likely to lower the energy bills and improve the health outcomes and thermal comfort of some Australian renters. However, we recommend that the bill be refined.

This submission supports the intent of the Bill, argues the case for introducing minimum energy efficiency standards for rented homes, and proposes amendments to the Bill.

Brotherhood of St Laurence and our energy work

The Brotherhood of St Laurence is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the BSL continues to fight for an Australia free of poverty. We undertake research, service development and delivery, and advocacy with the objective of addressing unmet needs and translating the understandings gained into new policies, new programs and practices for implementation by government and others. The BSL's Energy, Equity and Climate Change program has been undertaking research, advocating for equitable policies and delivering programs to low income households since 2007.

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1 Introduction

The Brotherhood supports the Improving the Energy Efficiency of Rental Properties Bill (henceforth ‘the Bill’) as a useful step towards improving the energy efficiency and thermal comfort of rental properties. We thank the Senate Standing Committees for this opportunity to comment.

This submission outlines the Brotherhood’s views on:

- increasing energy efficiency in rented homes
- the Energy Efficiency of Rental Properties Bill itself.

2 The case for increasing energy efficiency in rented homes

This section outlines the rationale for increasing the energy efficiency of Australian rental properties.

Poor efficiency exacerbates energy stress

Poor energy efficiency can increase renters’ financial stress. Because many renters live in dwellings with poorer energy efficiency¹ (ABS 2012), they often face higher energy bills than they otherwise would. Renters are more likely than owner occupiers to report that, due to a shortage of money, they are unable to heat their home (37 per cent) or that they cannot pay their bills on time (42 per cent) (Azpitarte et al 2015). High energy bills place pressure on limited household budgets, forcing some renters to make trade-offs between paying the rent, buying food or sending their child on a school excursion (Chester 2013).

Inefficient homes adversely impact tenants’ health and wellbeing.

Poor-quality housing is associated with poor physical and mental health and higher mortality rates. Poor thermal efficiency combined with high and low temperatures can be fatal. Gasparrini et al. (2015) found that 5.99% of all-cause mortality in Melbourne (1988–2009) was attributable to cold and 0.49% to heat. Damp or mouldy homes can increase the risk of respiratory illness and asthma in children (WHO 2011). Improving the thermal performance of cold homes has been linked to improved physical health of infants and children and improved mental health for adolescents and adults (Liddell & Morris 2010). The 374 deaths attributed to the Victorian heatwave of 2009 (DHS 2009) highlight the need to examine the role of housing in heat-related mortality and morbidity.

Renters with a disability are hit hard by energy-related poverty. Our research suggests that over half of Australia’s energy-poor households include someone living with disability (Azpitarte et al.

¹ Owner-occupiers are more likely than renters to live in homes with insulation and other energy-efficient features such as solar panels (ABS 2012).

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2011). Those with high energy needs in homes with poor energy efficiency face additional hardship.

Renters face major barriers to improving the energy efficiency of their homes

The residential rental market is failing to provide adequate housing for all tenants. The market requires correction to address:

- **Split incentives:** renters have minimal incentive to improve the efficiency of their home due to the short terms of most leases and landlords have little incentive to invest in improvements since they do not directly benefit from lowered energy bills.
- **Information asymmetry:** tenants often have insufficient information about the energy performance of their home and landlords have insufficient information about the costs and benefits of energy efficiency to be able to make informed decisions about upgrades.
- **Lack of authority to install more efficient fixtures themselves.** Many renters simply do not have the authority to make efficiency upgrades, and are often afraid to ask their landlord.

Minimum standards for energy efficiency

The most essential step for improving energy efficiency in rental properties is the introduction of a minimum standard.

A minimum standard would place an obligation on landlords to ensure that properties meet a certain standard of energy efficiency before they can be rented.

A minimum standard is needed to address the least efficient housing stock, and to deliver bill savings and improved thermal comfort and health outcomes to their residents. Voluntary approaches on their own will not be as effective at improving energy efficiency in low income households. Combining a standard with incentives for landlords would be a useful approach.

The Brotherhood advocates the introduction of a standard that is already met by the majority of rental properties, making implementation straightforward. Where properties fail to meet the standard, many could be upgraded relatively cheaply with measures such as ceiling insulation, LED lighting and efficient shower heads.

For further detail on minimum standards, see the Brotherhood's 2016 submission to the review of the *Victorian Residential Tenancies Act*.²

² See

<http://library.bsl.org.au/jspui/bitstream/1/9264/1/Joint_subm_Energy_efficiency_rental_standards_2016.pdf>

3 The Energy Efficiency of Rental Properties Bill

The Brotherhood strongly supports the Energy Efficiency of Rental Properties Bill, which represents a useful step towards improving the energy efficiency and thermal comfort of rental properties. For many renters, it would lower energy bills and improve health outcomes.

However, we believe that the Bill should be refined to improve its effectiveness, efficiency and safety provisions, as outlined below.

Create a schedule of improvements

- 1. We recommend that energy efficiency upgrades be limited to those listed on a schedule of accepted improvements, set by experts.**

As the Bill is currently drafted, it appears to allow landlords to claim tax offsets for any appliance or home improvement that ‘increases the dwelling’s energy efficiency’, with no mechanism to assess efficiency changes.

The Brotherhood is concerned that defining improvements in such a way may have unintended consequences, including:

- allowing landlords to claim for measures that do not meaningfully increase energy efficiency
- leaving the scheme open to rorts, such as upgrades with artificially inflated prices
- precluding the installation of legitimate upgrades such as hot water systems (see below).

Creating a list of acceptable appliance and home improvement types would reduce these problems. The list of upgrades should be determined by an expert panel and include:

- upgrade types (e.g. ‘reverse-cycle air conditioner with a >4 star E3 rating’). Consideration could also be given to linking the allowable upgrades to state-based white certificate schemes such as VEET or REES where they exist. In the case of VEET, considerable effort has gone into quantifying the benefits of different upgrades (including specific appliances)
- energy efficiency requirements for specific appliance types, where appropriate.

Ensure high-efficiency hot water systems, gas heaters and lighting can be claimed

- 2. We recommend that property owners be allowed to claim for high-efficiency hot water systems and gas heaters.**

It is not clear whether the Bill includes hot water systems and gas heaters in its definition of energy efficiency upgrades.

The Bill specifies that an appliance must have been ‘awarded at least 3 stars under the Equipment Energy Efficiency (E3) program’ in order to be considered an efficiency upgrade. However, some

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kinds of appliances, such as hot water systems and gas appliances, do not receive E3 ratings and would presumably therefore be ineligible.³

These appliances can save households significant amounts of energy and, in our view, should be included.

We suggest that the schedule of approved upgrades includes, but is not limited to:

- hot water systems, including heat pumps, high-efficiency gas and solar water heaters
- high-efficiency gas space heaters and furnaces
- efficient lighting.

Enhance compliance requirements

3. We recommend that the Bill's compliance requirements be strengthened with guidance from an expert panel.

In its current form, the Bill appears to:

- place minimal compliance requirements only upon certain upgrades
- allow other upgrades to be performed without being subject to any safety measures or other compliance requirements.

While the Bill's definition of energy efficiency measures includes any improvement or appliance that increases energy efficiency, it only places conditions upon windows, insulation, appliances and solar panels. Consequently, other efficiency measures would presumably not be subject to compliance requirements. For example, there is no requirement that electrical work be undertaken by a registered electrician.

The compliance requirements should not be overly burdensome. However, they should require work to be undertaken by accredited tradespeople (where relevant) in line with appropriate industry practices.

The Brotherhood considers that the Bill's existing compliance requirements should be expanded in the interests of energy efficiency, quality and safety – with guidance from an expert panel.

Do not restrict upgrades in the first year

4. We recommend removing the Bill's restriction on installing appliances in 2018–19.

The Bill prohibits landlords claiming for the installation of appliances in the first year of its proposed implementation (2018–19). The logic for this clause – that building upgrades should ideally be performed before appliances are installed – is sound, but we are concerned that it will add complexity to the scheme and limit uptake.

We are also not convinced it will meet its aims because, beyond 2018–19, there is nothing to prevent landlords from installing appliances without upgrading buildings first.

³ See <<http://www.energystar.gov.au/suppliers/registration/regulated-products>>

The Brotherhood suggests simplifying the scheme by removing the restriction on installing appliances.

Consider alternatives to the \$300 weekly rent cap

5. **The Brotherhood strongly supports targeting the incentive to the lower end of the rental market—as the Bill does**
6. **The Brotherhood recommends considering ways of targeting low-income renters other than the current \$300 per week rent cap.**

The Bill's attempt to target low-income renters must balance simplicity with its objective of reaching the right people. The current version of the Bill targets properties rented at or below \$300 per week, which has the advantage of being administratively simple. However, it is likely to exclude many households, including:

- many people living in cities, especially Sydney and Melbourne, where rents are high⁴
- many people living in the ACT and NT, where weekly median private rents are \$419 and \$500 respectively (ABS 2017)
- many families and people living in share-houses, because larger dwellings are generally more expensive to rent.

The Brotherhood suggests consideration of alternative ways of targeting the scheme, such as:

- a maximum dollar figure for each state/territory, perhaps based on 75% of the median private rental price for that state .
- a maximum dollar figure plus an extra allowance for high-cost areas, such as capital cities and the NT
- consideration could also be given to a maximum dollar figure per bedroom (rather than per dwelling).

4 References

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⁴ Median rent for Metropolitan Melbourne is \$410 per week as of June 2018 (DHHS 2018). Median private rent in Greater Sydney was \$504 per week as of 2015-16 (ABS 2017).

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