

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

Submission to the Senate Standing Committee on Environment and Communications

3 October 2018



About ACOSS

The [Australian Council of Social Service \(ACOSS\)](http://www.acoss.org.au) is a national advocate for action to reduce poverty and inequality and the peak body for the community services sector in Australia. Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

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

Summary

ACOSS applauds Senator Storer for attempting to address the issue facing thousands of people on low-incomes who are renting energy inefficient homes that contribute to unaffordable energy bills, poor health and wellbeing, and high costs to the energy grid. Low-income households pay disproportionately more of their income on energy, many go without heating and cooling, or ration food and other basic essentials to afford their energy bills. Sadly thousands of people on low-income live in inefficient rental properties where they have no choice or control to improve the efficiency of the home to reduce their energy bills and improve the thermal comfort of the home. Under current arrangements, landlords have little incentive to invest in energy efficiency adaptations.

While ACOSS supports the intent of the Bill, there is a tension between the very tight targeting of the proposal (which excludes the majority of rental homes), its potential cost to public revenue (noting other housing affordability policy priorities, including improving the inadequacy and securing the future of the National Rental Affordability Scheme (NRAS) and boosting the Rental Allowance for low income tenants), and potential for the incentive proposed to increase rent. ACOSS would have to be confident a new tax break would deliver new effective investment that would not otherwise occur and not lead to rent increases in order to support the measure proposed.

ACOSS believes that mandatory energy efficiency standards with landlords able to access existing tax deductions to meet associated costs, is the best pathway to improve energy efficiency of rental properties. ACOSS acknowledges mandating standards can only be achieved through state legislation, limiting the role of the Federal parliament and Government. While a voluntary scheme supported by Federal tax system could provide a temporary interim measure, ACOSS would need to see the problems and risks outlined in this submission addressed and a plan for State and Territory reforms before we could support the Bill.

As a priority, we recommend that Federal Government put mandatory energy efficiency standards for rental properties on the agenda at the next COAG meeting in December 2018.

Discussion

Energy Efficiency is crucial for low-income households

Low-income renters struggle with energy affordability

Energy prices have skyrocketed, increasing by 76% in real terms¹ in a decade while minimum wage, pensions and allowances have flat-lined.

People on low income are bearing the brunt, because they pay disproportionately more of their income on energy. On average low-income households (lowest 20% of the income spread) spend 6.4% of their income on energy, with the top 25% spending more than 8.8%, compared to high income households paying an average of 1.5%.² Those households dependent on income support payments such as Newstart and related allowance are hit hardest by high prices, with one in four of these households spending more than 9.7% of their incomes on energy.³

We know people in low incomes are more likely to be disconnected from their electricity, end up on hardship programs and be conserving energy to the detriment of their health and well-being. People are skipping meals, medicine, and not heating or cooling their home in order to afford their energy bills.

We also know that people on low incomes are more likely to live in energy inefficient homes and have less efficient appliances which means they use more energy.

Research finds that rental properties are more likely to be energy inefficient. Ninety five percent of houses in Australia were built before energy efficiency standards were in place. For example, in the Australian Capital Territory (ACT), 43% of rental properties are 0 star rated.⁴ A report by QCOSS *Choice and Control*,⁵ found that while approximately 80% of Queensland owner occupiers have insulation, only around 40% of renters do. Similarly, approximately 40% of owner occupiers have solar power, while only 4% of renters do.

Research also finds that 39% of households on the lowest 20% of incomes are renters, with 65% of households whose main income source is allowances like Newstart are renters.⁶

Low-income renters have less choice and control

Renters are in a particularly difficult position because they have limited ability to make changes to the properties they live in and landlords have little incentive to invest in upgrades which do not benefit them directly (see Box 1 for examples of renters attempts to improve energy efficiency). Even when energy efficiency is at no cost to the landlord, for example the national free insulation scheme, renters report low take-up.

Box 1: Experience of renters seeking energy efficiency improvements

¹ Forthcoming, ACOSS and BSL (2018) Energy Stressed in Australia.

² *ibid*

³ *ibid*

⁴ <https://www.allhomes.com.au/news/canberra-renters-in-worst-properties-in-the-market-according-to-new-report-20180413-h0ypdm/>

⁵ Queensland Council of Social Service (QCOSS) 2017, “*Choice and Control? The experiences of renters in the energy market*”, <https://www.qcoss.org.au/choice-and-control-experiences-renters-energy-market>

⁶ Forthcoming, ACOSS and BSL (2018) Energy Stressed in Australia.

'I attempted to have insulation installed under the government's free scheme. The owner told us to get quotes, then said he would have the job done by someone who was doing all his properties. It never happened.'

'I asked to have solar panels installed, made all the enquiries re: cost etc., but the request was rejected.'

'My current landlord denied me the right to install flyscreens, despite it being a capital improvement which would improve the value of the property... They were... uninterested in tenant comfort and energy savings.'

'I am charged quite a lot of money for energy, around \$420 per bill, just for two tenants. {The retailer} said there might also be something wrong with the thermostat as the hot water system in the garage takes ages to heat up, which results in hundreds of extra dollars per bill. The landlord will not get this fixed.'

'I requested that they [the lessor] remove the gas from our property (as the bill is around \$100/Quarter and we use about \$4 of gas) & put an electric oven in so we only had one bill (the property needed a new oven). They declined.'

'[I] cancelled gas account as could not pay both electricity and gas bill, so chose just to have electricity to the property – no hot water, no gas stove – that's the reality...'

Source: QCOSS (2017) Choice and Control? The experience of renters in the energy market.⁷

Improving energy efficiency of rental properties has multiple benefits

Improving the energy performance standard of rental properties can provide multiple benefits.

- **Reducing energy Bills**

Research by Environment Victoria⁸ found that raising an existing home from a 2-star to 5-star can result in a 54% reduction in energy or up to \$600 in savings a year.

St George Community Housing is retrofitting 1400 community housing developments across Sydney, which is expected to cut energy bills across the SGCH properties by about \$800,000 a year and provide an average of \$570 dollars each year on each tenant's energy bills. The project has included the installation of rooftop solar PV, ceiling insulation, LED lighting, and the replacement of electric water heaters with heat pump systems.

This is delivering significant yearly savings for low-income households.

- **Improved health and wellbeing**

Medical journal *The Lancet* reported that each year more than 6% of deaths in Australia are due to the effects of cold living environments while a further 1% are heat related.⁹ It is predicted heat

⁷ 'Choice and Control? The experiences of renters in the energy market', QCOSS, June, 2017, <https://www.qcoss.org.au/sites/default/files/QCOSS%20Choice%20and%20Control%20-%20the%20experience%20of%20renters%20in%20the%20energy%20market.pdf>

⁸ 'One Million Homes Roundtable Summary Report', Environment Victoria, May, 2013, http://environmentvictoria.org.au/wp-content/uploads/2016/06/OneMillionHomes_RoundtableSummaryReport.pdf

⁹ Mortality risk attributable to high and low ambient temperature: a multicountry observational study, [www.thelancet.com/journals/lancet/article/PIIS0140-6736\(14\)62114-0/fulltext](http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(14)62114-0/fulltext). By way of comparison cold related deaths in Sweden were 3.9% of deaths.

related deaths will increase as global warming increases. A recent study found that the mortality rate from the 2009 Melbourne heatwave would have been reduced by 90% if all houses were upgraded to a minimum 5.4 star energy rating.¹⁰

Investment in energy efficiency measures would increase resilience to climate change, improve health and reduce mortality rates, resulting in individual, economic and social benefits including lower spending on public health.¹¹

- **Reduced costs to and improved resilience of the electricity system**

Improved energy efficiency can lower peak demand on the energy grid at low to no cost, resulting in reduced costs of avoided new generation, improved system reliability and fewer blackouts.¹²

- **Reduced emissions**

Australian homes account for around 24 per cent of national electricity demand (with households contributing disproportionately to electricity demand during peak periods) and over 11 per cent of Australia's greenhouse gas emissions.¹³ Improved energy efficiency leads to lower energy use and reduction in emissions.

Problems and risks with the proposed Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill 2018

Restrictiveness of eligibility criteria

The restriction of eligibility to rental properties of \$300 per week would exclude many low-income renters in cities and with larger families. The criteria creates significant administrative complexity and costs, for little take-up.

ACOSS has sympathy with the desire for the voluntary scheme to target low-income households, however should the Bill receive parliamentary support an alternative formula should be developed to ensure a greater number of rental properties with low-income tenants are eligible. The formula would need to take into account the median price of rental properties in all capital cities and regional areas, and bedroom size of rental property.

Energy efficiency criteria must keep pace with regulatory and technological changes

The Bill prescribes that 3-star energy efficient devices would be eligible. However, many appliances have different star rating systems, and some appliances are not covered by a star rating such as heat pumps. Even under a 5 star rating system, 3 stars is inadequate. Should the Bill receive parliamentary support ACOSS recommends that the energy efficiency criteria is included in a schedule that is developed by energy efficiency experts and can be easily updated as new rating systems are adopted.

Addressing the risks of rent inflation

¹⁰ Alam, Morshed & Sanjayan, Jay & Zou, Patrick & Stewart, Mark & Wilson, John. (2016). Modelling the Correlation between Building Energy Ratings and Heat-related Mortality and Morbidity. Sustainable Cities and Society. 22. 10.1016/j.scs.2016.01.006.

¹¹ ACIL Allen Consulting *Multiple Impacts of Household Energy Efficiency: An Assessment Framework 2017*, report to Energy Consumers Australia, available at <http://energyconsumersaustralia.com.au/wp-content/uploads/Multiple-Impacts-of-Energy-Efficiency-An-Assessment-Framework.pdf>

¹² *Built to Perform*, August 2018, <https://www.asbec.asn.au/research-items>

¹³ Department of the Environment and Energy, *Australian National Greenhouse Accounts: National Inventory by Economic Sector*, February 2018, page 2

There is a risk that landlords could increase rents because they are not fully compensated for the costs of the energy efficiency measure and/or they consider the investment has increased the value of the property and its attractiveness to prospective renters. Alternatively, if energy efficiency standards were mandatory, all rental properties would be required to improve and would be competing against other improved properties, so there would be less ability to increase rents in a level playing field. The potential to increase rents under the voluntary scheme is one of the most challenging elements and hardest to mitigate against, which is why mandatory standards are preferable and should be a focus of coordinated Federal and State Government effort.

Federal and State Government must commit to improving energy efficiency for Low-income households

The tabling and inquiry of the *Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill 2018*, has brought to the fore the challenges facing low-income renters and the urgent need for policy reform. ACOSS hopes the discussion around this Bill will result in recommendations on a raft of measures to improve the energy efficiency for existing homes, in particular for low-income households.

We recommend that the COAG Energy Council commit to a national plan to address energy efficiency for existing homes which includes the following measures:

- Mandatory minimum energy efficiency standards for rental properties.
- Mandatory disclosure of the energy efficiency of a dwelling at the point of lease or sale.
- Minimum energy efficiency standards for minor renovations.
- Financial assistance for low income households to improve the thermal performance of their homes.
- Continued ratcheting up of appliance energy efficiency standards, with stages and an identified long-term target that provides certainty.
- 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).
- Programs to assist low income households to access solar PV.
- Behaviour change programs to help households use their energy wisely, without foregoing comfort and health.

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