Submission

To: **Senate Standing Committees on Environment & Communications**

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

Date: **28th September 2018**

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

To: Committee Secretary
Senate Standing Committees on Environment and Communications

Regarding: Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill 2018, which can be summarised by the following extract from the Bill.

"381-1 What this Division is about

You may be entitled to a tax offset if you:

(a) rent out a dwelling for $300 per week or less; and

(b) an energy efficiency measure is taken in relation to the dwelling."

Summary Position regarding the Bill

Uniting Communities supports the intent and direction of the Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill 2018 and would like to see it supported by the Parliament.

About Uniting Communities

Uniting Communities works across South Australia through more than 100 community service programs, including: aged care, disability, youth services, homelessness intervention, foster care and family counselling. Our team of staff and volunteers support and engage with more than 20,000 South Australians each year. We strive to build strong and supportive communities, and help people realize their potential and live the best life they can.

We have a long-standing role as a provider of financial counselling services and have observed over recent years that energy affordability is the number one presenting issue across our financial counselling services. Consequently we have actively engaged in advocacy with energy businesses and regulators to seek to make energy more affordable.

This submission builds on the experience of thousands of financial counselling interviews, provision of a diversity of other support services for lower income and disadvantaged households along with a decade and a half of active engagement in energy policy and regulation advocacy.

The Problem

The fundamental problem is that energy prices have been growing at a significantly greater rate than incomes for most Australians over the past decade, at least, as summarised in figure 1 below. Rapidly rising prices have been experienced most savagely by people who are private sector renters, with limited capacity to reduce energy use and having fixed or casual incomes.

Index of electricity Prices, CPI and wages for Australia, March 2007 = 100

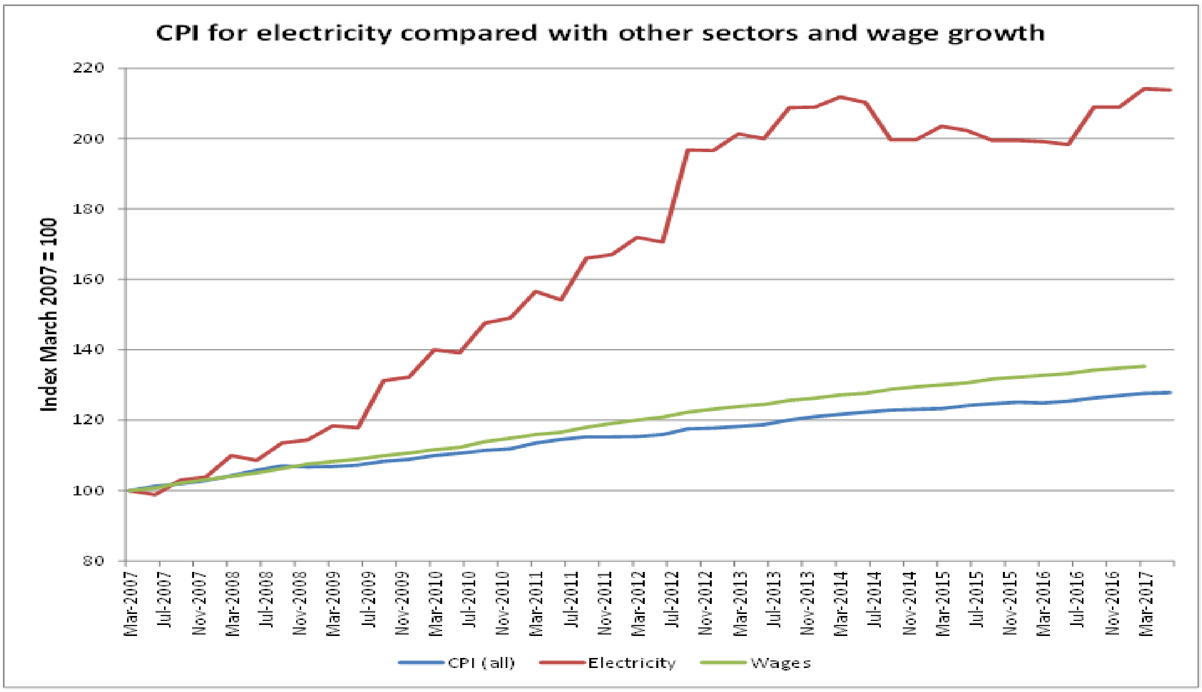

Figure 1 Source: ACCC report re energy affordability

The poorest people in South Australia are generally renters in the private sector. One of the significant financial pressures that these households experience is rising energy costs, with minimal capacity to respond.

Percentage of renters and homeowners facing at least one financial stress, 2015-16

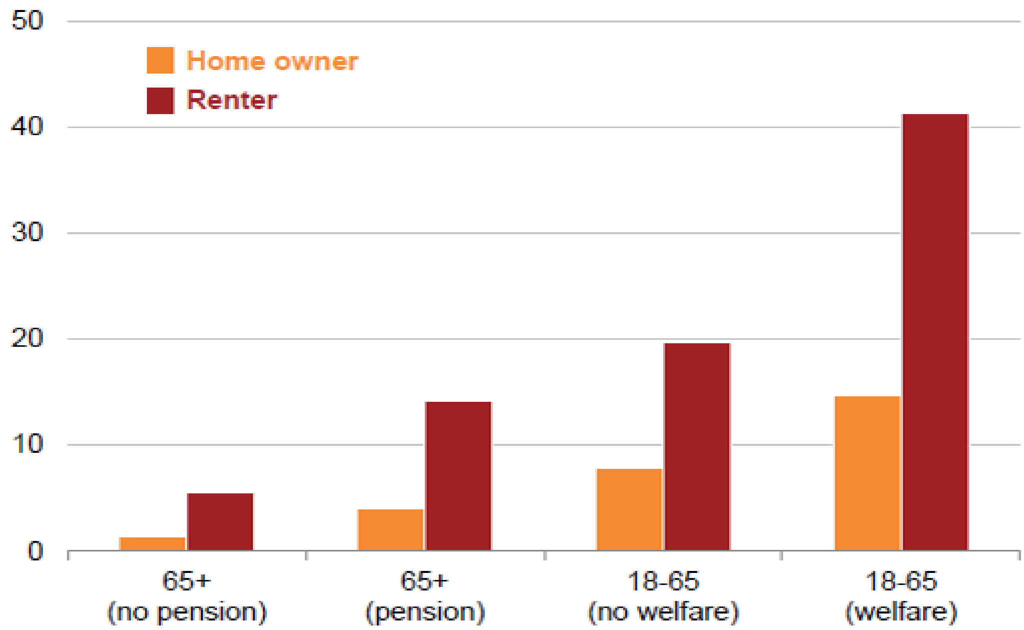

Figure 2, Source: Grattan Institute, Housing affordability: re-imagining the Australian dream

Figure 2 shows that renters, irrespective of whether or not they receive a pension or welfare support, experience financial stress at much greater levels than homeowners.

The lowest income quintile of households already pays more than three times more of their disposable income on electricity and gas compared to the highest income quintile. The bottom 40% of households by income are four times more likely to not pay their utility bills on time compared to the richest 20%,[1] illustrated in figure 3 below.

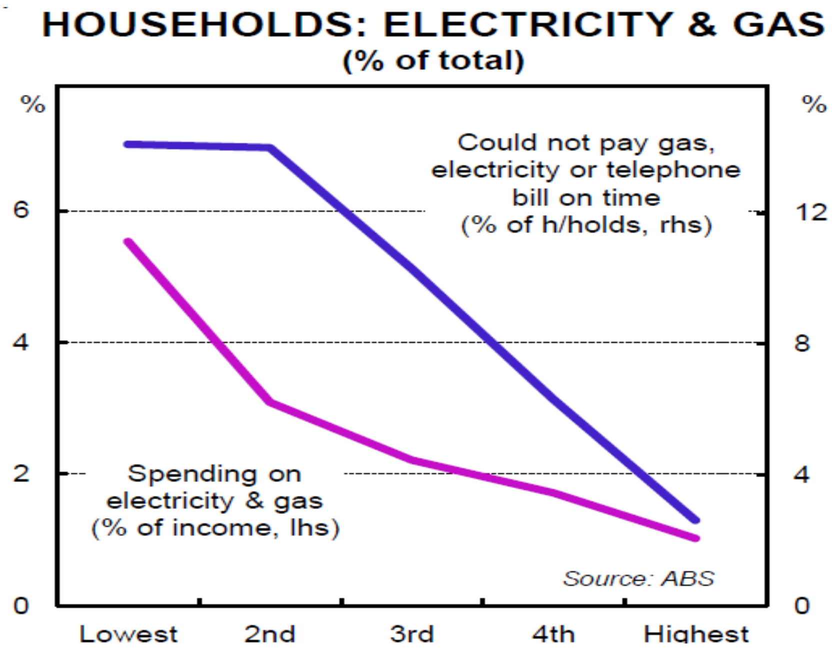

Figure 3, Source ABS, Financial Stress

The proportion of Australians in private rental is higher than ever before, with more than one quarter (26%) of the population renting in 2013–14, compared with just 18% in 1994–95. Over the same period, renters have had a 62% (or $144) increase in average weekly housing costs. This is substantially higher than for owners with a mortgage (42%) or public housing renters (45%) over this time[2].

For each of the last five years, more than 10,000 South Australian households have been disconnected from essential electricity supply, due to inability to pay.[3] This highlights the extent to which our poorest households are vulnerable to further rises in power prices.

Generally these households are also living in properties which have not taken advantage of the range of measures deployed by homeowners to reduce energy consumption through initiatives such as buying energy efficient household appliances, insulation and installing solar photovoltaic cells.

In particular, Uniting Communities is deeply concerned about the large number of low-income households that are in the private rental market and already experiencing housing

[1] CBA Global Market Research, Economics: Issues 9th October 2017 pg2
[2] Australian Institute of Health and Welfare, Australia's welfare 2017, 19 Oct 2017
[3] AER Retail Market Performance Report https://www.aer.gov.au/retail-markets/retail-statistics/south-australia-residential-customer-disconnections.

stress (paying more than 30% of their income on rent) or worse still, housing crisis (> 50% of income on housing). 10.2% of all renters in South Australia are experiencing housing stress[4]. These figures are not surprising given that 31.2% of private renters in South Australia (57,912 households) are on a low income (below $34,000pa)[5]. These households are particularly vulnerable to rising power costs given their diminishing disposable income after having met their housing costs.

One sensible response for households to reduce energy costs is to install solar PV and to improve the energy efficiency of their home.

An effective strategy to assist low income renters to reduce their energy bills is to assist them to gain access to the benefits of solar energy. South Australia has the highest level of solar penetration, 32.8% of households as of June 2017, against the national rate of 23.2%.[6] However, less than 4% of renters benefit from having access to solar PV to reduce their energy bills, as shown in figure 4 below.

<u>Proportion Of Households With Solar Panels, by tenure type, 2012 to 2015-16</u>

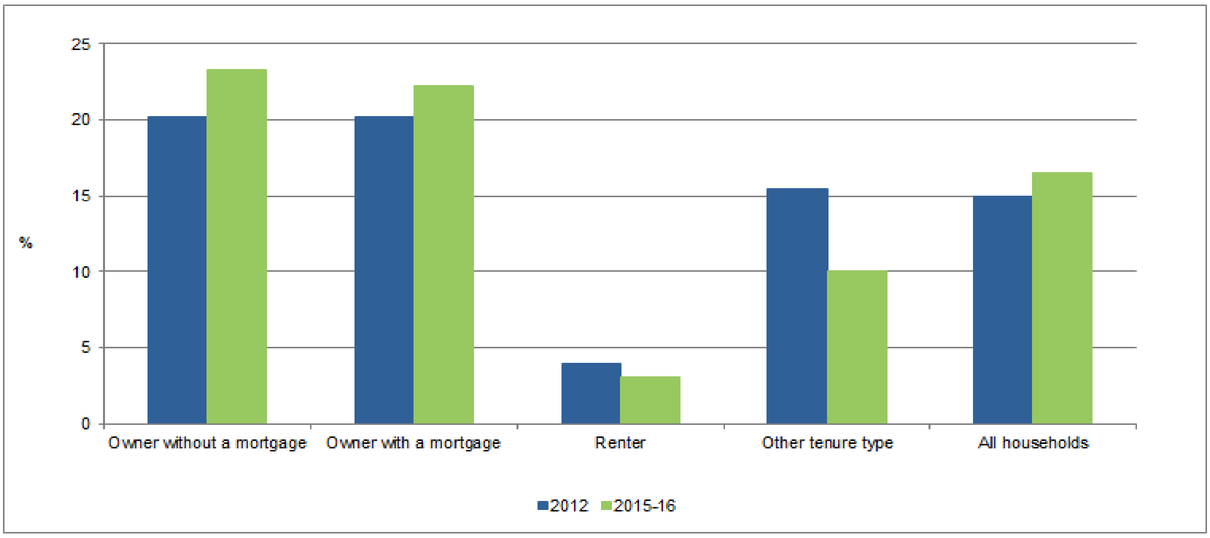

Figure 4. Source. ABS Survey of Income and Housing, 2015–16, ABS Household Energy Consumption Survey, 2012

We also recognise that a range of other energy efficiency measures are possible and desirable, but all fall into the “split incentive” dilemma.

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[4] CBA Global Market Research, Economics: Issues 9th October 2017 pg2

[5] http://www.abs.gov.au/websitedbs/D3310114.nsf/Home/2016%20search%20by%20geography

[6] https://www.pv-magazine.com/2017/07/06/one-quarter-of-australian-homes-now-have-solar/ June 2017

A “split incentive” means that there is no opportunity for energy cost reducing responses to be undertaken by lower income renters: while the renter derives the ongoing benefit of lower bills from PV and other energy efficiency measures, the landlord bears the upfront capital costs.

While the split incentive dilemma is widely understood, there has been very little tangible action to address the problem. We understand that all investment the landlord makes to a property can be depreciated through the tax system, normally, over about 10 years for energy efficiency investment. In talking to landlords however, we understand that they regard this time lag for recovery of investment to be a disincentive to invest in energy efficiency, or other improvement measures.

Landlords are looking for some incentive to invest, for example; a subsidy - as Uniting Communities has proposed to the SA Government to encourage investment in rooftop PV for renters. Accelerated depreciation and more generous tax arrangements are other options to incentivise beneficial investment. This Bill focuses on improving taxation arrangements as an incentive for landlords to invest to the benefit of tenants and to add value to their property.

The Bill

In his introduction of the Bill, Sen Storer said:

“The Bill is not a silver bullet that would make all of those buildings energy efficient, but instead aims to be a reasonably narrow and balanced policy that moves the tax goalposts in a fairer and more sustainable direction.
In short, the Bill seeks to:
a) Reduce energy bills, improve comfort and improve health outcomes of low income people who rent; and
b) Demonstrate the benefits of energy efficiency to lay the groundwork for more ambitious policies to be developed.
The Bill is timely, aims to help those most vulnerable to energy poverty (especially the elderly), and strengthens current energy efficiency schemes. The Bill is based on reliable evidence and broad stakeholder support, and it is my hope that the Senate will join together in supporting broader discussion on the merits of energy efficiency.”

Uniting Communities supports these comments, recognising that the Bill is not “the solution” but contributes to improved energy efficiency and hence energy bill reduction for renters. We support the objectives of the Bill, which is to reduce energy bills and improve comfort and health outcomes, particularly for low income renters.

We also observe that improving energy efficiency of housing has been undervalued as a policy objective in Australia.

Having presented a case study that Uniting Communities presented to the ACCC enquiry, Sen Storer followed up with these comments to the Parliament:

“Existing concessions, including emergency energy payments and energy supplements, are well intentioned and positive. Ultimately, however, supplements are band-aid solutions to our energy affordability problem.
Current approaches to fixing the energy performance of our building stock focus on improving the standards of new buildings. Whilst commendable, we should not forget that only 2% of Australia's building stock is replaced each year, and many low income people rent old buildings. So, retrofitting is still critically important.
However, ensuring that retrofitting existing building stock has positive results can be a difficult exercise, especially for renters. Holistic performance assessment is important in order to take into account complexity in built environment, climate context, usage and comfort.

Fortunately, there are many successful examples that we could emulate. We already have a few federal, state and territory energy efficiency schemes, which this policy would complement. Most of those policies directly target occupiers of those properties, whereas the policy lever we are pulling in the Bill is to target landlords.
There are also other examples of successful energy efficiency policies from outside Australia. For example, the US 'weatherization assistance programmes' have been highly positive, retrofitting low income properties with energy efficiency upgrades; the UK, through the 'Landlord's Energy Saving Allowance' (LESA), and New Zealand, through the 'Warm-Up New Zealand: Heat Smart programme'.
The economic case for energy efficiency is also clear. Cost-benefit analysis of the New Zealand programme, for example, found that net benefits of their energy efficiency measures were evaluated to be *4.8 times resource costs*.
Broader hopes"

Again, Uniting Communities supports these observations, in particular the references to energy efficiency support programs that are offered in various overseas jurisdictions. These examples serve to highlight the practicality as well as the desirability of the legislation proposed by this Bill, and effectiveness in other countries.

Improvements to the Bill

Maximum leasing requirement

The Bill proposes a $300 per week maximum leasing requirement as a ceiling on eligibility for a landlord to gain the benefits of the Bill. We suggest that this ceiling is too low and that a single figure maximum fails to recognise the diversity of rental charges across Australia. We suggest that rather than the single price, $300 per week maximum leasing requirement being enshrined in the legislation, that a ceiling is set against the distribution of rental prices for capital city and rest of state for each Australian jurisdiction. While we have not undertaken the calculations, we suggest a benchmark of something like the 40th percentile in the relevant distributions may will be a workable benchmark. Alternatively an eligibility ceiling could be set at a property value, as assessed by jurisdictional Valuer Generals.

Appliance replacement

For appliance replacement, we suggest that a three star rating is generally unsuitable as a rating for appliances. Our proposal is that a short schedule of appliances be developed, by the Commonwealth Department, with relevant contemporary energy efficiency star ratings applied as benchmarks for the various appliance categories.

Implementation of the Bill

We suggest that some targeted information, focusing on landlords and landlord associations would be an important part of implementing the scheme.

Interplay with other processes

Uniting Communities is acutely aware that this Bill has been proposed at a time when a number of other processes are in train, seeking to reduce energy costs for households and business. The ACCC recommendations that are currently being considered by the Australian Government constitute a substantial opportunity for reform. While there is also a range of rule changes being considered by the AEMC, State and Territory Governments are also considering jurisdictional level measures to reduce energy costs and a range of significant network revenue processes are under consideration by the AER. The Commonwealth

Government is also been in direct contact with retailers to encourage them to play a role in reducing energy costs.

We believe that this Bill remains relevant amongst the suite of other energy cost reduction considerations that are in play and further, that this Bill is consistent with the broad direction of Australian energy policy, and importantly the direction of the ACCC recommendations, which we consider to be very important.

Support for PIAC submission

We are aware of the content of the submission that has been prepared by the Sydney based Public Interest Advocacy Centre (PIAC) and we endorse the comments that they have made in their submission.

Uniting Communities appreciates the Committee's consideration of our views and we look forward to the Parliament endorsing this Bill.