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Committee Secretary
Senate Standing Committees 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 Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to comment on Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties) Bill 2018 (**The Bill**).

We generally support the Bill because the benefits of modifications that improve the energy efficiency of rental housing greatly exceed the costs. We agree that the tax code should not present a barrier to more energy efficiency improvements to the nation's housing stock by perversely incentivising landlords to retain inefficient rental properties. The money spent on energy efficiency improvements will deliver many benefits. For example, changes to improve energy efficiency in rental housing:

- are beneficial to the occupant's health and will reduce strain on Australia's health system;
- will ease pressure on households struggling to make ends meet by lowering energy use and the associated costs;
- will reduce demand in the electricity system which will lead to lower prices for all and less carbon emissions; and
- would create employment opportunities for additional workers implementing more improvements

A trial of the incentives described in the Bill, involving an independent review, is a sensible process for refining tax incentives for energy efficiency modifications to achieve the most benefits for Australians over time. However, the current drafting of the legislation before the Committee includes an unnecessary $300 weekly rent or below cap which will limit the incentives to landlords of the large number of low-income households in metro areas that are most likely to benefit from a reduction in energy costs. This limitation should be removed to incentivise landlords of these properties to act and gather additional insights for the independent review.

Our colleagues at the Public Interest Advocacy Centre in New South Wales are also providing comment on the Bill. We endorse their recommendation to undertake the review after two years not three, ensuring the incentive encourages meaningful energy efficiency improvements (including products that may not have a star rating), consideration of a higher offset amount and the need for community education to realise the intended benefits of the Bill.

The suggested changes could also compliment the implementation of regulations around minimum standards for Victorian rental properties by reducing the cost of compliance. This would be especially helpful for landlords who are limited in their ability to access finance for improvements.

It is worth noting that split incentives for energy efficiency modifications between landlords and tenants will still exist under the changes made by the Bill and that implementing minimum energy efficiency standards for rental housing is the most effective mechanism for realising an energy efficient housing stock and the associated benefits listed above. Currently tenants are unable to implement many of the most effective energy efficiency improvements to homes such as ceiling insulation without their landlords approval.

Our comments are detailed more fully below.

About Consumer Action

Consumer Action is an independent, not-for profit consumer organisation with deep expertise in consumer and consumer credit laws, policy and direct knowledge of people's experience of modern markets. We work for a just marketplace, where people have power and business plays fair. We make life easier for people experiencing vulnerability and disadvantage in Australia, through financial counselling, legal advice, legal representation, policy work and campaigns. Based in Melbourne, our direct services assist Victorians and our advocacy supports a just market place for all Australians.

Improving energy efficiency in rental properties should be encouraged

Victorians are struggling to keep up with rising energy costs

Consumer Action operates the National Debt Helpline in Victoria. We draw on the experiences of callers accessing free financial counselling over the phone to inform our policy work. Energy debt is the second most common debt issue raised on these calls (after credit card debt) and energy affordability is a major focus for energy policy and regulatory reform. Analysis of the reasons people contact the National Debt Helpline reveals that one in five callers have an energy debt when calling for assistance. The amounts of energy debt reported by callers have escalated as electricity prices have increased. Often the greatest debts reported are from sole parents with large families in old energy inefficient private rental homes like those in the case study below.

Case Study: $15,000 energy debt

National Debt Helpline received a call from a sole father who was unable to work as he was the carer to one of his children who had a disability. They were living in an old home in a Victorian region where temperatures often drop below freezing in winter and were under threat of disconnection due to a $15,000 gas and electricity debt.

The private rental property they lived in was more than 100 years old and unbearably cold. One of the gas heaters in a room where the family had all moved to stay warm had to be on around the clock. An energy audit provided by the household's energy provider had delivered no improvement. This is likely because there was little that could be done for the family without their landlord's assistance or approval and their landlord had no interest in making improvements.

The benefits of energy efficiency improvements exceed the cost

Modifications to improve the energy efficiency of housing are of great value. Unfortunately for those renting a home, there is a split incentive where tenants do not have the finances, ability or security of tenure to invest in energy efficiency improvements and landlords see little benefit for themselves in investing in these improvements for their tenants. The Bill would help change this dynamic.

Consumer Action has worked collectively with the One Million Homes Alliance for many years to advocate for the benefits of energy efficiency improvements for rental homes. As part of the group's work Environment Victoria released *Bringing Rental Homes Up To Scratch* in 2017 which found that:

- heating and cooling make up 40 per cent of Victorian household's energy costs but much of that energy is wasted because our housing stock is on average only 2 stars compared to the 6-star minimum for new homes;
- rented homes make up a quarter of the Victorian housing stock and are even worse than the average for energy efficiency due to the barriers for improvements;
- inefficient homes put health at risk. This is most obvious during extreme weather like heatwaves where the health system is under strain and unsafe temperatures in homes can contribute to deaths;
- more Victorians are renting for longer and families now represent the biggest group of renters;

- cutting waste by improving the uptake of energy efficiency improvements is one of the quickest ways to reduce emissions and reduce strain on energy supply during peak periods.[1]

The bill will compliment state-based energy efficiency initiatives

The work of the One Million Homes Alliance has largely focused on achieving minimum standards for energy efficiency in Victorian rental homes as the regulation of minimum standards is the most effective way for the State government to overcome the split incentive issue and improve the homes of all Victorian renters. The recent passing of the *Residential Tenancies Amendment Act 2018* will enable the Victorian Government to set regulation for minimum standards in rental properties which may include energy efficiency. The Bill would, at a national level, complement the implementation of these minimum standards by removing a barrier for landlords, especially those who may struggle to achieve compliance due to an inability to access finance to make improvements.

The Bill is also likely to complement changes to the Victorian Energy Retail Code, designed by the Essential Services Commission (**ESC**), which come into effect in 2019. This will require Victorian energy retailers to offer practical assistance to households unable to afford their ongoing energy usage costs. Under these changes in the ESC's Payment Difficulty Framework, retailers will have to keep records showing that assistance was provided that was capable of making a meaningful reduction in a customer's energy use.[2] There is scope for a retailer to demonstrate that a meaningful reduction was not possible and still be compliant. However, where complementary legislation can reduce barriers to energy efficiency, it will become less likely that retailers and their customers will have little means to alleviate unmanageable energy debt because energy efficiency improvements can be triggered to achieve a meaningful reduction in use.

Remove the $300 per week rent limit from The Bill

The explanatory memorandum accompanying the Bill states that the dwelling must be rented at $300 a week or less to be eligible so that the changes primarily benefit people who have low economic resources. The memorandum also accurately acknowledges that this is a rough and unsophisticated mechanism for trial purposes. Many Australian households with the least resources may have less access to lower cost rents due to lack of availability of properties and low bargaining power.

KPMG analysis of the households most impacted by energy prices shows that this limitation may in fact exclude the households most impacted by high energy spending. The analysis of ABS Household Expenditure Survey showed that large low-income households in metropolitan areas were most exposed to energy poverty in Australia.[3] Melbourne had the greatest proportion of these households and statistics show that moving monthly median rents for three-bedroom or four-bedroom homes in Melbourne by far exceed the $300 amount at $400 and $450 respectively.[4]

It is also likely the case that the low vacancy rate of tenancies in Melbourne[5] means these most exposed households are often not in a position to choose the lowest cost rentals in Melbourne. This means the logic in the explanatory memorandum that those with less resources will access rental housing 30 per cent below the median is unlikely to reflect reality given low-income household's limited bargaining power when competing against others with more resources and flexibility to choose a tenancy. For this reason, the $300 cap is unlikely to achieve its objective and should be removed.

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[1] Environment Victoria, 2017. *Bringing Rental Homes Up To Scratch; Efficiency Standards to Cut Energy Bills, Reduce Pollution And Create Jobs.* Available at: http://environmentvictoria.org.au/wp-content/uploads/2017/09/Bringing-rental-homes-up-to-scratch-Sept-2017-online.pdf
[2] Essential Services Commission, 2017. *Energy Compliance and Enforcement Policy: Guidance note- Payment difficulty and disconnection Version 1.0.* Available at: https://www.esc.vic.gov.au/sites/default/files/documents/payment-difficulty-framework-energy-complianc-and-enforcement-guidance-note-final-decision-20171222.pdf
[3] KPMG, 2017. *The Rise of Energy Poverty in Australia; Census Insights Series.* Available at: https://assets.kpmg.com/content/dam/kpmg/au/pdf/2017/census-insights-energy-poverty-australia.pdf
[4] Data.Vic, 2018. *Rental Report- Quarterly: Quarterly Median Rents by LGA.* Available at: https://www.data.vic.gov.au/data/dataset/rental-report-quarterly-quarterly-median-rents-by-lga
[5] REIV, 2018. *Vacancy Rates.* Retrieved 20 September 2018 from: https://reiv.com.au/property-data/rental-data/vacancy-rates

DOMAIN JUNE 2018 REPORT - MEDIAN RENTAL PRICING IN AUSTRALIAN CAPITAL CITIES[6]		
CITY	**New Median House Rental Price**	**New Median Unit Rental Price**
ADELAIDE	$375	$300
BRISBANE	$400	$370
CANBERRA	$550	$450
DARWIN	$500	$400
HOBART	$410	$360
MELBOURNE	$430	$410
PERTH	$350	$300
SYDNEY	$550	$550

Improvements to the energy efficiency of rental housing stock are value for money and provide flow on benefits as described earlier. It is also worth noting that all tenants in energy inefficient homes are at greater risk of financial difficulty than those who are not because of their inability to control their energy costs while maintaining a healthy living environment. Tax rules should not perversely incentivise landlords to retain inefficient rental properties that increases the financial hardship for the worst-off families.

Please contact Jake Lilley on 03 9670 5088 or at jake@consumeraction.org.au if you have any questions about this submission.

Yours Sincerely,
CONSUMER ACTION LAW CENTRE

Denise Boyd
Director, Policy & Campaigns

[6] Domaingroup, 2018. *Domain's Rental Report: June 2018.* Retrieved 26 September 2018 from: https://www.domain.com.au/group/agent-news/domains-rental-report-june-2018/