green building council australia

Building a sustainable future

The Hon Josh Frydenberg MP
Treasurer
House of Representatives
Parliament House
Canberra ACT 2600

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19 December 2019

Dear Treasurer,

RE: Green Building Council of Australia priorities for the 2020-2021 Federal Budget

Thank you for the opportunity to provide a submission outlining the Green Building Council of Australia (GBCA) priorities for the 2020-21 Budget.

The GBCA represents over 550 organisations with a collective annual turnover of more than $56 billion. Our members include major developers, professional services firms, banks, superannuation funds, product manufacturers, retailers, utilities and suppliers.

We are committed to achieving decarbonisation by mid-century in accordance with Australia's responsibilities under the Paris Agreement. Buildings account for over 50 per cent of Australia's electricity use and almost a quarter of its emissions. By funding the right policies, the built environment can deliver significant, low-cost emission reductions.

In October this year the GBCA and the Property Council of Australia launched a policy toolkit for government entitled *Every Building Counts: A practical plan for emissions reduction in the built environment* (www.everybuildingcounts.com.au). Every Building Counts comprises 75 recommendations covering residential, commercial and public buildings that are ready for implementation by all levels of governments. These policy recommendations were informed by a comprehensive review of global and local policies with a proven record of increasing productivity and reducing emissions in buildings with the best value for governments and industry.

The GBCA's key priorities for the 2020-21 Budget are:

1. Allocate $500 million from the $2 billion Climate Solutions Fund to drive low cost abatement in buildings.

Since 2014, the Emissions Reduction Fund (ERF) has been the Federal Government's flagship program for delivering cost effective emissions abatement. While the ERF has been successful in driving significant emissions reductions in some sectors, structural barriers have prevented uptake in buildings, where many of the lowest cost opportunities exist. These barriers – which include minimum bid sizes,

high transaction costs and the requirement for multi-year contracts – have left significant abatement opportunities on the table.

At the start of 2019 the Federal Government announced the Climate Solutions Fund, which included an allocation of an additional $2 billion for purchasing low cost abatement. The ERF's reverse auction structure is well suited to some sectors of the economy, such as agriculture. However, continuing to rely solely on reverse auctions to allocate these additional funds will leave buildings on the sidelines. There are particular opportunities and barriers in the buildings sector, which means a tailored approach is needed to drive low cost abatement. Given that buildings account for around a quarter of Australia's emissions, the Federal Government should use $500 million of the allocated $2 billion for targeted programs that drive low cost abatement in commercial and residential buildings. The Government should work with peak industry bodies, consumer groups and other experts to design a suite of measures that target key sub-sectors of the built environment that leverage existing programs like Green Star and NABERS and target key sub-sectors of the built environment.

2. Fund the measures included under the Council of Australian Governments (COAG) Energy Council's Trajectory for Low Energy Buildings.

Most new buildings in Australia are built to the minimum energy efficiency requirements in the National Construction Code (NCC). This leads to poor outcomes for consumers, as new energy efficient technology costs have fallen considerably in recent years, while energy prices have risen.

The COAG Energy Council has taken action to improve outcomes for consumers by:

- Agreeing to the Trajectory for Low Energy Buildings, a national plan that sets a trajectory towards zero energy (and carbon) ready new buildings for Australia.
- Agreeing to an addendum to promote the energy efficiency of existing buildings.

The Trajectory for Low Energy Buildings identifies opportunities for the building sector in the context of the National Energy Productivity Plan, a package of measures that aim to improve Australia's energy productivity by 40% between 2015 and 2030.

Given the inclusion of a significant new body of work on existing departmental resources and frameworks, the government should provide additional funding to ensure the timely and effective delivery of these measures.

3. Strengthen the role of CEFC and ARENA in delivering abatement through energy efficiency.

As the energy system decentralises, businesses across the economy are playing a more proactive role in the energy system. However, there is also a steep learning curve for businesses that take a leadership position in energy innovation. Demonstrating and deploying smart energy management technologies in business contexts where they are uncommon or non-existent can have significant risk and cost.

Alongside broader carbon reduction efforts, there is a role for the Federal Government in driving this energy innovation agenda, which will bring down the cost of abatement in the medium and long term. Leadership and innovation in low-carbon buildings should be further catalysed through the support of best-practice products and services, exposing the benefits of energy efficient buildings, and communicating how they can be delivered.

Australia has a very well-developed set of research and innovation entities. An expanded remit and additional funding for ARENA – and on ongoing role for the Clean Energy Finance Corporation – will be crucial to unlock these opportunities over the next decade.

ARENA was originally allocated a budget of $3.2 billion by the *Australian Renewable Energy Agency Act* in 2011. We therefore urge the government to fund ARENA to the same quantum (with adjustments

for inflation) over the next 10 years to support product development, pilots and demonstration projects that drive transformation throughout the building sector.

4. Accelerate the shift to high performance buildings with targeted financial incentives.

Notwithstanding the progress made by market leaders, energy efficiency investment for most stakeholders in the built environment remains a low priority. This is due to barriers such as the perceived difficulty of energy upgrades, high upfront costs and long payback periods. Financial incentives can drive accelerated uptake of energy efficiency and distributed technologies in new and existing buildings, by helping to reduce the gap between energy efficiency outlays and returns, and motivating action by building owners and tenants

The Federal Government should work with state and territory, as well as local governments to deliver financial incentives that encourage the built environment towards better sustainability practice and reduced emissions. Priority should be placed on:

- Modernising the 10 per cent green building withholding tax regime by:
    - expanding the regime to all buildings held for rental purposes (regime is currently limited to offices, hotels and shopping centres)
    - applying the rate to buildings that have been refurbished to achieve the necessary Green Star ratings (regime is currently limited to newly constructed buildings)
    - applying the test on an asset by asset basis (regime currently requires all of the MIT's assets to satisfy the Green Star rating requirements)
- Extending the instant asset write-off scheme to include energy efficiency upgrades of buildings up to $100k.
- Green depreciation, which would see the deferment of taxable income in early years in exchange for bringing forward investment in large upgrades that exceed the instant asset write-off threshold.

5. Support green loans and innovative finance products do drive high performing homes and retrofits.

Cost is one of the biggest barriers to building or renovating sustainably. For instance, the perception that the value of retrofit is less than its cost can make it extremely difficult to induce a homeowner to take action. Green finance mechanisms, such as green mortgages offer a way to overcome these cost barriers by providing incentives in the form of a lower interest rate or increased loan amount, whilst elevating the consideration of sustainability in consumer decision making. There is a growing market for green finance mechanisms in Australia, but government support can drive broader engagement.

The Federal Government should work with state and territory governments, as well as the property and finance sectors, to accelerate the expansion of financing mechanisms incentivising sustainable buildings and upgrades. Measures could involve funding the development of green home finance products, such as green mortgages, equity loans and home improvement loans, or incentivising industry to develop innovative ways of reducing the cost of retrofitting housing stock.

6. Lead through government owned and leased buildings.

The Federal Government can use its strong market presence to drive improvements in building energy performance. This would not only deliver significant financial savings for the public sector and taxpayers, but also contribute to emissions reduction and build skills and capability in the market. A

commitment to net zero emissions by 2030 for all new buildings and fitouts would place the Federal Government in a leadership position and in doing so, encourage similar commitments from subnational governments and Australian property companies.

The Federal Government should commit to a trajectory of performance improvements for government owned and leased properties over time, with the aim of achieving net zero emissions for new buildings by 2030, and existing buildings by 2050. Measures could include strong minimum standards for new buildings and fitouts, targets for onsite energy efficiency and requirements around renewable energy, offsite renewable energy and offsets. The benefits of NABERS energy ratings should be augmented with a holistic building rating through Green Star, and mechanisms to improve compliance and implementation should be introduced or enhanced.

7. Support targeted retrofits for worst performing and highest risk housing stock.

Poor energy performing homes affect not only Australians' health and comfort, but they also have an impact on the economy overall through increases in public health spending. Low-income and disadvantaged households are more likely to live in inefficient homes and have less efficient appliances, putting them at risk of higher energy bills as well as increased allergies, respiratory diseases and mortality. High priority should be given to upgrading the worst performing public and community housing stock, which is essential to improve health, wellbeing and energy costs for those most disadvantaged in the community.

Working with state and territory governments, the Federal Government should co-fund performance upgrades to the worst performing public and community housing stock around Australia. Upgrades should be targeted at areas with the highest temperature variation, areas with high risk factors and dwellings that require large amounts of energy for heating and cooling and could include insulation, shading, draught proofing and more efficient fixed appliances.

8. Support vulnerable consumers with targeted assistance tools.

More and more, consumers need to engage with the energy retail market if they want to reduce their energy bills. While many benefits can flow to informed consumers, those who are more at risk of energy stress, such as low-income or disadvantaged consumers need tailored, ongoing support to engage with their energy use. This is due to barriers that may be related to a lack of capital, language and literacy challenges, split incentives or geography. Better informing and educating consumers about their bills, energy usage and the energy market can help to overcome these barriers.

The Federal Government should provide user-friendly information and tools to educate consumers of the long-term benefits of energy efficiency and to encourage improved energy choices. The Federal Government should also co-fund ongoing assistance programs to inform and enable disadvantaged households to engage with the energy market. Where possible, these programs should strengthen relationships between disadvantaged households, support services, advocates and energy retailers.

9. Establish a national built environment energy efficiency and emissions training and education agenda.

The transition to low carbon, high performing buildings cannot be achieved without improving the skills and capacity of local supply chains. To grow the market for sustainable buildings, Australia needs a consistent base of knowledge across the construction supply chain that is accessible and can be tailored to the needs of each industry subsector and jurisdiction. Training and education can support industry capacity building, the benefits of which include local economic development, regulatory compliance driving the industry to aspire to higher standards for building performance.

The Federal Government should develop a national education and training agenda for building energy efficiency and emissions reduction. Priority should be placed on ensuring effective compliance with minimum standards through skills training and incentives, and improved mechanisms for dispute resolution. Market transformation programs should be tailored for specific characteristics in each state and territory and be delivered locally to suit different building techniques, industry contexts and capabilities as well as climate zones. In addition to operational emissions, the agenda should also support a nationally coordinated strategy to achieve net zero embodied carbon.

10. Establish a national built environment energy efficiency and emissions research and innovation agenda.

Research, development and demonstration can unlock further opportunities for energy savings and distributed energy in the built environment, including the development of new technologies and innovative business models. Australia currently lacks a cohesive research agenda on energy and emissions issues, and faces many gaps in the support for built environment innovation. As a result, there is no nationally agreed program to prioritise and deliver low carbon construction methods or technologies, or to consider future opportunities for the built environment and other sectors like transport that will become increasingly connected in a two-way energy system.

The Federal Government should establish an independent national research body dedicated to promoting a higher performing, low-emissions built environment. The Cooperative Research Centres Program can be adapted to serve this purpose and CRCs could be tasked with developing, delivering and coordinating Australia's research agenda and take responsibility for data gathering, developing new technologies and facilitating research and learnings. The Federal Government should also commit to funding a reinvigorated ARENA to focus on the research and technical challenges we face in delivering a world-class two-way energy system for Australia. In its next iteration, ARENA should be tasked with innovating our energy system and its increasing interrelationship to the built environment and transport, as well as drive the deployment of innovative, emissions reduction technologies in these sectors.

11. Inform consumers on residential energy efficiency.

Knowledge limitations can produce market failures when consumers are not able to make informed choices about the energy efficiency of their homes, and there is growing research showing that consumers are confused by the plethora of sustainability jargon in the residential building sector and what they promise to deliver. Consumers also find it difficult to choose from the diversity and complexity of technology options and recommended behaviours, and tend to seek decision-making shortcuts that may include withdrawal or deferring to government to 'solve the problem'.

Working with other governments, industry and academia, the Federal Government should drive awareness and behaviour change around sustainable housing by providing information and social support to home buyers and renovators at key moments of their decision making. This information, which could include details of available financial incentives and mechanisms (see Recommendations 2.1 and 2.3) must consider timing and context to ensure effectiveness. Government should consider the use of programming in mainstream broadcast media, social media and commercial product placement, to accelerate the adoption of high-performance homes and support early adopters to enter the market at scale.

Conclusion

As outlined in this submission, there is a wealth of opportunities to combine economic stimuli with good environmental outcomes that align with our international commitments. The Federal

Government should take this opportunity to demonstrate that sustainable funds allocation is truly a priority and lock in environmental benefits for years to come.

The GBCA looks forward to continuing to support budgetary measures that advance the development of more sustainable, liveable and resilient cities and towns and we welcome opportunities for further collaboration and consultation.

Please do not hesitate to contact Tim.Wheeler@gbca.org.au, National Policy Advisor should you require any further information, or to discuss any of the issues raised in this submission.

Yours sincerely

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