

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

Via online submission portal

24 August 2020

Dear Treasurer

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

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

The COVID-19 pandemic has presented one of the most profound shocks to Australia's economy in many decades. Following an unprecedented health crisis, Australia faces the challenge of reigniting a stalled economy, characterised by low consumption, weak business investment, high unemployment and market uncertainty.

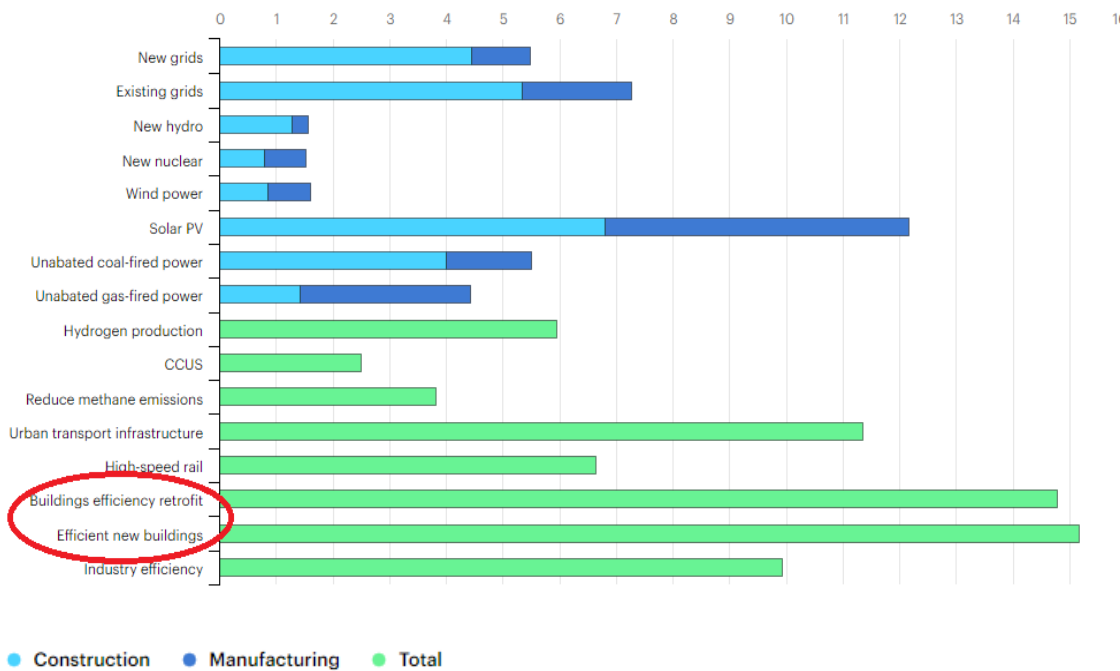
The property and construction sector has not been exempt from the adverse impacts of COVID-19. Industry research paints a sobering picture of reduced sector confidence as the result of general market uncertainty, job losses, supply chain shortages, increased contractual risks and reduced productivity due to activity restrictions. By contributing to a weak investment outlook, these risks have compromised hundreds of thousands of jobs and the future pipeline of buildings and infrastructure projects in Australia.

Whilst we commend the Government on providing timely relief through the JobKeeper and HomeBuilder initiatives, further policy action will be needed in the coming weeks and months to stimulate business activity across the sector, as restrictions around the country ease and business activity begins to revive. Besides giving industry confidence that a pipeline of building and construction projects will be in place after the pandemic, these measures must also address Australia's risk from future climate-related shocks and stresses and create the conditions that will preserve and enhance our long-term prosperity.

In this submission, the GBCA presents a number of initiatives to ensure that the Government makes the best use of high performing buildings to support Australia's economic recovery. As a fundamental plank of the Australian economy, the property and construction sector can be quickly mobilised with shovel-ready projects that generate jobs and create healthy places for Australians to live and work. As the International Energy Agency highlights, energy efficiency and management programs are job-intensive and require significant labour from local construction and services sectors, including SMEs and sole-traders¹ (Figure 1).

¹ IEA, *Construction and manufacturing jobs created per million dollars of capital investment in the Sustainable Recovery Plan*, IEA, Paris <https://www.iea.org/data-and-statistics/charts/construction-and-manufacturing-jobs-created-per-million-dollars-of-capital-investment-in-the-sustainable-recovery-plan>

Figure 1 - Jobs created per million dollars invested (source: IEA, 2020)



A major drive to improve the energy efficiency of buildings and industry in Australia could deliver over 91,000 job years of employment as well as provide substantial secondary dividends: lower energy costs, improved resilience outcomes and reduced emissions. Our recommendations include initiatives to incentivise energy performance upgrades for both commercial and residential buildings, build capacity in Australia’s energy efficiency workforce, and drive upgrades to government assets.

As business activity revives and adapts, the lingering effect of the pandemic on demand means that Australia’s economic recovery is likely to be protracted and even. This vulnerability makes it imperative that policies introduced today can help with de-risking the economy from future shocks to our prosperity and way of life. The economic, social and environmental impacts of recent extreme weather events serve as a devastating reminder of why all arms of public policy (including fiscal policy) must pull together to lower emissions and support Australia’s transition to a net zero economy. As a major economic contributor, representing over 9 per cent of Australia’s GDP and almost 25 per cent of its greenhouse gas emissions, the property and construction sector is primed for change. Economic recovery efforts in this sector can and should contribute to addressing these long-term challenges particularly since the decisions made by the Government now could lock in benefits for Australia’s economy for the next 10, 20 or 50 years. Done right, our response to the economic impacts of COVID-19 would not only minimise short to medium term pain, but also build the foundation for a healthier, more liveable and prosperous future.

In this context, the GBCA provides the following key priorities for the 2020-21 Federal Budget:

Recommendation 1: Energy performance upgrades for businesses and households

Retrofitting Australia’s existing building stock requires significant labour and is essential if Australia is to meet our emissions targets by 2030. Yet despite ageing assets and economically viable projects, renovations are not happening at the depth or pace necessary. Barriers to these projects include the perceived high level of risk in energy efficiency investments, high upfront costs and long payback periods.

Fiscal incentives supporting building energy upgrades can address the gap between energy efficiency outlays and returns and motivate action by building owners and tenants. This would encourage businesses and households to engage local tradespeople and service providers connecting local workers to jobs to stimulate business activity and resilience.

We urge the Government to deliver incentives for business or household investments aimed at improving building energy efficiency. We suggest:

Taxation reform

As businesses focus on cost reduction during this critical time, tax incentives can help improve the overall return on investment of energy efficiency projects, contributing to economic activity that delivers better assets and more jobs. We recommend:

- Modernising the 10 per cent green building withholding tax regime for investment trusts by:
 - Expanding the regime to all buildings held for rental purposes. The 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. The regime is currently limited to newly constructed buildings.
 - Applying the test on an asset by asset basis. The regime currently requires all of a MIT's assets to satisfy the Green Star rating requirements.
- Extending the current \$150,000 instant asset write-off scheme for an additional twelve months beyond the end of 2020 to support purchase of more energy efficient equipment for commercial buildings (such as large energy- using equipment like chillers, air handling units, pumps, and fans). An associated information campaign could be funded to highlight this opportunity.
- Introducing a green depreciation scheme, which would see the deferral of taxable income in early years in exchange for bringing forward investment in large upgrades that exceed the instant asset write-off threshold.

A Smart Building Fund

Over the last two decades, the widespread uptake of these two established rating and certification initiatives across the commercial building sector has provided building owners and managers a better understanding of the energy efficiency opportunities in their facilities. We recommend that these tools should be leveraged to drive commercial office retrofits through a Government program where buildings are funded for improving their NABERS - Energy or Green Star – Performance ratings from a specified baseline

The Smart Building Fund should be designed to complement any existing energy efficiency programs in the building space, including the NSW Energy Saving Scheme, Victorian Energy Upgrades schemes, South Australian Retailer Energy Efficiency Scheme and ACT Energy Efficiency Improvement Scheme. These existing schemes were designed for pre-COVID economic conditions and provide far too little incentive to drive upgrades during a downturn. However, if these existing frameworks are complemented by the Smart Building Fund they would significantly lower the cost of driving upgrades in the commercial building sector compared to other sectors of the economy.

We estimate that this fund would leverage at least \$250 million in investment from the private sector, injecting a combined \$750 million in energy efficiency investment in commercial buildings over a period of 2 years. This is expected to result in over \$1.8 billion in energy bills savings and reduce GHG emissions by a cumulative 50 Mt Co2 by 2030.

A Residential Energy Transformation Fund

Across Australia, existing homes have an average rating of only 1.7 stars in terms of energy efficiency, compared to newly built homes, which have an average rating of 6.1 stars. Many people are living in homes which are cold in winter and hot in summer, putting them at risk of increased health problems.

Upgrading Australian homes will drive significant activity for small and medium enterprises and the local construction sector. According to the IEA, when homes are upgraded to higher efficiency standards, more than half of the total investment typically goes directly to labour.

The Government should commit \$500 million to a residential energy transformation fund focused along two tracks:

- \$250m to fund the bulk rollout of commonly available technologies that improve the energy performance of residential buildings;
- \$250m to provide grants to improve the thermal performance of existing homes. These grants should focus on renovations that improve the health, safety and energy efficiency of homes, such as draught-proofing. The grants should prioritise vulnerable households that often live in the lowest quality buildings.

We support recommendations from a number of groups that governments should particularly focus their funding on upgrading public housing and the homes of highly vulnerable segments of the population. However, it is also critical to catalyse transformation in the wider building stock, with a focus on technologies that are readily available and can be rolled out quickly by appropriately qualified trades, such as electricians and plumbers.

Recommendation 2: Upgrade government assets

Australian governments occupy about 30 per cent of the commercial building space in Australia. As a health-led response to COVID-19, many governments have redeployed extensive parts of their workforce to home-based offices, leaving government assets either vacant, or operating at a very low capacity. This presents a unique opportunity to review the conditions of these buildings, including the vast bulk of assets held at the state level. Upgrading government assets to be more energy efficient lowers operating expenses and resource intensity, reduces the load on the electricity grid, and helps governments to achieve their respective emissions reduction targets. From a stimulus perspective, upgrades to public buildings like schools and hospitals is the most straightforward way of driving job retention and creation in the energy efficiency sector, as capital allocation and decision making is entirely under the control of government.

The GBCA recommends the Government should allocate \$1 billion of 'dollar for dollar' matched funding for state and territory governments undertaking energy efficiency upgrades of schools, hospitals and other public buildings.

This funding should be offered on a first come, first served basis, and provided on the basis that all funds are expended no later than June 30, 2022. It should also be capped at \$150 million for states, and \$50 million for ACT and the Northern Territory, with the aim of driving a \$2 billion asset improvement program

Recommendation 3: Support workforce development

A highly trained workforce is critical to delivering low carbon new buildings and deep energy retrofits at scale. As the Expert Panel led by Grant King noted in their findings earlier this year, skills shortages around energy efficiency is hampering efficiency improvements in the building and transport sectors. Training and education can support industry capacity building, the benefits of which include supporting workers transitioning from other sectors, local economic development as well as improved building quality and greater energy affordability for consumers.

The Government can play an important role in catalysing the reskilling and upskilling of Australia's construction workforce, but state and local governments, as well as industry will be instrumental in the development and delivery of aligned educational materials. Past research has indicated that key issues impacting the construction of high-performance buildings include knowledge and skills, quality control and regulatory compliance.

We strongly suggest the Government should partner with industry associations as well as tertiary institutions to provide targeted education and skills training to address these issues. To ensure that knowledge and education are subject to constant review and renewal, skills recognition (including CPD training and quality assessment) should be leveraged. The coordination of this training is vital, and necessary to ensure an education and training agenda that encourages an integrated cross-industry understanding of energy efficiency.

It is the GBCA's view that the Government should commit \$50 million over two years to a cross-sector energy efficiency skills and training program. This investment would support jobs, the delivery of energy efficiency stimulus programs, and the long-term success of the government's 2030 emissions reduction target.

Early effort should focus on supporting initiatives that are either underway or in pilot stage at the state level such as energy training for business advisors and energy auditor training.

Further activity should be underpinned by a rapid review of skills needs around energy efficiency, as recommended by the King Review. This review should address the differential effects of the COVID19 crisis on industry sub-sectors and how education and training can support those sectors develop business opportunities in the development and supply of energy efficiency products and services.

This review should be updated every two years to keep pace with consumer demand and technology development and develop targeted education and training programs addressing the gaps.

Recommendation 4: Upgrade Social housing

Poor 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.

Australia has approximately 440,000 social housing dwellings, which provide low-cost housing for people who cannot afford accommodation in the private rental market. Despite a growing portfolio of ageing stock, renovations are not happening at speed and scale necessary. Retrofitting the worst performing properties would quickly create thousands of jobs, lower bills by reducing household energy cost and lead to improved health and wellbeing.

The Government should co-invest (with states and territories) to implement energy efficiency for all social housing. Under the NLEPP framework proposed by the Australian Council of Social Services, all social housing properties should first undertake an energy audit to determine the need for energy upgrades, or alternatively, advise whether a new re-build is required. Based on the outcomes of the energy audits, properties could install energy productivity upgrades that would include (but not be limited to) reverse cycle air conditioners for heating and cooling, more efficient hot water (heat pumps), draught sealing, ceiling fans, efficient thermal building envelope, high performance windows, lighting and solar PV.

Recommendation 5: Reform the ERF

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 (**Error! Reference source not found.**). 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. 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.

Recommendation 6: Strengthen the role of the CEFC and ARENA to deliver 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 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.

Recommendation 7: 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.

Conclusion

The GBCA contends that our sector-based recommendations are critical for Australia to navigate a way out of the COVID-19 induced recession. As outlined in this submission, there is a wealth of opportunities to combine economic stimulus with good social and environmental outcomes that align with our national policy objectives and international commitments.

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

Please do not hesitate to contact myself, at davina.rooney@gbca.org.au should you require any further information, or to discuss any of the issues raised in this submission.

Yours Sincerely



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