



Submission on Trajectory for Low Energy Buildings: Coordinated Policy Options for Existing Commercial Buildings Draft Report

14 October 2019

Summary of recommendations

Recommendation 1: The government should extend its Trajectory for Low Energy Buildings out to 2050 and establish a clear process for the implementation of the recommendations in the report including:

- appropriate governance structure with roles of responsibilities of different levels of government
- implementation plan for the milestones with detail on how they will be monitored and evaluated,
- scheduled review points and public reporting on progress.

Recommendation 2: Allocate \$500 million of the \$2 billion currently assigned to the Emissions Reduction Fund for targeted programs that drive low cost abatement in commercial and residential buildings.

Recommendation 3: The Commonwealth should fund emissions reduction in buildings by establishing a national program targeting annual improvements in certified NABERS Energy ratings, modelled on the NABERS method in the NSW Energy Savings Scheme.

Recommendation 4: Avoid unnecessary complexity and duplication of time and expense for industry and explicitly rule out the establishment of a parallel scheme or platform to NABERS for mandatory disclosure.

Recommendation 5: We urge the Government to further invest in the development of NABERS Online and provide a commitment to use NABERS Online for the delivery of universal, low-cost mandatory disclosure.

Recommendation 6: We recommend an explicit focus is incorporated into the ABCB's implementation team's program of work as it relates to nationally consistent implementation of recommendations in the *Building Confidence* report have relevance to energy efficiency. These include but are not limited to Recommendations 1,2,3,7,12,13-17,18.

Recommendation 7: Federal and State Governments should commit to a trajectory of performance improvements over time for government owned and leased properties including office, schools and hospitals, with the aim of achieving net zero emissions for new buildings by 2030, and existing buildings by 2050. This would help to align government practice with the industry-wide pathway for decarbonisation for Australia's built environment. 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.

Recommendation 8: Deliver financial incentives that encourage the built environment to reduce emissions with priority on Federal tax incentives that include modernising the 10 per cent green building withholding tax regime, extending the instant asset write-off scheme and introducing green depreciation.

Recommendation 9: State and Local governments should use the planning policy leavers at their disposal to encourage the uptake of sustainable measures in existing commercial buildings.

Recommendation 10: The Federal Government should establish an independent national research agency dedicated to promoting a higher performing, low emissions built environment.

Recommendation 11: The Federal Government should undertake further research and consultation develop a model for mandatory inspection and certification for HVAC systems based on a data-driven evidence.

Recommendation 12: The Federal Government should progressively enhance the Greenhouse and Energy Minimum Standards (GEMS) Act.

Attachments

Attachment A: Further targeted recommendations for commercial buildings are included in *Attachment A*.

Attachment B (CONFIDENTIAL NOT FOR FURTHER DISTRIBUTION): For the full suite of recommendations to the Federal Government, please refer to *Attachment B Every Building Counts Practical Plan*. Please note this document is provided in confidence and is not to be published with the rest of the submission.

Introduction

The Property Council of Australia, the Green Building Council of Australia (GBCA) are grateful for the opportunity to provide input to the *Trajectory for Low Energy Buildings: Coordinated Policy Options for Existing Commercial Buildings Draft Report*.

The Property Council and the GBCA urge the Commonwealth to prioritise the built environment in its plans for emissions reduction. The challenge for policy makers is to extend the substantial progress made by market leaders across the entire sector. Although the built environment represents some of the lowest cost emissions abatement opportunities, there are persistent barriers to the uptake of energy efficiency that require strong and targeted policy support to address.

The potential of Australia's built environment to reduce emissions is significant: existing commercial buildings are responsible for approximately 10% of Australia's emissions which could be reduced with the right policies and incentives in place.

We welcome the Department's consultative approach in the draft report to examine the challenges and the opportunities for emissions reduction for existing commercial buildings.

About us

Green Building Council

Established in 2002, the Green Building Council of Australia is the nation's authority on sustainable buildings, communities and cities. Our vision is to create healthy, resilient and positive places for people and the natural environment. Our purpose is to lead the sustainable transformation of Australia's built environment. To do this, we:

- Rate the sustainability of buildings and communities through Australia's only national, voluntary, holistic rating system
- Educate industry and government practitioners and decision-makers, and promote green building programs, technologies, design practices and operations
- Advocate policies and programs that support our vision and purpose.

The GBCA represents 600-plus individual companies with a collective annual turnover of more than \$40 billion. Our membership reflects the diversity of Australian business with over 500 small-to-medium enterprises through to 75 companies with annual turnover of more than \$100 million and 24 companies now listed in the ASX200, with a combined market capitalisation of more than \$620 billion. Our members include major developers, professional services firms, banks, superannuation funds, product manufacturers, retailers and suppliers. We also have 42 local government, 26 state government departments and land organisations, and 18 university members.

GBCA company members alone employ more than 50,000 staff across Australia. Our professional development program boasts over 1,200 people advancing their careers and building their skills through their membership with the GBCA.

The GBCA has five key policy priorities which advocate a coordinated approach to developing buildings, cities and communities that are productive, liveable, healthy, resilient and sustainable:

1. Achieving more productive, liveable, sustainable and healthy cities
2. Securing more resilient communities
3. Delivering a low carbon, high performing built environment

4. Raising standards through the National Construction Code
5. Facilitating sustainable utility infrastructure

Property Council of Australia

The Property Council of Australia is the peak body for owners and investors in Australia's \$670 billion property investment industry. We champion the industry that employs 1.4 million Australians and shapes the future of our communities and cities.

The Property Council is a leader in making the case for sustainable development in our built environment. This includes incentives to encourage stronger investment in energy efficiency and clean energy, and a unified common-sense sustainability reporting obligation with minimal green tape.

As a champion for sustainability, the Property Council has built strong partnerships with organisations including the Green Building Council of Australia (GBCA), the Australian Sustainable Built Environment Council (ASBEC) and Global Real Estate Sustainability Benchmark (GRESB). On behalf of our members, we provide the research and thought leadership to help decision-makers create vibrant and sustainable communities.

We support smarter planning, better infrastructure, sustainability, and globally competitive investment and tax settings which underpin the contribution our members make to the economic prosperity and social well-being of Australians.

Australian Sustainable Built Environment Council

The Australian Sustainable Built Environment Council (ASBEC) is a body of peak organisations committed to a sustainable built environment in Australia. ASBEC's membership consists of industry and professional associations, non-government organisations and government observers who are involved in the planning, design, delivery and operation of our built environment.

ASBEC has twenty-seven industry members, including the Property Council of Australia, Green Building Council of Australia, Energy Efficiency Council, Australian Institute of Refrigeration, Air Conditioning and Heating and Facilities Management Association of Australia. Our observer members include the Department of the Environment and Energy and CSIRO.

Several key reports released by ASBEC over the last three years have illustrated how the building sector presents a significant and cost-effective opportunity for energy productivity and emissions reduction, including [Low Carbon, High Performance](#) and [Built to Perform: An Industry Led Pathway to a Zero Carbon Ready Building Code](#).

Key Recommendations

Coordinated implementation by different levels of government.

With the bold plan laid out in this draft report and the support and readiness of industry to help implement the measures, it is time to ensure that structures are put in place for implementation. It is essential to have a clear process that allocates specific responsibilities and accountability to government bodies and ministers for the delivery of this reform.

Further, the government should extend its Trajectory for Low Energy Buildings out to 2050 and include interim targets and a process for regular review. The Trajectory must set clear responsibility at the Ministerial level, drive coordination and deliver a remit for different levels of government and set public reporting requirements.

Recommendation 1: The government should extend its Trajectory for Low Energy Buildings out to 2050 and establish a clear process for the implementation of the recommendations in the report including:

- appropriate governance structure with roles of responsibilities of different levels of government
- implementation plan for the milestones with detail on how they will be monitored and evaluated,
- scheduled review points and public reporting on progress.

Funding emissions reductions in the built environment.

Funding as a priority

Australia's built environment presents a profound and cost-effective emissions reduction opportunity. It is critical that policies and actions to realise this potential are implemented.

ASBEC, the Property Council and the GBCA are broadly supportive of the suite of policies proposed in the draft report. However, these will require long term policy commitment and proper funding support to have any impact. The government has allocated budget to purchase low cost abatements from a wide range of sources through its principal policy for reducing emissions, the Emissions Reduction Fund (ERF). The current design of the ERF is ill-suited to the property industry which could deliver some of the lowest cost emissions abatement in an adjusted policy context. Problems include:

- a barrier to entry presented by minimum bid sizes of 2,000 tonnes of annual emissions savings
- a requirement for multi-year contracts to be signed, which can create a risk that if savings do not eventuate, the building owner may be financially liable,
- a combination of relatively high transaction costs to prepare and aggregate bids, alongside uncertainty about the price that will be received, and an expectation that the price maybe be relatively low compared to the other potential benefits of a project.

For this reason, we urge the government to allocate a specific budget outside of the ERF's reverse auction mechanism targeted at the implementation of energy efficiency measures in the built environment.

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. Given that buildings account for 23% of Australia's emissions, the Federal Government should use \$500 million of the allocated

\$2 billion to fund targeted programs that drive low cost abatement in commercial and residential buildings, leveraging well-established programs such as NABERS.

NABERS is the largest and most robust energy performance program in Australia, with over 2,000 buildings measuring, verifying and certifying their carbon emissions under NABERS Energy every year. NABERS is leveraged elsewhere in complementary Government policies such as the Commercial Building Disclosure program and Government procurement policy and presents a practical pathway for the Commonwealth to fund emissions abatement in buildings through a targeted program.

We recommend the Commonwealth establish a program where buildings and portfolios could be rewarded for improving their NABERS Energy ratings and reducing emissions compared to the previous year. There should be no minimum carbon abatement threshold and neither an obligation to participate in the scheme nor to meet fixed emission savings quotas in future years, however incentives are linked to verified performance and emissions reduction through certified NABERS ratings. This is the way the NABERS method works in the NSW Energy Savings Scheme, which unlike the ERF, has had building portfolios participating every year for the past decade. Because the program only uses information that has already been certified in a NABERS rating, this could be implemented directly by the NABERS Assessors certifying buildings, keeping compliance costs to a minimum.

Recommendation 2: Allocate \$500 million of the \$2 billion currently assigned to the Climate Solutions Fund for targeted programs that drive low cost abatement in commercial and residential buildings.

Recommendation 3: The Commonwealth should fund emissions reduction in buildings by establishing a national program targeting annual improvements in certified NABERS Energy ratings, modelled on the NABERS method in the NSW Energy Savings Scheme.

Universal, low-cost mandatory disclosure

The Property Council, ASBEC and the GBCA are supportive of the initiative to investigate implementation of universal, low-cost mandatory disclosure for commercial buildings. The positive effects of mandatory disclosure on the market's energy performance are well documented. The average NABERS Energy rating for offices has evolved from 3.2 stars at the introduction of the Commercial Building Disclosure (CBD) program in 2011-12 to 4.5 stars in 2019¹.

NABERS is trusted by industry and is widely considered the most successful program in Australia to date for driving emissions reductions in commercial buildings through operational performance. Over the 21 years of its existence it has accumulated significant expertise and data to improve the quality of its assessments while bringing the costs associated with rating down.

The Property Council, GBCA, ASBEC and our broader membership strongly object to the development or use of a parallel system to NABERS to deliver on this policy recommendation.

We understand NABERS Online is already being developed to provide a "soft-entry" to the development of more robust benchmarked rating tools for different commercial building types and would involve new entrants providing similar information to what is contemplated in this report. NABERS Online is therefore the ideal platform for universal, low-cost mandatory disclosure.

¹ NABERS Annual Report 2018-19 <https://nabers.info/annual-report/2018-2019/office-energy/>

Resourcing NABERS to deliver on this policy would minimise costs, leverage the significant expertise and resources of a well-established program, and create a simple and effective pathway towards benchmarked ratings for commercial buildings. Using NABERS Online for mandatory disclosure will also build on existing datasets and allow the expansion of the NABERS tool to new building types.

Recommendation 4: Avoid unnecessary complexity and duplication of time and expense for industry and explicitly rule out the establishment of a parallel scheme or platform to NABERS for mandatory disclosure.

Recommendation 5: We urge the Government to further invest in the development of NABERS Online and provide a commitment to use NABERS Online for the delivery of universal, low-cost mandatory disclosure.

Clarify and enforce code provisions

The GBCA, ASBEC and the Property Council are strongly supportive of the objective to clarify existing National Construction Code (NCC) provisions and work with government to better enforce them. Non-compliance with the NCC is an ongoing issue that leads to the delivery of substandard products to owners and provides unscrupulous practitioners with financial advantages. Whilst non-compliance impacts a number of different areas, there is a need for a specific focus on energy efficiency compliance if the NCC is to support the transition of new buildings to a low carbon economy.

We support the commitment from Building Ministers to establish an implementation team within the Australian Building Codes Board (ABCB) to deliver model regulation and a nationally consistent approach to the implementation of recommendations in the *Building Confidence* report.

While most recommendations in *Building Confidence* are more general in their focus with some specific initiatives relating to fire safety, many recommendations also have relevance to energy efficiency. We recommend an explicit focus is incorporated into the implementation team's program of work as it related to energy efficiency, including but not limited to:

- registration of building practitioners involved in the design, specification and approval of a building's features in compliance with Section J of the NCC as well as those undertaking complex energy modelling for performance solutions in Section J (Recommendations 1-2)
- compulsory Continuing Professional Development for building practitioners relating to energy efficiency in the NCC (Recommendation 3)
- The public disclosure of each jurisdiction's audit strategy of commercial buildings' compliance with the NCC should include findings relating instances of non-compliance with provisions of Section J. This would assist in the ongoing development of the NCC and allow better targeting of practitioner training and enforcement actions where required (Recommendations 7 and 12)
- templates for performance solutions submitted to show compliance with Section J and specific requirements for the appropriate categories of registered practitioners that must prepare and approve documentation for performance solutions in Section J (Recommendations 13-17)
- On-site inspections should occur at identified stages of the construction process that allows the approval authority to verify critical elements of Section J compliance. We recommend building on the Victorian Building Authority's early work in this area (Recommendation 18).

We finally note the strong link between driving improved compliance outcomes and the skills and capacity of Australia's property and construction industry. In addition to these recommendations

above, we believe that Government should invest in a long-term national training agenda to provide a consistent base of knowledge that is accessible and can be tailored to the needs of each industry sub-sector and jurisdiction. Besides enabling industry capacity building, the benefits of this agenda would include local economic development and supporting industry to aspire to higher standards for performance.

Recommendation 6: We recommend an explicit focus is incorporated into the ABCB's implementation team's program of work as it relates to nationally consistent implementation of recommendations in the *Building Confidence* report have relevance to energy efficiency. These include but are not limited to Recommendations 1,2,3,7,12,13-17,18.

Mandatory minimum standards for government procured buildings

Federal and state governments are a major presence in existing commercial buildings. In total, government-occupied premises account for 14 per cent of the identified emission reduction opportunity across commercial buildings².

Government can leverage this considerable market power to directly fund improvements to its own property assets and influence improvements in buildings which it occupies or over which it can exercise some level of influence.

The government would deliver a strong message and encourage similar commitments should it set an ambitious emissions reduction target for its portfolio.

The draft report explicitly encourages governments to only occupy NABERS 5+ Star offices (5 Star in non-capital areas). While we are supportive of this recommendation, the recommendation relating to tenancy ratings should be more explicit to target the same performance level as the base building and commit to ratings through Co-Assess e.g. NABERS 5-star base building rating and NABERS 5-star tenancy rating.

The draft recommendations also do not make any specific commitments to performance of other commercial asset classes beyond hotels. We recommend Governments, at a minimum, commit to obtaining NABERS ratings for hospitals within their jurisdictions and pledge commitment to on-board schools to NABERS Online in advance of a benchmarked rating tool being available.

We also recommend Governments' commitment to be extended to include Green Star. Strong minimum requirements for the construction of new buildings and fit-outs can be ensured through the inclusion of targets for *Green Star – Design & As Built* and *Green – Star - Interiors*. Green Star certifies the sustainability performance of a building comprehensively across nine holistic impact categories. This broad approach would deliver significant sustainability benefits for government buildings.

Recommendation 7: Federal and State Governments should commit to a trajectory of performance improvements over time for government owned and leased properties including office, schools and hospitals, with the aim of achieving net zero emissions for new buildings by 2030, and existing buildings by 2050. This would help to align government practice with the industry-wide pathway for decarbonisation for Australia's built environment. 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.

² ASBEC, *Low Carbon, High Performance* Policy Solution 3 - Targeted incentives and programs p.90

Financial incentives linked to minimum performance

We are supportive of the tax incentives listed in the *Trajectory for Low Energy Buildings: Coordinated Policy Options for Existing Commercial Buildings* and are grateful for the incorporation of our earlier feedback.

Financial incentives more broadly should be prioritised by their level of impact and ease of delivery. It would be useful to review the existing suite of policies and assess their effectiveness against their stated objectives to ensure an effective allocation of resources.

Federal tax incentives

- Modernise 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
- Introduce 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.

State planning incentives

At a State level, there are planning incentives that have been shown to be effective when implemented. The following policies could be used across states and territories to increase the sustainability of buildings.

- Stamp duty concessions for buildings that invest in energy efficiency and clean energy upgrades.
- Green door approvals for energy upgrades to existing building stock.
- Floorspace bonuses for buildings with higher Green Star or NABERS ratings.
- Height bonuses for buildings with higher Green Star or NABERS ratings.

To promote consistency and continuity, the design of these incentives should be informed by state-wide ESD principles designed to support broader state-based goals around building sustainability and emissions reduction. Opportunities to deploy these incentives exist in the effective planning of infrastructure, regions, cities, precincts and individual buildings and developments.

Local government incentives

Local Governments are well positioned to have profound and long-lasting sustainable impacts on the buildings that fall within their jurisdiction. Many councils are already taking up the opportunities to incentives efficient buildings and their achievements have been significant. For instance, the 42 local government members of the Green Building Council of Australia have created 274,000 square metres of Green Star–certified space since 2003. Possible local government incentives also include:

- Rates concessions for more efficient commercial buildings.
- Direct monetary incentives for sustainable commercial buildings (e.g. the City of Adelaide's *Sustainability Incentives Scheme*)

Recommendation 8: Deliver financial incentives that encourage the built environment to reduce emissions with priority on Federal tax incentives that include modernising the 10 per cent green building withholding tax regime, extending the instant asset write-off scheme and introducing green depreciation.

Recommendation 9: State and Local governments should use the planning policy levers at their disposal to encourage the uptake of sustainable measures in existing commercial buildings.

Continuing ARENA's mandate

ARENA is a statutory agency established in July 2012 by the *Australian Renewable Energy Agency Act 2011*, which provides for funding until 2022. The legislation is silent on funding for ARENA after this period. Provisions must be put in place to ensure continuity in the objectives of ARENA when the funding agreement expires. Steps must be taken to improve the competitiveness of renewable energy technologies and increase the supply of renewable energy in Australia.

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 the future opportunities for the built environment and other sectors like transport that will become increasingly connected in a two-way energy system.

Recommendation 10: The Federal Government should establish an independent national research agency dedicated to promoting a higher performing, low emissions built environment.

Mandatory HVAC inspection and certification

The GBCA, ASBEC and the Property Council are supportive of the intent of this proposal but would like to see a greater level of data-informed sophistication in the delivery model.

For example, the proposed recertification period of five years should be informed by data highlighting the decay rates on HVAC systems. It is likely there would be existing datasets to underpin this analysis in energy efficiency obligation programs like the *Victorian Energy Upgrades* program or the *Energy Savings Scheme* in NSW.

The proposal recommends that this policy could be hosted within the National Construction Code. However, as noted within the report, this would represent a fundamental shift in the scope of the NCC which is designed to regulate new rather than existing buildings (with the notable exception of major renovations). There is potential for this to set a precedent for the inclusion of arbitrary clauses within the NCC that could affect the clarity and readability of the documents.

Another option would be for the method for inspection and certification to be captured by an Australian Standard and referenced in legislation under a standalone program.

The report suggests a periodic trigger for the inspection and condition assessment of building HVAC systems. However, there are other options for consideration – these include sale or lease of the property, retrofits or when major equipment is being replaced. The trigger for inspection could also be

linked to existing programs such as the Commercial Building Disclosure program. The parameters of the inspection trigger should be subject to further consideration based on the available evidence base.

Recommendation 11: The Federal Government should undertake further research and consultation develop a model for mandatory inspection and certification for HVAC systems based on a data-driven evidence.

Expand MEPS for building technology equipment.

Equipment and appliances are important components of the overall energy use for buildings. Strong minimum standards can drive improvements in a building's energy performance by ensuring that equipment and appliances on the market are consistent with Australia's emissions reduction targets. Australia's standards are lagging behind other countries and the pace of development of new technologies.

ASBEC, the Property Council and the GBCA acknowledge the effectiveness of the *Greenhouse and Energy Minimum Standards* (GEMS) program in reducing the energy use of appliances in Australia. We support the objective of ensuring our MEPS are aligned with global best practise and that labels are used to inform purchasers on the efficiency of building equipment.

Policies designed for building equipment should identify key stages to maximise outcomes such as major renovations, equipment replacement or lease commencements. Targeting these critical stages will reduce costs and increase industry engagement and the impact of policies.

Recommendation 12: The Federal Government should progressively enhance the Greenhouse and Energy Minimum Standards (GEMS) Act.

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