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CITY OF MELBOURNE

Richard Grant
Acting Secretary
Joint Committee on Corporations and Financial Services
Parliament House
CANBERRA ACT 2600

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Dear Mr Grant

TAX LAWS AMENDMENT (CLEAN BUILDING MANAGED INVESTMENT TRUST) BILL 2012

The City of Melbourne welcomes the opportunity to provide a submission to the Committee's inquiry into the Tax Laws Amendment (Clean Building Managed Investment Trust) Bill 2012.

The City of Melbourne has had a longstanding commitment to promoting energy efficiency in new and existing buildings. While the intent of the legislation is generally supported - to provide tax incentives to invest in energy efficient buildings - we are concerned that the legislation, as framed, will create a perverse unintended outcome leading to reduced energy performance in existing building stock.

Only a fractional proportion of existing building stock is built within the recent past. The vast majority of buildings stock, and therefore the energy consumed within that buildings stock, comprises existing, older, buildings. There exists a significant opportunity to improve energy performance by focusing on incentivising the retrofit of these older existing buildings. In addition to environmental benefits, these initiatives also deliver significant economic benefits.

The Bill's focus on new buildings to the exclusion of retrofitted existing buildings has the potential to dis-incentivise improvements to existing building stock in favour of the construction of new buildings. The potential long term effect consequence being that older, less efficient buildings will be left unaddressed in the market, reducing economic resilience of building assets, while maintaining inefficient energy consumption.

City of Melbourne programs promoting energy efficient buildings

The City of Melbourne has had an ongoing interest in the promotion of energy efficient buildings. Over the past decade the City has undertaken a number of initiatives to promote energy efficiency through energy performance retrofits and construction of new energy efficient buildings. The City's Council House 2 building was the first purpose built 6 Star Green Star building in Australia. This led to the construction of hundreds of Green Star buildings across the country. The City's flagship 1200 Buildings program aims to catalyse the retrofit of two thirds of the City's commercial building stock over 10 years to improve energy performance. Our Hi-RES project, aimed at developing solutions to enable energy efficiency retrofits in apartments, has evolved into a national program funded through the Energy Efficiency Industry Grants. The City's Savings in the City program aimed at hotel retrofits continues to deliver benefits to hotels in Melbourne five years after the program's completion. Amendments to the City's planning scheme contain minimum energy performance standards for commercial buildings above 2000m².

Benefits of retrofitting commercial buildings

Economic benefits derived from building energy efficiency retrofits include employment creation, improved economic resilience, reduced overheads through avoided energy costs, and improved asset value.

The Low Carbon Growth Plan for Australia, developed by ClimateWorks and updated in 2011, identifies that retrofitting commercial buildings is a cost effective measure for improving energy efficiency. Retrofitting commercial office, retail and accommodation buildings has the potential to reduce greenhouse gas emissions by 8.2 Mt CO₂-e and deliver energy savings of 11,332 GWh annually.

The City of Melbourne embarked upon the 1200 Buildings program to incentivise, promote and catalyse the retrofit of 1200 commercial buildings over 10 years – representing 2/3 of the City's commercial building stock. This recognises that up to 53% of the greenhouse gas emissions within the municipality results from energy consumed in commercial buildings.

The economic contribution resulting from the retrofit of 1200 Buildings over 10 years was modelled in a study undertaken by Deloitte in 2009. The study identified potential additional expenditure and the additional employment resulting from that process. A successful 1200 Buildings program is estimated to result in retrofitting construction expenditure of between \$1.9 billion and \$2.3 billion in real terms, compared with between \$0.6 billion and \$1.0 billion under the base case scenario. A successful 1200 Buildings program is estimated to result in between 12,919 and 15,790 FTE years of employment between 2010 and 2020. This compares to a base case estimate of between 3,977 and 7,111 FTE years. This indicates additional employment of between 5,807 and 11,812 FTE.

Retrofitting of buildings is widely recognised as one of the most cost-effective methods of reducing energy consumption and cutting greenhouse gas emissions. A review of 80 studies into the potential for emission mitigation in residential and commercial buildings by the Intergovernmental Panel on Climate Change (IPCC) found that OECD countries have the potential to reduce baseline emissions in this sector by 27 per cent by 2020 with a positive financial pay-off over the life-cycle of the building. Furthermore, the IPCC points to various studies which suggest that aggressive conventional retrofits of commercial buildings can achieve energy savings of 50 to 75 per cent.

Implications of the Tax Laws Amendment (Clean Building Managed Investment Trust) Bill 2012

The Tax Laws Amendment (Clean Building Managed Investment Trust) Bill 2012 provides a tax benefit to owners of energy efficient buildings constructed after 30 June 2012. There is no tax benefit provided to buildings retrofitted to achieve improved energy efficiency. A similar tax incentive aimed at encouraging energy performance retrofits has the potential to deliver significant energy savings while also delivering other economic benefits through job creation, reduced energy bills, and improved asset value and economic resilience.

Providing a tax benefit which incentivises construction of new buildings without addressing the opportunity to retrofit existing buildings has the potential to draw economic activity away from retrofitting activities, reducing the average energy performance of existing stock over time. This inefficiency has the potential to result in poorer asset value, increased energy costs, lower rental returns, and reduced demand for services from the energy efficiency sector.

It is therefore suggested that the Bill be amended to extend the proposed tax benefit to existing buildings which undergo an energy efficiency upgrade after 30 June 2012. The energy performance standard to which existing buildings would need to be upgraded would be determined by regulation and subject to regular review to align with industry practice.

Determining Energy Efficient Standards for retrofitted buildings

It is often impractical to achieving a comparable level of energy performance in older retrofitted buildings with that which can reasonably be expected from new buildings. The level of investment required to achieve the required level of improved energy performance would in many cases render retrofit projects unviable. It would therefore be necessary to determine appropriate standards of energy performance for existing retrofitted buildings eligible for the withholding tax rate proposed. Issues to consider are the base level of energy performance prior to retrofit, and the average level of energy performance typical of the given building type. It is recommended that these levels of energy performance be developed in consultation with industry and determined by regulation. Industry bodies, such as the Energy Efficiency Council and the Green Building Council can offer expertise in this area.

Recommendations.

The City of Melbourne Recommends

That the tax benefits offered by the legislation be extended to buildings which have undergone retrofits to achieve improved energy performance.

That a standard for determining required levels of energy performance eligible for the tax benefit be determined by Regulation, and developed in consultation with industry.

I invite you to contact my office should the Committee wish to seek further information in relation to these matters.

Yours sincerely

Geoff Lawler
Director City Planning and Infrastructure