

30/10/13

pitt & sherry

By email: tenant-info-ACT@pittsh.com.au



Re: Exploring issues and options for an energy efficiency disclosure program for residential tenancies in the ACT-Consultation Paper

CARE Incorporated
ABN 45 037 269 595

**Financial Counselling
Service**

Consumer Law Centre ACT

Dear Sir/Madam

Care Inc. Financial Counselling Service (Care) has been the main provider of financial counselling and related services for low to moderate income and vulnerable consumers in the ACT since 1983. Care's core service activities include the provision of information, counselling and advocacy for consumers experiencing problems with credit and debt. Care also has a Community Development and Education program, makes policy comment on issues of importance to its client group and operates the ACT's first No Interest Loans Scheme which was established in 1997. Care also hosts the Consumer Law Centre (CLC) of the ACT.

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Across Care's service delivery programs, the agency responds to over 2000 new requests for assistance every year.

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Care's comments in response to the sections of the consultation paper are as follows:

1. Background

We broadly welcome the possibility that consumers will have access to information and tools designed to assist them when making decisions about the relative energy efficiency of properties available for residential tenancy in the ACT, by way of an 'energy efficiency disclosure program' (EEDP).

The region is widely regarded as having seasons that encompass extremes of hot and cold temperatures and according to the Australian Bureau of Statistics (ABS), 'among the states and territories, total household energy costs were higher in the Northern Territory ...and Australian Capital Territory...than most other states and territories.'¹

Of Care's client group a significant percentage identify themselves as renters (65% of clients) in either government or private rental properties. A further 9% of clients identify themselves as boarding, lodging or homeless². Given that low income consumers are so vulnerable to increases in the cost of utilities and rent, it is important that the financial impacts of any EEDP are not passed to them and that their welfare is at the forefront of any planned changes.

For reasonably informed consumers who are able to digest and absorb

***Serving Canberra and
Region since 1983***

¹ ABS 4670.0 - Household Energy Consumption Survey, Australia: Summary of Results, 2012 accessed 30/10/13 www.abs.gov.au/ausstats

² Care Inc. Statistical Data January 2013

information and then translate it to their own situation, the provision of information and tools may be of benefit in their decision making when considering rental properties. Care's client group, however, contains a significant number of clients with mental health conditions and many of this group and our other clients are also experiencing multiple life stressors.

Care's clients often enter the rental market (particularly private rentals) when they are in a time of crisis. They may have recently experienced a relationship breakup, a loss of employment and inability to sustain a mortgage, be experiencing an episode of mental illness and unable to maintain current rent or mortgage payments or been evicted.

Generally people in such times of crisis take the first option that is available to them. Their imperatives are *a roof over their heads, food and some form of energy*. They are unlikely to be able to digest and work through energy efficiency tools and information presented to them at such a time.

While the issue of 'choice' about rental properties and possible discussions with the landlords about energy efficiency may have weight for those at the higher end of the income spectrum, low income people rarely, if ever, are in a position to 'choose'. They generally accept what they can get when cost is a factor. An example we see at Care regularly is low income people buying older model cars which then need substantial ongoing repairs and maintenance costs. However the imperative of having a car (particularly if there are medical issues which may need a quick trip to a hospital or doctor) outweighs the fact that the car may be extremely expensive in the longer term.

2. Revealing hidden costs, and hidden value

Care believes that renters will generally see value in information about the energy efficiency of rental properties. However as discussed in this response it will not necessarily be a factor in the decision to rent a particular property, due to other pressures a low income renter may face.

The other issue of particular importance to Care's clients is whether as a result of requiring landlords to disclose the energy efficiency of a particular rental property, the landlord then makes changes to the dwelling, (or is mandated to make changes) which means these costs are passed to the tenant.

For an individual on Newstart Allowance and Rent Assistance renting privately it will be near impossible to absorb *any* increase in rental costs. A renter receiving Newstart as their sole source of income will be paying approximately 80% of their total gross income in rental and utility costs³. The amount allocated for utility costs on a fortnightly basis in the table is modest compared with some clients Care sees who are outlaying more than double this amount in utility costs per fortnight. While there is sometimes a behavioral component to this level of cost, it is nearly always within a context of the person residing in a poorly insulated, draughty and badly designed property.

³ See Table 1 at end of submission for explanation

We are increasingly seeing renters paying nearly all of their income in rental costs and having to access emergency relief providers on an ongoing basis to meet food, medical and other expenses. This of course puts pressure on these providers as they are supporting clients long term and not in 'emergency' situations which is what the emergency relief system is designed for.

As discussed in the consultation paper, low income people spend a much greater proportion of their income on energy than wealthier households, however this does not necessarily mean that they are greater consumers of energy. Many low income households will ration their energy use to keep their bills down. Care sees clients (particularly older clients) who describe strategies such as going to bed very early to cut down on heating costs.

If there is an increase in rental costs to the tenant as a result of the introduction of the EEDP and any changes to properties landlords make (or are mandated to make) this will impact heavily on low income tenants *and any increased rental costs must not outweigh the benefits gained in reduced utility costs.*

Resolution of the issue of 'split-incentives' where improvements to properties do not provide a benefit to the landlord, unless the costs of the improvements are then passed to the tenant in rental increases, is critical for an equitable outcome if an EED scheme is introduced. "For most landlords, tax offsets on rental returns are likely to be more attractive than deductions from capital gains"⁴, so providing landlords tax incentives for any energy efficiency measure undertaken is vital.

If there is no incentive for landlords to upgrade properties *and not pass on these costs*, the net result will be that higher rated properties will understandably command higher rents, and low income people will be locked out of this market segment further than they currently are. The danger then becomes that low income renters will be left with poorer quality housing stock, and possibly worse than currently exists, as the gap between the top and bottom end of the rental property market widens.

3. Delivering reliable and meaningful information

"Reliable and meaningful information" will mean different things to different groups. While there will be some commonality between groups of renters, if EER is to be a factor in decision making for a particular renter(s) it needs to be specifically relevant to different household situations.

For low income renters the following may be of use if it is to be a tool that assists their renting choices:

- An explanation of what is actually being rated ie is it only space heating/cooling (the building envelope performance) or does it include the energy used by appliances
- The use of simple graphics (similar to the star rating on appliances)
- Relate the EER to the number of people in a household
- Consider including the costs of running *basic items* such as refrigerator, washing machine, heaters and provide information

⁴ Energy Efficiency & People on Low Incomes *Improving Affordability* p17
Australian Council of Social Service 2013

about the capacity of each item e.g. how many kilos will the washer hold?

- Provide both an annualized cost per annum to run the household energy as well as a fortnightly figure as many low income households budget fortnight to fortnight
- As well as an overall EER provide a simple explanation of costs to run each appliance
- Provide a list of things to look for/ask about e.g. insulation, unsealed doors and windows, cracks in the building structure, curtains, floor coverings, pelmets
- Provide information about where to get help to understand the information if people need assistance to interpret it

4 & 5. Assessing the likely benefits & Potential approaches and costs

Despite the tension between the needs of the landlords and tenants, providing information about the EER of a building can potentially assist those renters who are in a position to factor it into their calculations. For low income renters who have little choice it will be less of a factor influencing their decision.

If landlords upgrade their rental properties in response to the requirement to disclose the EER of their rental properties, and there is an offset for them that means the *costs are not borne* by lower income tenants this would be positive. Ideally all dwellings rented or owned would meet minimum standards and energy considerations would be less of an issue as all dwellings would provide a basic level of comfort. Homes that are adequately insulated, well-sealed and structurally sound provide other benefits in terms of health related issues and general wellbeing of the residents.

Given that keeping costs to a minimum is important for *all* parties to any potential EER scheme, it makes sense to use what information is available now in the market place as a starting point and to continue to build on it. For later model properties it would mean an extension of the current scheme to include basic appliances, and as discussed in our response to Section 3, provision of various types of information. However lower rated or older non-rated properties that will require the greatest changes will potentially have an impact on low income renters via increased rents. Providing incentives for landlords to not pass costs to these tenants is extremely important.

Low income people are often left behind when schemes that benefit consumers are introduced. Given that housing and utility costs are such an important part of their expenses, it would be good to see that the outcome of this consultation does not leave such a vulnerable group worse off financially.

Thank you for the opportunity to provide these comments.

Yours sincerely

Liisa Wallace

Liisa Wallace

Financial Counsellor & Policy Officer

Table 1.

Income, rental and utility costs for individual on Newstart Allowance (NA) or Disability Support Pension (DSP) October 2013

Centrelink Payment	Income p/fn	Rent assistance p/fn	TOTAL INCOME p/fn	Rental costs* p/fn	Utility costs p/fn	%income spent on rent & utilities
NA	\$509.50	\$124.00	\$633.50	\$450.00	\$55.00	79.72%
DSP	\$827.10	\$124.00	\$951.10	\$450	\$55.00	53.10%

*www.realestate.com.au 30/10/13 for single person studio or flat in the ACT for rent