


Request for Costing an Election Commitment

Name of election commitment:	<i>Require all rental properties in the ACT to meet a minimum energy efficiency standard of 3 stars by 2020</i>
Person and party requesting costing:	Meredith Hunter, ACT Greens Parliamentary Leader
Date of public release of election commitment, including source:	21 st September 2012, http://act.greens.org.au/sites/greens.org.au/files/CLIMATE-ENERGY_PACKAGE.pdf (point 11, page 4)
Summary of election commitment:	More efficient rental housing. This would be met through the following: Part A: Introduction of minimum energy efficiency standards for rental properties, through passage of the energy efficiency component of the Greens Rental Standards Bill in 2013-14. Part B: Increasing public housing energy efficiency funding to cover the cost of upgrades required to meet the minimum standard.
Intention of election commitment:	This initiative aims to: <ul style="list-style-type: none"> • ease cost of living pressures for Canberra's most vulnerable households; • cut residential energy consumption and • contribute towards the achievement of the ACT's 40% emissions reduction target.
Signature of person requesting costing:	
Date of request for costing:	10/10/12
Key assumptions that have been made in the election commitment	
<p>Note: that where the request to cost an election commitment differs from the public announcement, the costing will be on the basis of information provided in the costing request.</p> <p>Note: it will be up to the professional judgment of the Director-General as to whether these assumptions are adopted in the costing of the election commitment.</p>	
Where relevant, is the funding for the policy to be demand driven or a capped amount?	
N/A.	
Will third parties, for instance the Commonwealth or other State/Territories, have a role in funding or delivering the election commitment?	
No, however full achievement of the standard requires cooperation with the private sector. No funding has been allocated for the private sector as it is expected that the Greens Minimum Energy Efficiency Standards bill will ensure that the standard is met throughout privately owned rental properties.	
Will funding/the cost require indexation?	
N/A.	

What are the estimated costs each year (if available)?

	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue ^(a)						
Expenses ^(a)		-675	-1,022	-1,366	-1,548	-4,611
Capital		-5,696	-5,670	-5,670	-5,5834	-22,870

(a) A negative number indicates a decrease in revenue or an increase in expenses.

What is the likely take up?

This funding would go towards upgrading, by 2016-17, approximately 5,500 (58%) of the 9,500 ACT Housing properties that are currently rated below 3 stars. It is acknowledged that further funding must be allocated beyond 2016-17 to upgrade the remaining 4,000 properties.

What are the capital requirements for this election commitment and estimated costs each year (if available)?

The capital costs involved in meeting the standard are for energy efficiency upgrades:

	2013/14 '000	2014/15 '000	2015/16 '000	2016/17 '000	TOTAL '000
Capital	5,696	5,670	5,670	5,834	22,870

Any other assumptions?

PART A

No additional budget cost is associated with passing the Greens Minimum Energy Efficiency Standards Bill

PART B

Costs to Government relate only to the upgrade of ACT housing as all other rental properties will be upgraded by the private sector. The 25% Priority Household Target, part of the Energy Efficiency Retailers' Scheme, will reduce the costs of implementation. An estimate of the predicted minimum contribution from the scheme has been made below (see section C).

The cost to government of implementing the minimum standard is $A + B - C$

Where the cost parameters are:

A = EER assessments

B = Required energy efficiency upgrades

C = Contribution from Energy Efficiency Retailers' Scheme

A costing of each of these components follows:

A. EER assessments

According to Government,¹ approximately 9,500 public housing properties have not received energy assessments and would need to be upgraded to meet the minimum standard. Based on information provided by ACT Treasury in November 2011, an energy assessment costs \$300. Therefore, the total cost of energy assessments will be **\$2.85 million.**²

B. Required energy efficiency upgrades

Treasury's costing of energy efficiency measures needed to achieve a minimum 3 star standard assumed the inclusion of measures, such as double glazing, pelmets and thermal curtains, which, according to experts consulted, would not be required for a 0-3 upgrade. Based on advice sought from industry experts in the ACT,³ the following estimation of upgrade costs has been developed:

Measure	Estimated Cost
A. Ceiling insulation	Up to \$2500
B. Wall insulation	Up to \$3000
C. Floor insulation	Up to \$2000
D. Draught proofing	< \$500

Table 1

Level of Upgrade	Measures Required	Estimated Cost
0 – 3	A, B, C & D	\$8000
1 – 3	A, B or C, D	\$5500
2 – 3	A, B or C, D	\$4000

Table 2

Based on these estimates and information, provided by Government, regarding the breakdown of public housing within the 0-3 star range,⁴ it is anticipated that it will cost **\$53.25 million** to upgrade all public housing to 3 stars by 2020:

Rating	Number of Properties	Upgrade cost per property	Total upgrade cost (\$mil)
0 star	2500	8000	20
1 star	3500	5500	19.25
2 stars	3500	4000	14
Total			53.25

Table 3

C. Contribution from Energy Efficiency Improvement Scheme

The Energy Efficiency Improvement Scheme (EEIS) is due to commence in January 2013 and will see at least 25% of its subsidised energy efficiency measures delivered in Priority (low-income) households, thereby positively contributing to the energy efficiency of ACT housing properties in need of EER upgrades. The costs of the EEIS will be passed through to ACT energy users. It is difficult to estimate precisely how much the EEIS will contribute to improving ACT Housing energy efficiency given that the range of measures delivered is not easily comparable with EER upgrades. However, an attempt has been made by comparing the expected average total investment per participating household with the average investment required for a typical EER upgrade.

Number of public housing properties that are likely to benefit from the EEIS

According to the Community Services Directorate, 20% of the ACT's 136,658 ratable properties

¹ Treasury's 2011 costing of the Greens Residential Tenancies (Minimum Housing Standards) Amendment Bill 2011.

² 9,500 properties @ \$300/assessment.

³ Including Pitt & Sherry and Scinergy.

⁴ As detailed on p.4 of ACT Treasury's costing of the Greens Residential Tenancies (Minimum Housing Standards) Amendment Bill 2011 .

are eligible for Priority Household Status.⁵ This means about 27,332 households are eligible.⁶ It is expected that more than 70,000 households may participate in the Scheme.⁷ Assuming 25% of these are Priority Household Status properties gives an indication of 17,500 Priority Households that would benefit from the EEIS. This is 64% of the 27,332 households identified by the Directorate as being eligible for Priority Household Status. Assuming the 64% participation rate of Priority Household Status properties applies to all 9,500 ACT Housing properties that are below 3 EER, then 6,080⁸ of these properties are forecast to benefit from the EEIS.

Comparing the measures delivered through the EEIS with energy star upgrades

For ease of comparison, it is assumed that the pass through costs (minus the 10% administration costs)⁹ plus the revenue raised (minus the administration expenditure)¹⁰ of the EEIS are a reasonable indication of its total investment in energy efficiency measures.

The expected annual pass-through costs and revenue raised from the EEIS are detailed in the EEIS Regulatory Impact Statement and summarized in Table 3. It is probable that the actual level of investment will be higher, given that the EEIS is unlikely to end in 2015.¹¹ Whilst all ACT households will bear these costs through upwards pressure on electricity prices, according to the EEIS' Regulatory Impact Statement, over 70,000 households are expected to benefit from the energy efficiency investments facilitated.

As such, it is concluded that dividing the expected level of investment by 70,000 provides an approximation of the total investment per participating household. This translates to approximately \$465 invested per participating property.¹² The proportion of total investment expected to be felt by ACT public housing has been calculated as 8.7%¹³ or \$2.825 million over the EEIS' 3 year lifespan.

Year	Pass through costs ¹⁴ minus administration costs (\$'000)	Activity support revenue (\$'000) ¹⁵	Total (\$mil)	Investment in ACT housing (8.7% of total) (\$mil)
2013	6,480	583,626	7,063	0.614 ¹⁶
2014	11,340	1,393,213	12,733	1.106 ¹⁷
2015	11,340	1,393,213	12,733	1.106
Total	29,160	3,370,050	32,530	2.825

Table 4

These EEIS investments will be made from 2013-14 to 2015-16 and therefore cannot be averaged out across the 8 years to 2020 over which the 3 star standard is to be met. Assuming that additional funding for upgrades is allocated evenly each year, a higher number of upgrades will occur in 2013-14, 2014-15 and 2015-16 than in the years post 2015-16, due to the EEIS

⁵ p.38 of the Energy Efficiency Improvement Scheme Regulatory Impact Statement (EEIS RIS)

⁶ Ibid. n.b. that this figure includes all ACT housing properties

⁷ p.55 of the EEIS RIS

⁸ 0.64 * 9,500

⁹ According to p.47 of the Regulatory Impact Statement: "...an administration (transaction) cost rate of 10 per cent is assumed..."

¹⁰ p.61 of the Regulatory Impact Statement

¹¹ Or if it did, it is highly probable that a national energy efficiency program would subsume it

¹² \$32.5 million divided by 70,000

¹³ The proportion of ACT public housing properties expected to benefit (6,080) divided by 70,000

¹⁴ p.51, *ibid.*

¹⁵ See p.61, *ibid.*; this represents the revenue raised minus administration costs

¹⁶ 0.08686 * 7,063,626

¹⁷ 0.08686 * 12,733,213

contribution.

Summary of Costs

Based on the calculations outlined above, the estimated cost to Government of implementing a minimum 3 star standard is:

A = Energy assessments ~ \$2.85 million +

B = Energy efficiency upgrades ~ \$53.25 million -

C = Contribution from the ACT Energy Efficiency Retailers' Scheme ~ \$2.825 million

This indicates that it will cost Government approximately \$53.274 million¹⁸ over 8 years to achieve the 3 star standard by 2020. However, it is important to note that \$6 million of the \$53.274 million already exists, as funding remaining from the Government's commitment of \$20 million over 10 years for public housing energy efficiency (due to expire 2015-16).¹⁹ This reduces the total cost to **\$47.274 million** in further funding that would be required (excluding depreciation expenditure and borrowing costs).

As such, to meet the 3 star standard by 30 June 2020, it is anticipated that the following budgetary allocation²⁰ would be required over the next 4 years (Phase 1).

	2013-14 (\$'000)	2014-15 (\$'000)	2015-16 (\$'000)	2016-17 (\$'000)	Total (\$'000)
CAPITAL COSTS					
Energy efficiency upgrades	5,476	5,451	5,451	5,609	21,987
4% procurement fee ²¹	220	219	219	225	883
Total Capital	5,696	5,670	5,670	5,834	22,870
EXPENSES					
Energy assessments	433	458	458	300	1,649
Depreciation expenditure ²²		71	142	213	426
Cost of Capital ²³	242	493	766	1,035	2,536
Total Expenses	675	1,022	1,366	1,548	4,611
TOTAL	6,381	6,705	7,030	7,361	27,481

Table 5

Phase 1 funding will need to be followed by further funding (Phase 2) from 2017-18 to 2020-21 of approximately \$31.744 million. The rationale for allocating a larger sum of money for upgrades earlier in the budgetary cycle (\$36.3 million²⁴ from 2013-14 to 2016-17 compared with the \$31 million that will be needed from 2017-18 to 2020-21) is to ensure that the standard is met earlier rather than later. The longer it is delayed, the more expensive the upgrades and the greater the financial burden on ACT public housing tenants will be.

Our modelling indicates that these investments will result in \$15 million in bill savings for ACT Housing tenants in 2020.

¹⁸ Excluding administrative overheads, depreciation and borrowing costs

¹⁹ As listed on p.385, ACT Government Budget Paper 4 (2012-13)

²⁰ Where red indicates capital expenditure and blue indicates recurrent expenditure

²¹ Given the varied nature of the work that will be required and the different option for delivering the program the procurement fee has been included even though it may well not be applied.

²² Rate of depreciation assumes capital has a lifespan of 80 years as per DHCS' Annual Report 2009-10 p168.

²³ Borrowing costs are 4.25%, as per ACT Government Standard Costing Parameters 2012, page 6.

²⁴ The additional \$27.5 million listed above plus the existing \$6 million and the \$2.825 contribution from the EEIS.

All modelling is available on request.

Administration of the election commitment

How will the election commitment be administered?

The commitment will be administered by the Housing and Community Services Directorate.

Who will administer the election commitment?

The Housing and Community Services Directorate. It is assumed that any non-compliance with the legislated standard would be referred to the Housing Commissioner and/or the ACAT for resolution.

Has an allowance been made for expenses necessary to support the implementation of this election commitment?

- If no, will the government agency be expected to absorb expenses associated with this election commitment?
- If yes, please specify the key assumptions.

No. Given that public housing energy efficiency is already a responsibility of CSD, it is assumed that the time required to oversee this initiative will be immaterial and can be absorbed by existing staff resources.

What is the intended implementation date of the election commitment?

It is proposed that the assessments would take place in 2013-14 and that the upgrades would commence in 2013-14 also.

Are there transitional arrangements associated with election commitment implementation?

No. However, to achieve the standard across all 9,500 ACT Housing properties by 2020, further funding must be allocated beyond 2016-17 (as detailed above).

Are there any other assumptions that need to be considered?

No.

When is the election commitment expected to be fully operational?

Please provide further details i.e. start and end dates, the level of commitment during each period etc?

As detailed above, assessments and upgrades will commence in 2013-14.

Will the election commitment cease and if so when?

To meet the standard across all ACT housing properties, funding is required to 2020-21.