

7.4 REDUCING ENERGY COSTS FOR BUSINESS THROUGH ENVIRONMENTAL UPGRADE AGREEMENTS

Submitting Councillors: Councillor Robert Davies and Councillor Josh Fergeus

MOTION

That Council:

- 1.0 Endorses Council officers to facilitate Environmental Upgrade Agreements with interested Monash businesses by partnering with the Sustainable Melbourne Fund;*
- 2.0 Provides approval for the CEO to sign the Partnership agreement for Environmental Upgrade program with the Sustainable Melbourne Fund to formalise the partnership; and*
- 3. Notes that the program will be facilitate through the Eastern Alliance for Greenhouse Action (EAGA) and the Sustainable Melbourne Fund and will require \$10,000 over 2 years, in direct costs, plus officer time.*

INTRODUCTION

Environmental Upgrade Agreements are designed to enable businesses to take on energy efficiency actions in a cost effective manner. This motion will inform Council about the opportunity for Monash council to increase economic, employment and environmental outcomes for Monash enterprises afforded by Environmental Upgrade Agreements (EUAs). It details the purpose of EUAs and the process to set-up and administer EUAs within Council with the support of the Sustainable Melbourne Fund (SMF) in Monash municipality.

This supports Council's strategies and goals to support industries and enterprises to prosper and develop sustainably by:

- Facilitating low carbon businesses
- Stimulating a green economy, and
- Facilitating resource efficient businesses

BACKGROUND

EUA is an agreement between a property owner, a bank and local government that facilitates a building upgrade to improve energy efficiency.

EUAs allow for the tenants and building owners of commercial and industrial property to collaborate on energy, water and waste projects that will reduce the impact to the environment and reduce operating costs. Unlike other alternative finance options, EUAs allow tenants to contribute financially to the project where it makes sense to do so and help

shape the project to best suit their needs. Importantly, EUA finance also offers 100% project finance, very competitive interest rates and long term finance.

The Sustainable Melbourne Fund (SMF) designed and implemented the EUA program for the City of Melbourne, the first Australian municipality to offer EUAs. They are now the Third Party Administrator (TPA) for the EUA program, engaging actively with the finance and property sectors as a trusted intermediary for building owners.

The Sustainable Melbourne Fund:

- Establishes EUA programs for municipal government
- Acts as a trusted intermediary to implement the program on behalf of Council
- Provides ongoing monitoring and reporting

As of September 9th 2015 legislation has been passed by the State Government that allows all Victorian Councils to offer EUAs to their business community (Attachment 1).

The relationship between the SMF, Council, Property Owners and Financial Institutions is illustrated below:



Additional information on EUAs can be found in Attachment 2 and the Agreement template with SMF for EUAs can be found at Attachment 3.

DISCUSSION

What are the benefits for Monash and Monash business enterprises?

Through implementing EUAs, Council will be taking an innovative step to pioneer a mechanism that provides opportunities and benefits to business ratepayers in the City of Monash to access attractive capital to improve their buildings. Upgrading buildings is a proven creator of local jobs and investment, increases environmental performance and hence asset value.

Key benefits are outlined below:

- **Low Cost Abatement.** Upgrading buildings delivers savings on utility bills, driving down the overall cost of energy for business while also reducing the impacts of climate change. Environmental Upgrade Agreements (EUAs) are a mechanism for building owners to access attractive finance for retrofitting.
- **Overcome structural and market barriers.** EUA finance can overcome the split-incentive barrier (between owners and renters) by enabling the costs and benefits to be shared with the building occupiers. This means that building owners and tenants pay back the loan at the same time that they are benefiting from the lower costs of a more resource efficient building. If ownership or tenancy rights change, the new owners take up the loan and pay it through their rates. Without this system businesses have a disincentive to invest in efficiency because they may move premises before paying off the loan.
- **Reduce Financial Risks.** EUAs unlock private investment in local communities. As a consequence, there is no financial risk to local councils budgets and does not require government handouts.
- **Complementarity.** EUAs can work with any grants/subsidies available for projects through local, state or federal government departments to enhance the business case for a building retrofit. As such EUAs are a means of attracting government money into local communities.

Monash is the largest economic and employment generator outside the CBD and enjoys a lower unemployment rate than the state average. It is also host to a range of manufacturing, the largest employer, generating 13,838 FTE jobs in 2015/16 (Source: id Consulting) and intensive industry which has high energy requirements and are impacted by increasing energy costs. This program provides an opportunity to assist Monash businesses to reduce these costs and maintain their commercial strength.

Anecdotal data collected through Council visits to Monash businesses conducted during 2017, suggests that a major constraint to business growth is rising overheads including utility costs.

How an EUA works- the economics and model

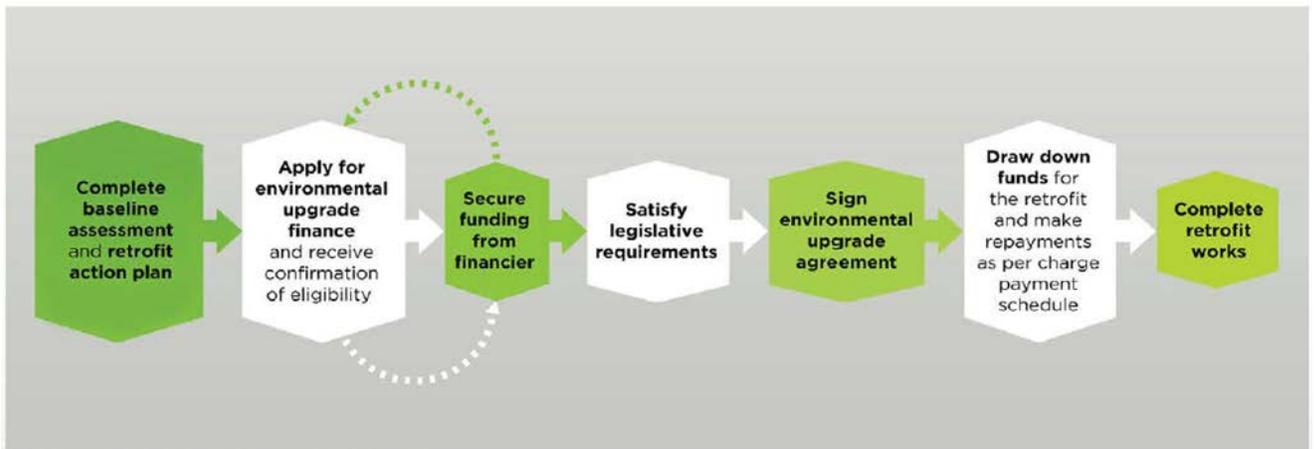
EUAs address an important cash flow consideration typical in commercial property ownership. The table below analyses a building owner's decision making process when considering commissioning a 30kW solar array. Under a non-EUA finance structure the capital borrowed and repayments made are the responsibility of the building owner. In this case the building owner borrows \$40,740 over 7 years requiring an annual principle and interest repayment of \$7,940. Importantly, as the tenant pays all electricity costs, all savings attributable to this project will be to the benefit of the tenant. This results in an overall decrease in shareholder value (represented as a Net Present Value (NPV)) of negative \$41,340.

	Lease	EUA
Loan Amount	\$40,740 (ex GST)	\$45,474 (inc GST)
Interest Rate	9.3%	7.1%
Years of loan	7	10
Payments Per Year	12	4
Annual Payment (P & I)	-\$7,940	-\$6,463
Annual Savings	\$0	\$6,463
Project Simple Payback (yrs)	N/A	7
Net Annual Cost	-\$7,940	\$0
Cash – flow Benefit	-\$7,940	\$0
NPV (pre tax)	-\$41,340	+\$3,758

Tenant Receipts = 100% of savings

However under EUAs, the tenants can contribute to the loan to the point where they are still better-off and shift the cash flow of the project to a positive annual cash flow. The ability for the tenant to contribute to the loan repayments means that the costs and benefits align for the building owner, resulting in an overall positive outcome for the project for both parties. Using the example below, under EUA the building would borrow all costs associated with the solar install – including GST and by providing the property as security with the council rates being the repayment mechanism, lenders would be willing to provide up to 10 year finance at cheaper interest rates with repayments quarterly. This results in repayment costs being below current energy costs for the tenants; incentivising tenants to contribute to the repayment costs. This returns a positive NPV of \$3,758 for the project to the building owner.

Steps for EUA implementation for the business are as follows:



What is the EUA application process and cost for a business?

The SMF will charge application and ongoing processing fees to all project applications, payable by the applicants (at present, these are the Charges within the City of Melbourne. These are currently under review, but the SMF envision these to be uniform regardless of

council area). An application fee of \$600 and an administration fee of 0.072% is collected and itemized as part of the repayments. The Sustainable Melbourne Fund has two channel partners (offering energy efficiency and renewable energy products and services) that are identifying potential opportunities.

For more details on the process for business please refer to Attachment 4.

Benefits for council

Benefits for City of Monash through the EUA are:

- Prevention capital leakage from the municipality
- Creation affordable opportunity for business to address rising energy costs
- Stimulation of economic activity in the region through private sector funding
- Working with local businesses to achieve emissions reduction goals for the municipality
- Implementation of a low cost economic development and sustainability program
- Provide an opportunity to improve costs for our rate paying businesses

Sustainable Melbourne Fund will assist Council to develop the EUA offering and the EUA application and administration process. They will also adapt all the EUA application documentation and templates, including process flowcharts and check sheets currently in use within the City of Melbourne to best match internal requirements for the City of Monash.

Beyond the set-up, as part of the Third Party Administrator Services, they will process the applications including help line support and liaise with each of the relevant departments highlighted in the table below to obtain the information required to enable the signing of EUAs in an efficient manner and participate in stakeholder engagement activities (networking events, presentations, information sessions) to promote the program.

CONSULTATION

External consultation

Council officers have consulted with Sustainable Melbourne Fund and Sustainability Victoria to better the program fundamentals, benefits for local businesses, and expectations of Council partners. Sustainable Melbourne Fund is the Third Party Administrator of EUAs in Victoria and to date we have established EUA program for 14 local governments across the state. Of the \$14million invested, \$11 million is within the City of Melbourne focusing on building retrofits while many of the other metropolitan and regional councils are focusing on solar installations¹.

¹ Councils involved include – Melbourne, Greater Bendigo, Hobsons Bay, Greater Shepparton, Wyndham, Maribyrnong, Greater Geelong, Mornington Peninsula, Macedon Ranges, Moreland, South Gippsland, Dandenong, Brimbank and Mildura.

Sustainable Melbourne Fund and Sustainability Victoria have entered into a collaboration agreement to expand the EUA market in Victoria. SV has a number of grant funding opportunities which can assist building owner to undertake initial assessment of their building when considering building retrofit works.

Internal consultation

Consultation has occurred with coordinator of the Economic Development team and the Chief Financial Officer.

FINANCIAL IMPACTS

The cost for a two year pilot is \$10,000 ex GST, payable in yearly instalments of \$5000 ex GST. EUA application fees are covered by the relevant businesses as outlined above.

SMF have received funding through ARENA to deliver the program. Without the ARENA funding, it will cost councils around \$15K per annum council.

In addition to these costs, Council would need to contribute in-kind time to promote to businesses, and set up application of rate notice charges. The additional rates notice is voluntary, and it is estimated there will be 5-10 additional notices per annum. The impact of an Environmental Upgrade Agreement on council staff is summarised in Attachment 5. Roles and responsibilities are presented in Attachment 6.

However it does provide new opportunity to engage and support Monash business ratepayers and municipal economic development.

POLICY IMPACTS

The significance of climate change and the urgent need to mitigate the production of greenhouse gas emissions and adapt to climate change has been established scientifically and is recognised at all levels of government policy.

The Victorian *Climate Change Act 2017* sets out emissions reduction targets and objectives, including an emissions reduction target of net zero emissions by 2050.

The Monash 2021 plan sets out actions under four primary areas of focus. In order to achieve a green and naturally rich city, priorities include:

- Cultivate and promote sustainable living practices within the Monash community including recycling and water and energy use.
- Reduce our community's use of resources and our greenhouse gas emissions.
- Lead by example in adopting sustainable practices and technology in council buildings and operations.
- Educate and support residents to adapt to a low carbon economy.

The Monash Council Plan 2017- 2021 establishes strategic objectives and associated actions including "Proactively managing risks from climate change and reducing Council's greenhouse emissions" under the Strategic Objective 'A Liveable & Sustainable City'.

Businesses are high energy users and proactively assisting implement environmental upgrades to reduce energy use and energy costs, will also bring significant GHG emissions reductions for the municipality. Refer to Attachment 6 for overview of the EUA process.

EUA program also addresses the following priorities and associated actions under the Monash Environmental Sustainability Strategy 2016-2026 (ESS):

Priority 3 Climate Change
Objective 3.3. Increase community preparedness for the likely impacts of climate change
Action 3.3.2. Encourage energy efficiency and use of renewable energy sources. <ul style="list-style-type: none"> a. Participate in regional and council-specific energy efficiency, renewable energy and climate-ready programs that assist the community and business to understand and reduce their greenhouse gas emissions and increase their energy resilience.
Priority 6 Partnership and Leadership – through it collaboration with Monash businesses and SMF.

CONCLUSION

EUAs afford an excellent opportunity for Council to partner with businesses within the municipality to reduce their operating costs, improve the asset value of commercial building stock and create more resource efficient enterprises.

That Council endorses support for EUAs, and proceeds to work with the SMF to pilot the process for one year commencing 2018. To get access the EUA program, Monash Council is required to sign the Agreement attached (Attachment 3).

ATTACHMENTS

Attachment 1 EUA Legislation

Attachment 2 EUA FAQ

Attachment 3 Agreement with SMF

Attachment 4 EUA Process Overview

Attachment 5 EUA Rates and Finance Team FAQ

Attachment 6 EUA Council Roles and Responsibilities