



Submission to Department of Environment and Energy

## **Independent review of the Commercial Building Disclosure Program**

## Contents

<b>1 Introduction.....</b>	<b>2</b>
1.1 About the Accommodation Association.....	2
<b>2 Policy Response to Draft Report Recommendations</b>	
2.1 Understanding the Objectives of the CBD Program.....	2
2.2 Would mandatory disclosure achieve the objectives of the program.....	3
2.3 What is the accommodation industry response to the proposed settings?.....	4
<b>2.3.1</b> Accommodation hotels included in the program.....	4-5
<b>2.3.2</b> The application of the ratings to hotels with over 100 rooms.....	5
<b>2.3.3</b> Design of the NABERS rating system.....	5
<b>2.3.4</b> NABERS costings.....	5
<b>2.3.5</b> Timing of NABERS assessments.....	6
<b>2.3.6</b> Should renewable energy be incorporated into the scheme.....	6-7
<b>3 Conclusion.....</b>	<b>7</b>

## 1.0 Introduction

The Accommodation Association of Australia (AAoA) is pleased to provide the following submission to the Federal Department of Environment and Energy responding to the request for further input into the DRAFT REPORT of the Independent review of the Commercial Building Disclosure Program.

We welcome the opportunity to respond to the CIE core recommendation *‘That a Mandatory disclosure scheme using NABERS energy rating, would be applied to hotels with more than 100 rooms, as per ABS definition, and that the rating would be required every two years.’ The suggestion is that the Scheme would begin ramping up in 2021 to be fully taken up by 2023.*

Importantly our submission is written in consultation with owners and operators who invest in the asset and ultimately will be the key drivers of uptake. As acknowledged in the report sustainability initiatives are vital to the

### 1.1 About the Accommodation Association

The Association is the peak body representing close to 1,000 accommodation operators and over 100,000 rooms across Australia. Members of the Accommodation Association include major hotels, resorts, motels, motor inns, serviced and holiday apartments, bed and breakfasts and guesthouses that directly contribute \$6.6 billion in GVA to the Australian economy.

Our members include AccorHotels (incorporating Mantra Group); Intercontinental Hotels Group; Lancemore Group; Hilton; Toga Far East Hotels (TFE); Wyndham Hotel Group; Choice Hotels, Best Western, Big 4 Holiday Parks and Quest Apartment Hotels.

The Association is committed to the future development and growth of a sustainable accommodation sector within Australia’s dynamic tourism and hospitality sector.

## 2.0 Policy Response to Draft Report Recommendations

### 2.1 Understanding the Objectives of the CBD program

In the CIE Draft Report<sup>1</sup>, CIE advise that the objectives of the current program, as it applies to Office Buildings, are not clear and that there is a need to develop objectives aligned to the NEPP (National Energy Productivity Plan).

They recommend that the objective of the current CBD program is to facilitate improvement to the energy efficiency of commercial buildings on the basis that improved energy efficiency can:

- reduce GHG emissions
- reduce energy bills for building owners and/or tenants.

This links directly to the metric required in the program. On page 78 of the Draft Report, CIE advise that *‘If the primary objective is to improve energy efficiency (or reduce energy consumption), the metric disclosed under the CBD Program should be based on energy consumption’.*

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<sup>1</sup> Independent Review of Commercial Building Disclosure Program, pg. 28

However there appears to be some confusion with this metric as it applies to hotels. In the draft report CIE advise that *'there is substantial uncertainty about the extent to which a mandatory disclosure program will improve energy efficiency of hotels and costs of improving energy efficiency'*<sup>2</sup>.

**Recommendation 1:** Clear objectives need to be articulated to ensure that the hotel industry understands the purpose of the program and what is to be measured. It is not enough just to have another reporting program.

## 2.2 Would mandatory disclosure achieve the objectives of the program?

Hotels are 24/7 operations, seeking to balance customer expectations with cost of operation. Most chain hotels have in place globally mandated sustainability rating programs as part of their Corporate Social Responsibility reporting requirements and have introduced a range of sustainability initiatives such as removal of single use plastics, introduction of bulk dispensers, linen and towel reuse programs, food waste composting programs and more.

The concern for many of the hotels on the intent to introduce a mandated NABERS energy rating system is

1. It duplicates reporting costs and time associated with current sustainability ratings programs they have in place;
2. As discussed at the CBD roundtable, many initiatives have been introduced that drive down energy use and thus costs, however the biggest requirement for energy is HVAC. Given the 24/7 nature of operations and the high costs associated with capital replacement, energy gains without significant investment in HVAC systems would be difficult to achieve;
3. The NABERS rating tool is neither well understood nor supported by most hotels as it is deemed purpose-built for offices, does not recognise operational difference such as laundry and restaurant operations and is not recognised globally for the hotel sector.

As a result of point 2 above and as reinforced in the CIE paper *'Hotels achieve only a small return themselves through lower energy bills, which just offsets the compliance costs of a mandatory disclosure scheme and costs of energy efficiency upgrades'*<sup>3</sup>.

While the paper points to the potential of competitive advantage, with consumers and businesses increasingly choosing to stay in hotels that have environmental and social programs, that does not provide a compelling rationale for a mandated NABERS rating program. All the current, globally recognised, ratings programs, can achieve the same outcome.

**Hotel Industry Position:** The majority of hotels with over 100 rooms that are part of chains, have already implemented 3rd party energy efficiency performance programs using Earth-Check, Green Star Performance etc. These are mandated and reported by these Chains.

The question that needs to be answered is whether using an Australia-wide mandated benchmarking tool is going to achieve further improvements in energy efficiency across the sector?

<sup>2</sup> Independent Review of Commercial Building Disclosure Program, pg. 133

<sup>3</sup> Independent review of the Commercial Building Disclosure Program, p108

The reality is that specifically linking the NABERS rating to procurement by government and larger corporates, thus driving demand, would be the most effective tool to drive further improvements. This is a contention supported in the Draft CIE Report ‘A mandatory disclosure program for hotels would drive energy efficiency improvements because it would be used in procurement by government and larger corporates’<sup>4</sup>.

However the reality of implementing this is very different. The investment required would be prohibitive for older hotels and those with heritage constraints. We also understand that the current NABERS tool penalises those with high energy use operations such as laundry and restaurants.

This points to the need for modification of the NABERS rating benchmarks and a period of implementation of say 4 years, that ensures communication of the principles and encourages owners/operators to make changes where required. Importantly the introduction of the tool needs to be linked with a reward program to support hotels in investing when many of the returns have already been banked. We would call for government grants in the first instance to address ‘market failure’ supporting hotels to both conduct the initial rating and put in place an action plan.

Longer term if the program is to prove successful, it does need to be linked to government and corporate procurement, to drive sustained change. However this will be difficult to achieve given government has a per diem cap that constrains the ability to meaningfully put this in place and the current parameters of the program would disadvantage hotels/motels with under 100 rooms and serviced apartment providers.

**Recommendation 2:** The industry supports mandatory disclosure if the proposed energy rating system, NABERS, is redesigned in consultation with industry so it is fit for purpose and if government supports the adoption through education and grants for established hotels, that assist in offsetting costs over the period of implementation and establishment.

**Recommendation 3:** Following the introduction and roll out to hotels, government to review their procurement program to determine the potential to adapt to prioritise sustainability. Any link to a government procurement program needs to ensure that the settings are fair, don’t penalise heritage hotels and extend to all accommodation hotels.

## 2.3 What is the accommodation industry response to the proposed settings?

### 2.3.1 Accommodation hotels included in the program

CIE have defined hotels as per the ABS definition “Establishments with **100 or more rooms** which operate a public bar and which provide accommodation on a room/unit/apartment/suite basis’.<sup>5</sup>

The remainder of the ABS definition states ‘Hotels and resorts may also include establishments referred to as resort hotel and spa, luxury hotel, apartment hotel, boutique hotel, hotel motel and commercial hotel’.

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<sup>4</sup> Independent review of the Commercial Building Disclosure Program, pg. 133

<sup>5</sup> <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/8635.0Glossary12015-16?opendocument&tabname=Notes&prodno=8635.0&issue=2015-16&num=&view=>

Note that the mentioned *100 rooms above* is arbitrary and the *minimum 15 rooms* in the official ABS definition is a limitation of the data collection and is not intended as part of the definition of “hotel”.

The industry remains concerned at the creation of an ‘unlevel playing field’ by placing more burdens on those hotels with the perceived ‘capacity to invest’.

### **2.3.2 The application of the ratings to hotels with 100 rooms or above only**

Whether you are a 50-room hotel or a 200-room hotel the same principles need to apply. Every hotel consumes energy and has a carbon footprint.

For example, there are approximately 50 new hotels with <100-rooms (across 3-star to 5-star quality ratings) in the supply pipeline for Sydney alone<sup>6</sup>. Members have pointed to the fact that each one of those hotels have the potential to reduce their overall carbon footprint. For example, using the CIE table of Impacts of mandatory disclosure for hotels, a hotel with 89-keys could potentially be consuming c. 4.2 million MJs if rated a 4.0-star.

The biggest issue is the costing of the NABERS assessment, the development of an action plan and the return on investment for owners. Outlined below are a number of recommendations on settings that will assist in engagement.

### **2.3.3 Design of the NABERS rating system**

As outlined above many of the hotels that are parts of a Chain have globally mandated ratings programs. The CIE recommendation that a NABERS rating system is introduced is based on the following<sup>7</sup>:

- A non-government tool cannot be mandated without considerable regulation of prices and requirements; and
- Using a single tool consistently provides a better basis for comparison

Hotels are understandably reluctant to run two differing energy rating schemes and have advised that greater acceptance and adoption will occur if the ratings scheme is underpinned by ‘globally recognised principles’. It is therefore important that qualified hotel personnel, not just assessors, are involved in the consultation process on revised NABERS settings.

### **2.3.4 NABERS costings**

Currently the NABERS scheme has a blanket cost of approximately \$6,000 irrespective of the size of the hotel. Travel costs for assessors are additional. If NABERS ratings are to be effective, an action plan is required and an additional cost incurred (approximately \$4,000) to develop the plan.

If NABERS was to be made mandatory the volume of assessments would increase exponentially and there would be an expectation that the price would drop considerably. In developing the revised NABERS system we would also support a tiered pricing scheme that recognises the number of rooms, unless the price is lowered to the point where any differentiation is immaterial.

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<sup>6</sup> Tourism Australia Sydney Hotel Supply, H2 2019

<sup>7</sup> Independent review of the Commercial Building Disclosure Program, p 108

### **2.3.5 Timing of NABERS assessments**

CIE's recommendation is that hotel ratings should be required every two years with disclosure in the hotel foyer and on the website. There is not a given rationale for that recommendation except there is acknowledgement that the current annual NABERS assessment for office buildings does not fit a 24/7 industry that is not driven by a sale/lease timetable.

Given that the stated objective of the program is to achieve improvements in energy efficiency and that most hotels have a 5 to 7 year major refurbishment cycle, we would recommend that energy ratings assessments are carried out every three years. This follows the same principle as risk assessments for insurance companies, which are conducted every two to three years.

While it acknowledged that small improvements can be achieved in energy efficiency with lighting changes etcetera, this is not likely to significantly move the needle on NABERS ratings. Equally investment to improve energy efficiency does not necessarily need to conform to a refurbishment cycle. If investment makes sense in terms of business conditions or return on investment it can happen sooner. Three years represents a reasonable compromise that would be accepted by the industry.

Additionally, this timeframe would take into account hotels that have achieved a high energy rating that is unlikely to change over a longer timeframe.

We understand concerns from government that this may not provide sufficient incentive to drive objectives. Therefore, we propose that once each Hotel has been NABERS assessed and provided a star rating, they undertake an annual self-assessment at no additional cost, using a simple on-line tool (provided by NABERS).

If there is a variance of approx. 10-20% + or – with the consumption data results, then further justification is needed to NABERS to support these results. Every 3 years each Hotel will then need to undergo an on-site assessment / audit by an accredited assessor to validate the next years ratings.

### **2.3.6 Should renewable energy be incorporated into the scheme?**

One of the metrics in most existing hotel energy benchmarking programs is a reduced carbon footprint. Therefore, there is some merit in including green power measures. Ultimately however, there should be a higher weighting to improvements in intrinsic energy efficiency.

The scheme would lose credibility, if for instance, a hotel that would normally be rated a 3 star on the NABERS rating was moved to 5-star because of the purchase of renewables. It may inadvertently disincentivise hotel operators to improve the actual design and operations of their hotels. This goes back to understanding the stated objectives of the plan and ensuring the rating system is designed, in conjunction with industry, to fit those objectives.

**Recommendation 4:** NABERS settings will be critical to its adoption and acceptance by the hotel industry. We recommend the following:

a) That the scheme is based on *globally recognised principles* that assist hotels in meeting the reporting requirements of both their existing globally mandated programs and the NABERS program. Industry is to be involved in the consultations on settings.

b) The pricing of the NABERS rating scheme is to be reviewed and reduced based on the significantly increased volume of assessments. Additionally, there is room to look at a tiered pricing scheme.

c) A three-year minimum time frame between assessments represents a reasonable time frame that feasibly meets the objectives of measuring improved energy efficiency and ensures the ratings scheme is not perceived as a 'tax' on business.

### 3.0 Conclusion

The Association and our members appreciate the ongoing consultation with industry. We note that many of the roundtable sessions with industry have been dominated by NABERS assessors and would seek to ensure that the accommodation industry's position is clearly understood.

As outlined in our submission, the industry is strongly committed to Corporate Sustainability principles, with many hotels currently participating in energy rating schemes and undertaking sustainability initiatives.

The question that needs to be answered is whether using an Australia-wide mandated benchmarking tool is going to achieve further improvements in energy efficiency across the sector?

The industry supports mandatory disclosure if the proposed energy rating system, NABERS, is redesigned in consultation with the accommodation industry so it is fit for purpose and if government supports the adoption through education and grants for established hotels, that assist in offsetting costs over the period of implementation and establishment.

However, it will be important to ensure the settings are right and this does not become just more red tape and cost. In line with the review of the ratings system we seek a review of pricing, with consideration provided to a tiered pricing scheme and a three year time frame between assessments.

We look forward to continuing consultation to ensure that the scheme is successful in achieving its objectives, inclusive of improving energy efficiency.