



# BUILDING UPGRADE FINANCE



## AND THE SOUTH AUSTRALIAN ENERGY PRODUCTIVITY PROGRAM

- Unlocking Investment in C&I retrofits

# BENEFITS OF C&I RETROFITTING

## Economic

- Unlock investment
- Stimulate jobs in the building upgrade industry and opportunities for product manufacturers
- Alleviate the impact of rising energy and water costs on building owners and tenants
- Improve building amenity and staff productivity

## Environmental

- Deliver low cost carbon abatement and a range of other environmental benefits

# THE SOUTH AUSTRALIAN ENERGY PRODUCTIVITY PROGRAM

- On 13 December 2016, the South Australian Government announced the establishment of the South Australian Energy Productivity Program (SAEPP).
- This is a \$31 million initiative that assists large energy using businesses in the state to reduce their energy usage and related costs, and contribute energy supply benefits to the state

# TWO SUB-PROGRAMS

- **Energy Productivity Audit Grant Program** – grants of 75 per cent of the cost of a Level 2 energy audit, up to \$15,000, to businesses to engage an external energy auditor to identify energy savings opportunities
  - **Energy Productivity Implementation Grant Program** – grants to implement the recommendations of the Energy Productivity Audit Grant or the recommendations of a recently completed energy audit, with a preference for projects that provide broader market benefits to South Australia.
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- Maximum of one of each grant per entity (i.e. per ABN)
  - Doesn't apply to retrospective expenditure (i.e. expenses incurred prior to funding agreement being in place)

# FOR MORE INFORMATION

Applications will be accepted on an ongoing basis.

Applicants can only receive one grant under the Energy Productivity Audit Grant Program and one grant under the Energy Productivity Implementation Grant Program.

The Energy Productivity Audit Grant Program will be open for applications on **20 December 2016** through to **31 May 2017**, with applications assessed as they are received and subject to the availability of funding.

The Energy Productivity Implementation Grant Program will be open for applications on **20 December 2016** through to **31 March 2018**, with applications assessed as they are received and subject to the availability of funding.

Applicants will be required to submit the application form available at [www.statedevelopment.sa.gov.au/saepp](http://www.statedevelopment.sa.gov.au/saepp)

Queries relating to the SAEPP may be directed to the Department of State Development

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# BUILDING UPGRADE FINANCE



# BUF IN A NUTSHELL

- A financing tool that provides an alternative means to funding a building upgrade to traditional finance or equity/cash
- Involves repayment of a bank loan via council rating system (as a Building Upgrade Charge against the property)
- Based on equivalent mechanisms established in Victoria and NSW
- Extends to upgrades of existing commercial and industrial buildings that derive an environmental performance and/or heritage preservation benefit

# WHY



Attempting to tackle two barriers:

- Access to finance at reasonable cost and length from traditional financiers
- Split incentive in leased buildings (i.e. owner pays for the upgrade but tenant derives the benefit)



# BENEFITS COMPARED TO TRADITIONAL DEBT OR EQUITY

i.e. Motivating factors for a building owner

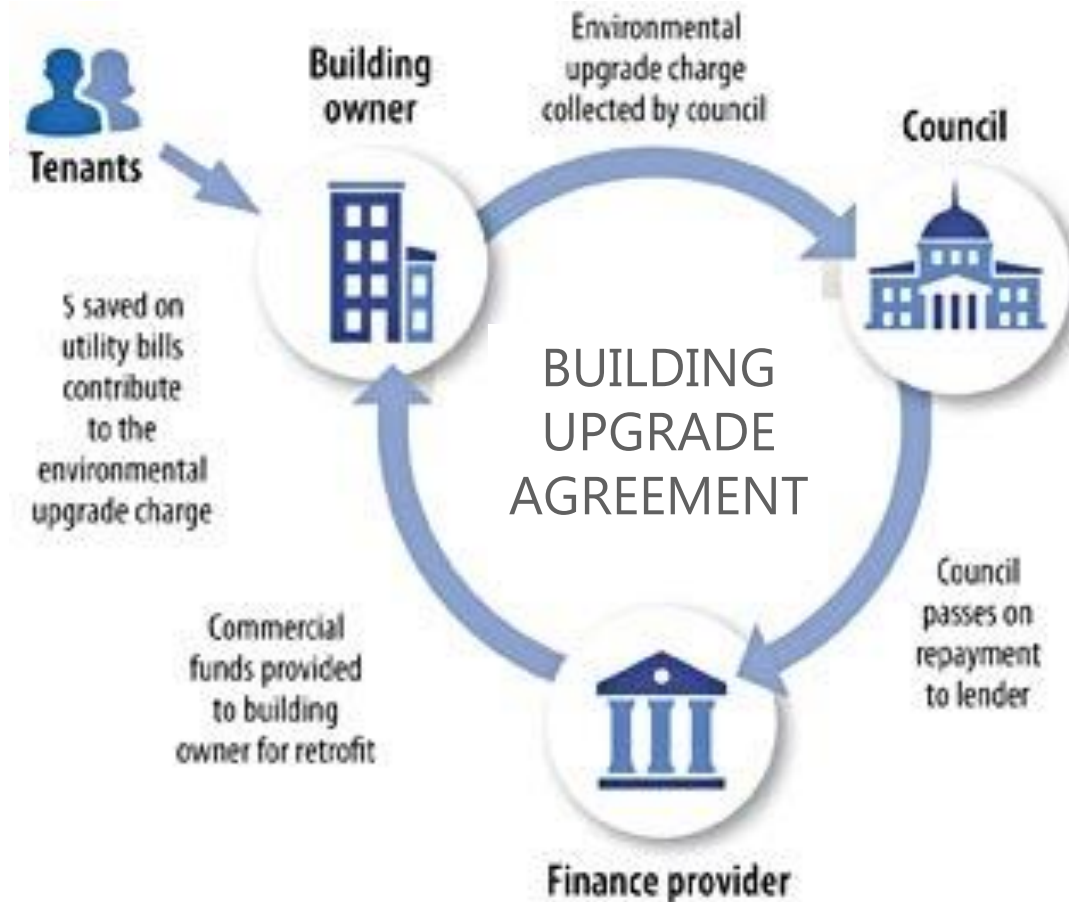
- ☐ Access to finance for a project, covering 100% of project costs without additional security
- ☐ Access to long-dated (10 years +) fixed interest finance, meaning lower annual repayments and enabling cash flow neutral / positive projects
- ☐ Ability to leave debt with the property upon sale via assignment (subject to agreement with purchaser)
- ☐ Ability to share in the benefits and the costs with tenants

# HOW DOES IT WORK?

i.e. what's the catch?

- Loan secured against the property via the Building Upgrade Charge
- Building Upgrade Charge ranks senior to mortgages and taxes in the case of default, providing heightened security to the senior lender
- Local Government charges passed through to tenants under most commercial leases enabling owners and tenants to share in the benefits and costs of building upgrades without renegotiating lease terms

# MECHANICS



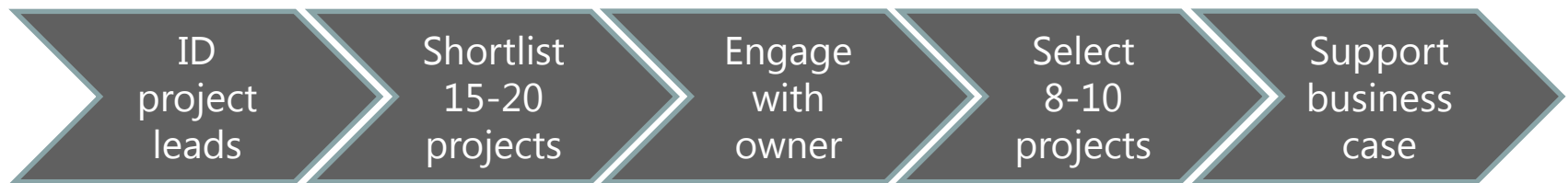
1. Building owner, financier and council execute Building Upgrade Agreement
2. Financier forwards funds
3. Building owner undertakes project
4. Council levies charge and remits to financier
5. Building owner chooses whether to recover contribution from tenants in leased buildings

# CURRENT STATUS AND NEXT STEPS

- Established and operating in Victoria (11 councils) and NSW (6 councils)
- Legislated in South Australia but not yet operational
- Steps to operationalise circa mid 2017
  - Finalise regulations, template loan agreement, and methodology to estimate tenant cost savings and proclaim legislation
  - First council(s) to opt into scheme
  - Establish central administrator within Local Government
  - Build awareness and understanding within property and finance sectors
  - Groom first suite of projects via the BUF Early Adopter Programme
  - Expand council and financier participation

# BUF EARLY ADOPTER PROGRAMME

- Will provide 'Government sponsored' coaching and mentoring support to an initial suite of building owners and their consulting teams to develop the business case for a building upgrade project and financing it using BUF
- Support provided via CMinus
- Support is available for 8 to 10 building upgrade projects
- Register leads by end of March 2017





# ELIGIBLE BUILDINGS

- Predominantly non-residential building
- At least two years post construction
- Likely to be much easier/simpler on freehold land (e.g. Torrens Title) than Crown leasehold land or Strata titled (both yet to be tested)
- Not restricted to rateable land

= diverse range of C&I buildings typologies

# ELIGIBLE WORKS

## Environmental upgrades

- Works that improve the energy, water or environmental efficiency or sustainability of a building

## Heritage upgrades

- Works that maintain, repair, upgrade or reinstate heritage significance
  - Works associated with Building Code and disability access compliance
  - Works that facilitate the heritage building's ongoing occupation
- = diverse range of upgrade typologies

# WHAT NEXT

- Google 'Building Upgrade Finance' to learn more about the mechanism via (DEWNR website, YourSAy website)
- Look up case studies at [www.betterbuildingfinance.com.au](http://www.betterbuildingfinance.com.au)
- Register interest in the early adopter programme via

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