

## **Pre-Budget Submission 2022-23**

*Strata Community Association (Vic) Submission*

7 April 2022



## Introduction

Strata Community Association (Vic) Ltd is the peak body for the Owners Corporations sector, which comprises commercial, industrial, and recreational properties ranging from two units in a suburban street to many hundreds of units in inner city apartment buildings. Owners Corporations represent property valued at over \$300 billion dollars and encompass commercial, retail, lifestyle resorts, retirement villages, car parks, storage facilities, industrial and, increasingly, mixed developments. More than \$1 billion per year is collected and spent. There are currently more than 85,000 active owners corporations in Victoria, covering more than 772,000 individual lots. It is estimated that around 1.5 million Victorians — a quarter of the state’s population — either live in, or own property in, an owners corporation.

### **Background – Strata Community Association (Vic)**

SCA Victoria was established in 1990, it succeeds Owners Corporations Victoria (OCV) and Institute of Body Corporate Managers Victoria (IBCMV). SCA (Vic) members comprise more than 80 per cent of all professional owners corporation managers, with over 800 members managing upwards of 450,000 lots. SCA (Vic) Associate members are industry suppliers, including waste management providers, Essential Safety Measures managers, quantity surveyors, insurers, lawyers, accountants, facility managers, property valuers, building maintenance and tradespeople. Members benefit from representation, support, advice, and promotion. With Continuing Professional Development (CPD), Best Practice Guidelines on regulatory and legislative amendments, updates on VCAT determinations and emerging issues, SCA members are best placed to manage OCs and empower Lot Owners and occupiers.

In Victoria, the Owners Corporations Act 2006 defines an Owners Corporation as a ‘body corporate which is incorporated by registration of a plan of subdivision or a plan of strata or cluster subdivision.’ The individual Lot Owners form a collective known as an Owners Corporation (OC). This is a legal entity which must comply with its governing legislation and enabled regulations. Owners Corporations can choose to appoint a registered manager who will act on their direction, including engaging contractors for maintenance and repairs, on behalf of the OC. The responsibility to maintain common property and shared services is that of the owners corporation. The manager assists the OC to meet these and other obligations. As part of the Annual General Meeting, Lot Owners collectively agree on a budget to fund ongoing maintenance and shared service costs. Items agreed can include the management fee, caretaking costs including gardening, utility charges, repairs to essential services, insurance premiums and waste management expenses. These are funded through fees/levies.

**For further information about this submission, please contact Liam Straughan, Public Relations and Media Officer, SCA (Vic). [Liam.straughan@strata.community](mailto:Liam.straughan@strata.community).**

## SCA (Vic)'s Pre-Budget Submission

### Summary

SCA (Vic) has proposed a series of priorities for consideration by the Victorian Government in the delivery of its 2022-2023 budget; these are as follows:

1. **Building a Strata-Led, Sustainability Future for Victoria**
2. **Eliminating Building Defects**
3. **Futureproofing Strata Emergency Preparedness and Crisis Response**
4. **Increasing the Affordability of Strata Insurance**
5. **Fairer Local Waste Management for Strata Communities**
6. **Additional Proposals**

## 1. Building a Strata-Led Sustainability Future for Victoria

Strata Community Association (Vic) has committed itself to aligning with the principles of the United Nations (UN) Sustainable Development Goals (SDG), mirroring the commitment of the Victorian Government with the passage of the Climate Change Act (2017) to act to prevent, and adapt to, events associated with the occurrence of anthropogenic climate change.

Victoria's average annual temperature may increase by up to 2.4 degrees Celsius compared to the 1986–2005 average (under a high emissions scenario) with about double the number of very hot days. Sea levels will continue rising – by the 2050s, sea level is projected to rise by about 24 cm (relative to 1986–2005) under medium and high emissions scenarios.

The growing number of people living in strata in Victoria is concurrently predicted to gradually increase from approximately 25 per cent of the population at present to 50 per cent by the year 2050.

Strata living provides a sustainable and practical lifestyle for millions of Victorians and counting, with a large proportion of developments typically being located in close proximity to public transit and amenities.

Strata, and the built environment more broadly, therefore, has considerable potential to help meet future sustainability challenges even further, and in alignment with the government's own 2050 net zero emissions target, while simultaneously improving living standards for owners and residents.

Specifically, **SCA (Vic) calls upon the Victorian Government to establish strata-specific sustainability rebates, grants and/or low/no-interest loans for owners corporations, to facilitate the increased uptake of sustainability measures** such as electric vehicle (EV) charging, renewable energy, lower-energy intensive appliances and lighting, and other measures.

### Recommendations:

- **Partnership between SCA (Vic) and Sustainability Victoria, to design programs (rebates, grants and/or low/interest-free loans) specifically directed towards OCs to facilitate greater uptake of:**
  - ❖ **EV charging**
  - ❖ **Renewable energy generation/consumption (where possible)**
  - ❖ **Waste management programs and improvements**
  - ❖ **Energy-efficient appliances**
  - ❖ **Lighting and electricity upgrades**

## 2. Eliminating Building Defects

Building defects are a national problem for the entire strata sector. Building practice and certification have deteriorated while government regulation has been minimalist and reactive, resulting in consumer rights being at an all-time low when it comes to finding remedies to defective building works.

In the Victorian context, ensuring greater accountability for building works undertaken in residential strata-titled buildings requires the establishment of avenues for strata consumers and owners corporations to be able to seek appropriate recourse in the event defective works are discovered.

**SCA (Vic) calls upon the government to establish a portal dedicated to the retention of base building information** (in the form of building manuals) relating to design, construction, and maintenance of multi-dwelling properties.

The ability for consumers to access information directly relevant to the proper and effective operation of a building where action must urgently be taken in relation to addressing the presence of defects or combustible cladding, is crucial to ensuring that their rights and protections under relevant statutes, are upheld, and will also

In early 2022, the Victorian Government also announced its intention to expand the coverage of Domestic Building Insurance (DBI) to include mid-rise residential developments totalling eight storeys or less, in recognition of a greater shift among the Victorian population towards strata living, and of the considerable costs associated with repairing defective works discovered.

DBI is currently required under the *Building Act 1993*, and under ministerial orders, of all builders undertaking works undertaking domestic building projects over the value of \$16,000 and/or applicable to domestic buildings totalling three storeys or less.

DBI coverage exists as a last resort means for consumers to seek reimbursement of the costs of rectifying building defects where a builder is deceased, has disappeared, or become insolvent within the current claims periods applicable

Defects discovered on common property, particularly on the exterior or roof of larger, high-rise residential buildings (above eight storeys) currently entail rectification costs being allocated entirely to all lot owners with no means of pursuing appropriate recourse in the context where DBI would apply under the current remit of the scheme.

Therefore, while SCA (Vic) broadly welcomes moves by the government to expand DBI coverage in the context of mid-rise buildings, this should also be specifically **extended to include residential buildings of any height, with a ten-year claims period for structural and non-structural defects effective within ten years of an Occupancy Permit being issued**, in alignment with comparable provisions under the *Building Act 1993*.

### Recommendations:

- **Establishment of a centralised portal for base building information applicable to multi-unit dwellings, overseen by the VBA (or another relevant authority), and made accessible to strata consumers and owners corporations.**
- **Expansion of Domestic Building Insurance (DBI) to encompass structural and non-structural defects affecting residential buildings of any height, for a claims period of ten years after the issue of an Occupancy Permit.**

### 3. Futureproofing Strata Emergency Preparedness and Crisis Response

Effectively coordinating emergency and crisis response protocols in high-density living arrangements remains an issue of paramount importance, both in Victoria, and across Australia more generally.

As observed through many different recent examples, from the Lacrosse and Neo200 building fires, to the lockdown of public housing towers in Melbourne during 2020 as a result of the COVID-19 pandemic, the imperative to effectively coordinate emergency response across a variety of contingencies has never been greater.

In the latter example, what was observed throughout the periods of heightened restrictions as a result of community spread of COVID-19 was that sufficient recognition of the needs and capabilities of the strata sector, or equivalent support or guidance to that offered to social housing towers, was provided, leading to mass confusion among managers, suppliers, owners corporations, committees, and residents alike.

**Accordingly, SCA (Vic) strongly encourages the Victorian Government to partner with industry in order to better coordinate future incident response protocols specific to strata, and to build upon the lessons learned from recent times.**

**Recommendations:**

- **The establishment of a roundtable or Expert Panel with SCA (Vic) representation, or resourcing for SCA (Vic) to undertake strata sector-wide emergency preparedness and response research.**

## 4. Increasing the Affordability of Strata Insurance

In 2021, SCA commissioned Dr Nicole Johnston, Senior Lecturer in the Department of Finance at Deakin Business School, to produce an industry-first report providing in-depth social and economic analysis of the strata industry.

In response to increased attention on strata insurance affordability and availability, regulation, and the role of strata managers in strata insurance, SCA identified a need for a comprehensive, data-driven report detailing strata insurance in Australia and New Zealand.

According to the report, **in 2020, 45,583 Victorian OCs paid over \$210 million in strata insurance premiums, nearly \$45 million in duties, levies and taxes and claimed nearly \$75 million (based on 7,324 claims).**

Further, **the average premium in Victoria increased from \$2,839 in 2016 to \$4,622 in 2020, representing an overall period increase of 13%.**

The **total cost of insurance increased on average from \$3,522 to \$5,728** over the same period.

**Taxes, duties, and levies on strata insurance accounted for approximately 21.27% of the total cost of insurance for Victorian owners corporations in 2020** (\$23 million due to state duties, and \$22 million in GST).

Accordingly, SCA (Vic) calls for the Victorian Government to **ease costs on consumers living in strata through the reduction of taxes, levies, and duties on strata insurance products** as a proportion of costs, through outright abolition, capping, or reinvestment.

### Recommendations:

- **Reduction of state duties, taxes, and levies on strata insurance through abolition, capping or reinvestment.**

## 5. Fairer Local Waste Management for Strata Communities

Councils in most areas within Victoria hold responsibility for waste collection, and subsequently collect fees for the service via lot owners rates.

In many councils, however, the council by way of a Section 173 Agreement undertaken with an owners corporation under the *Environment and Planning Act 1987*, may mandate that the owners corporation must carry out waste management services privately.

The result is that lot owners within the strata scheme where this is mandated, are charged twice for waste services – once by the owners corporation, who has been instructed to carry out the services privately, and again by the council, who do not carry out any associated service but still require payment of the fee.

This type of agreement, whereby council planning permits are increasingly requiring use of private contractors to be endorsed, is becoming more and more common, exposing an ever-increasing number of lot owners to this unfair double-charging.

Councils should not be able to include the controversial third-party clauses inserted into planning agreements and waste management plans whereby councils continue to receive the rates from lot owners even though they are not carrying out waste collection.

Some progressive councils have realised the unfairness of this situation and after negotiation with the owners corporation directly, have offered rate relief.

The few councils that have undertaken or are planning to undertake these actions in liaison with specific OCs within their region are the Shire of Macedon Ranges, City of Casey, the City of Stonnington, City of Moreland and City of Whitehorse. Their actions should be considered when applying remedies to this issue.

**SCA (Vic) calls upon the Victorian Government to specifically legislate against this unfair practice by local governments**, given the capability presently held to cap council rates by the Minister for Local Government.

**Recommendations:**

- **Outlawing the unfair charging of strata communities for waste collection by local councils where obligations already exist for waste collection to be completed by private companies under Section 173 Agreements made under the *Environment and Planning Act 1987*.**

## Additional Proposals

The aforementioned proposals summarise the bulk of SCA (Vic)'s submission to Treasury, however, there are several additional proposals that we seek to ensure appropriate accounting for in the 2021-2022 Budget.

- **Establishment of a Victorian Strata Commissioner and/or Strata Helpline** to assist lot owners and residents with advice and information related to owners corporation matters and disputes (prior to VCAT involvement), and
- **Establishment of a sensible, effective professional regulatory framework** applicable to strata managers in Victoria, facilitating SCA (Vic) involvement and input into the design of this framework.

**For further information about this submission, please contact Liam Straughan, Public Relations and Media Officer, SCA (Vic). [Liam.straughan@strata.community](mailto:Liam.straughan@strata.community).**