

**Pre-Budget Submission 2021-22**

*Strata Community Association (SCA)*

**29 January 2021**

## Introduction

Strata Community Association (SCA) is the peak industry body for Body Corporate and Community Title Management (also referred to as Strata Management, Strata Title or Owners Corporations Management) in Australia and New Zealand.

Our 5,000 individual and corporate members include strata/body corporate managers, support staff, owners' representatives and suppliers of products and services to the industry. SCA proudly fulfils the dual roles of a professional institute and consumer advocate.

Direct employment in specialist strata management companies is approaching 10,000 people. More significantly, they are pivotal in an estimated \$6.7 billion in annual economic activity.

Based on the 2020 Australasian Strata Insights Report, more than 2.2 million people live in flats and apartments, the vast majority being strata titled.<sup>1</sup> This figure does not include other forms of strata title such as townhouses and community titled developments. Nor does it include businesses operating in strata titled commercial buildings. The estimated value of property under strata title in 2020 exceeds \$1.3 trillion.<sup>2</sup>

As the growth of apartment and strata living has intensified over the last decade, the strata management strata services industry has grown in lock step to serve it. Strata managers navigate through a maze of Commonwealth, State and Territory legislation and regulation ranging from actual strata specific legislation, regulation, workplace, health and safety issues and building codes as well as measures applicable to the management of body corporate funds.

This submission presents key industry priorities for the Government's consideration:

- **Remedying affordability and availability issues with strata insurance** by considering removal, reduction and rebasing stamp duties, direct subsidies and reinsurance pools.
- **Directing housing stimulus targeting strata with the HomeBuilder Scheme** concentrating on professions and areas that have been missed by the boom for new build contracts that HomeBuilder has created.
- **Developing a long-term remediation program across strata properties** to support the Australian Government's Long-term Emissions Reduction Strategy.
- **Developing a pandemic plan for residential buildings** including how to manage human interactions and systems in common areas.

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<sup>1</sup> Hazel Easthope, Sian Thompson and Alistair Sisson, *Australasian Strata Insights 2020*, City Futures Research Centre, UNSW, Accessed at <https://cityfutures.be.unsw.edu.au/research/projects/2020-australasian-strata-insights/>

<sup>2</sup> Ibid, p6

## SCA's Pre-Budget Submission

### Strata Insurance – remedying affordability and availability issues

Affordability and availability of insurance have been the most common issues faced by people living in apartments, townhouses and strata-titled properties, especially in disaster-affected regions.

SCA has consistently heard stories of consumers in Northern Australia saying their choices are limited when they try to choose policies and insurers.

SCA is calling on the federal government to intervene and find and fund solutions to enable people living in strata communities in areas where it is hard to obtain an insurance policy, or an insurance policy that is affordable compared to policies from unaffected areas.

The ACCC has delivered its final report<sup>3</sup> to Treasury in late 2020 outlining its 38 recommendations to tackle affordability and availability. Immediately apparent in the report is the scale of the issue, where:

- Since 2011, non-insurance rates have increased in Northern Australia by between 7 and 9 per cent.
- Since 2011, there has been a 178 per cent increase in premiums in Northern Australia versus 52 per cent elsewhere.
- Northern Australians pay a \$2,500 premium average versus national average of \$1,400.
- Northern Australians paid \$79.6 million in stamp duties in 2018-19.
- Between 2007 and 2012, strata insurance premiums in North Queensland had increased by over 300%.

Significant investment is needed by the federal government, and the funding, programs and relevant legislation and regulation needs to be developed and implemented in close partnership with the state or territory jurisdiction where properties are affected.

There is no one-size-fits-all solution for areas in Australia experiencing strata insurance affordability and availability issues.

### Removing, reducing and rebasing stamp duties

Stamp duties account for 7 to 10 per cent of the final amount paid as part of an insurance policy. With average premiums at \$2,500 per policy holder in more disaster affected areas within Queensland for example, the abolition of stamp duties on insurance benefit policy holders immediately by \$200 to \$250 on average.

There are a wide range of duties and levies charged against insurance policies, including GST, Emergency Services Levies and others dependent on jurisdiction. SCA favours federal government solutions that provide relief of these duties and levies by removing them or providing relief where

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<sup>3</sup> *Northern Australia insurance inquiry Final report 28 December 2020*, ACCC Accessed at <https://www.accc.gov.au/focus-areas/inquiries-finalised/northern-australia-insurance-inquiry/final-report>

there is the ability to, or work with states and territories to fund their moves to reduce the duties and levies.

If stamp duties remain, or remain at a lower rate, SCA agrees with the ACCC's recommendation to rebase them and use the funds for mitigation efforts, or direct relief for uninsured or underinsured parties.

### **Direct subsidies, reinsurance pools**

SCA has advocated strongly for a holistic, whole-of-market solution to affordability and availability issues as part of the ACCC inquiry, and more broadly in jurisdictions affected by insurance issues over the last decade or more.

The ACCC Final Report favours direct subsidies over a reinsurance pool, citing that direct subsidies are more targeted and effective and may present a more efficient solution to the issues.

The ACCC inquiry stated that the inquiry 'has not led us to believe that there is a significant and widespread insurance availability issue,' however that is not the experience of our members, strata managers and people living in strata communities that we speak to on a daily basis.

Direct subsidies, if done right, can be very effective, however the overall funding size, funding length and eligibility requirements must be set very well to ensure relief impacts the right consumers, does not exclude those facing hardship, is not discriminatory and does not significantly distort the market and create unwanted incentives and disincentives.

### **Mitigation**

SCA is a strong advocate for governments to fund mitigation efforts, but they should only be pursued in conjunction with fiscal, regulatory and market interventions.

Mitigation has the potential to reduce premiums and somewhat address the affordability issue and if done correctly could return some insurers to the market, however there would likely have to be vastly more significant investment than exists currently to see positive impacts.

Currently 97 per cent of money spent when over the cycle of a disaster spent on recovery, and only 3 per cent on mitigation, showing that more funds need to be directed towards mitigation by federal and state and territory governments.

### **Strata remuneration**

Strata managers are critical to keeping the consumer informed, sourcing insurance policies, negotiating terms and conditions, processing claims, renewing policies and filing reports and updates based on building repairs and maintenance.

What we want from government is a system and reform based on evidence that recognises and promotes the value that strata managers bring in providing the consumer with detailed information and performance that guides them towards good consumer outcomes.

To aid the work of government and stakeholders within the strata industry to achieve good outcomes for consumers, SCA has formed a national taskforce with the goal of advising stakeholders in each state and territory. The SCA taskforce has commissioned a comprehensive report into strata insurance in Australia, due to be released in mid-2021.

#### Recommendations

- **Duties and levies:** Work with each state and territory government to rationalise stamp duties, GST, emergency levies and other duties and costs and devise a funding and regulatory package to provide overall relief to those experiencing strata insurance availability and affordability issues.
- **Mitigation:** Provide additional funding for mitigation efforts in disaster areas with the express intention of reducing risk and therefore premiums in those areas.
- **Funding intervention:** Significantly invest in measures that improve both affordability and availability, ensuring that markets are not distorted and everyone experiencing these issues has their concerns addressed. Treasury should work closely with industry on potential funding amount, eligibility and types of intervention, and give serious consideration to the decision between reinsurance pools, direct subsidies and other forms of intervention.

## Housing Stimulus – HomeBuilder for strata

SCA has welcomed the HomeBuilder scheme, the First Home Owner Deposit Scheme and other measures implemented by the federal government in its economic response to COVID-19 to stimulate the property, housing and construction sectors.

The eligibility requirement of the HomeBuilder scheme, however, have locked apartment, townhouses and other strata-titled property owners out. Renovations over \$150,000 as an individual are difficult within apartments complexes without having wider implications to other apartments.

At the same time, there are critical maintenance and improvement items that can benefit all residents living within strata complexes, including people renting and owning.

There are more than 300,000 strata schemes registered in Australia that have experience engaging building and construction contractors and will be able to get projects under way very quickly. Maintenance and capital works projects included in long-term maintenance plans include:

- Painting.
- Repairing and upgrading fences, driveways, balconies and common areas.
- Landscaping.
- Plumbing.
- Electrical upgrades including installing solar panels.
- Improving accessibility including ramps, stairs and lifts.
- Improving energy efficiency.

HomeBuilder has been incredibly successful however the uptake has been relatively poor for the renovation component of the HomeBuilder package, representing approximately 20 per cent of the applications as of January this year.

New builds and renovations require different skills sets and are carried out by different sectors and in different locations around the country. Direct stimulus targeting strata would be concentrated on some of the professions and areas that have been missed by the boom for new build contracts that HomeBuilder has created.

Strata titled properties in Australia such as apartment blocks and townhouses are critical to the construction industry, making up nearly 50 per cent of dwelling unit construction commencements in 2018. Strata titled properties are valued at more than \$1.1 trillion and require maintenance works and capital improvements on an annual basis.

Maintenance and capital improvements on strata titled properties contribute millions of dollars to the construction and trades industry, with \$5.7 billion spent on callouts to tradespeople including plumbers and electricians in 2018 alone. Many strata titled properties have long-term maintenance plans with projects scoped and earmarked for the future.

### Recommendation

**HomeBuilder for strata:** Commencing in 2021, launch a parallel program, similar to HomeBuilder but targeted at the strata sector, with eligibility for strata-titled properties offering \$25,000 grants to carry out critical maintenance and improvement projects and work with the strata sector to determine eligibility criteria.

## Remediation Education Program - Strata supporting the emissions reduction

Built environment research has identified that up to 25 per cent of Australia's emissions are produced from buildings.<sup>4</sup> There are many strategies to support Australia's climate change with many supporting new building developments.<sup>5</sup> With buildings over 50 years old, a building service life impacts on the carbon emission with service life not considered in the original design and construction.<sup>6</sup>

Residential buildings require support from someone they work with on a daily basis to implement long-term sustainable strategies. The strata manager's business environment is characterised by a complex set of interdependencies with stakeholders. A strata manager interacts with resident-owners, landlords/agents, tenants and owners corporations (or bodies corporate). They play a role in developing a long-term maintenance fund, however there are approximately fewer than 5 per cent of funds that include a sustainable strategy within their plan.

Strata managers play an important role in supporting strata communities to improve their contribution to sustainable development, improve building performance and efficiency, and build more engaged, healthier and inclusive communities.

Strata managers require access to appropriate information, tools and guides for a range of sustainability initiatives which are applicable to all customer segments (bodies corporate, owners and residents).

Tools to support environmental improvement, community development and health and wellbeing will all contribute to more attractive communities for residents and recognition of the strata sectors contribution to sustainable development.

A remediation program for strata communities to implement sustainability initiatives to retrofit existing residential buildings would support Australia's Long-term Emissions Reduction Strategy with energy savings, environmental and economic benefits.<sup>7</sup>

### Recommendation

**Remediation Education Program for strata:** Commencing in 2021, launch a program targeted at the 3,300 strata managers across Australia to educate and provide tools to support environment improvement and implement sustainable strategies into long-term maintenance funds.

<sup>4</sup> Van der Heijden, Jeroen. (2017). *From leaders to majority: a frontrunner paradox in built-environment climate governance experimentation*. Journal of Environmental Planning and Management. 61. 1-19. 10.1080/09640568.2017.1350147.

<sup>5</sup> *Australia's Climate Change Strategies*, Department of Industry, Science, Energy and Resources. <https://www.industry.gov.au/policies-and-initiatives/australias-climate-change-strategies>

<sup>6</sup> Fan Hu, Xuejing Zheng, *Carbon Emission of Energy Efficient Residential Building*, Procedia Engineering, Volume 121, 2015, Page 1100, ISSN 1877-7058, <https://doi.org/10.1016/j.proeng.2015.09.111>.

<sup>7</sup> Chen, S., Guan, J., Levine, M. D., Haiying, L., & Yowargana, P. (2015). Evaluation on retrofit of one existing residential building in north china: Energy saving, environmental and economic benefits. *Procedia Engineering*, 121, 3-10, <https://www.sciencedirect.com/science/article/pii/S1877705815027393>

## National Pandemic Plan for residential buildings

COVID-19 has presented great challenges for each individual and each sector of the economy. While governments and authorities have done a commendable job of regulating and making decisions in the face of a fast-moving and unprecedented challenge, the lessons learned through the pandemic should not be forgotten and can help to formulate an effective response in the case of another future pandemic, or emergency situation.

Due to the highly infectious nature of COVID-19, any shared space needed to be evaluated for its potential to fuel transmission of the virus. Large public spaces, such as beaches, park and stadiums feel directly under the purview of relevant government authorities, however private residences such as apartments, townhouses and other strata-titled complexes are mostly privately owned and administered.

Strata managers, bodies corporate and owners corporations acted to ensure the safety of their residents, but often lacked guidance, oversight and clear direction as they attempted to do their best to react to the pandemic and follow advice.

The strata sector has a vibrant set of stakeholders including the strata management firms who manage body corporate and owners corporation affairs, owners themselves, residents and the organisations and individuals who provide services to the sector, such as gardening, plumbing, electrical, engineering, maintenance and professional services such as the provision of legal advice.

**Strata Community Association is calling for the establishment of a working group of national stakeholders**, including state and federal government representatives and the adequate funding, to adopt a national pandemic response plan to ensure that shared services, common areas and residential and strata buildings throughout Australia and the people who reside in them are protected and well informed for future pandemics or emergency scenarios.

### Recommendation

The federal government establish a stakeholder working group with adequate funding to draft a national pandemic plan for residential and strata buildings throughout Australia.

Suite 101, Level 1, 845 Pacific Highway  
Chatswood NSW 2067

Ph: 02 9492 8255

Email: [admin@strata.community](mailto:admin@strata.community)

W: <https://strata.community>