

Pre-Budget Submission 2022-23

Strata Community Association (SCA)

28 January 2022

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.¹ 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.²

As the growth of apartment and strata living has intensified over the last decade, the strata management strata services industry has grown in lockstep 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 three key industry priorities for the Commonwealth Government's consideration:

1. **Accelerating towards net zero through the multiplier impact of strata communities** focusing on implementation of programs that drive energy efficiency and reduce emissions in strata buildings
2. **Improving building quality and restoring trust** by improving regulation, compliance, building standards and construction practices for strata complexes
3. **Solving the crisis of affordability and availability of strata insurance** through reducing, rebasing or removing excessive stamp duties and levies, and facilitating the introduction of the Northern Australian reinsurance pool and greater mitigation investment.

¹ 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/>

² Ibid, p6

SCA's Pre-Budget Submission

Priority 1: Accelerating towards net zero through the multiplier impact of strata communities

Background

As many as **1 in 5 Australians currently live in apartments, townhouses, or other properties under strata title**, driven by a growth in popularity of living in close proximity to work, public transport and other amenities.

Strata living is also sustainable by its design, wherein the **more efficient use of land and resources in a multi-dwelling property by a greater number of residents is required, compared to a typical freestanding home.**

According to estimates from the National Australian Built Environment Rating System (NABERS), the built environment accounts for approximately 25 per cent of carbon emissions across Australia, and 40 per cent of global carbon emissions.

Investing in the capability for strata to build upon its strengths as both a comfortable and more sustainable way of living is **an opportunity for the commitment of the government towards a net zero emissions target by the year 2050 to be realised more readily, and at a scale unseen elsewhere throughout the Australian economy.**

Similar to other industries, **the strata sector is uniquely responding to consumer demand for greater sustainability and higher performance, including the installation of EV charging, energy-efficient lighting and appliances, and even solar energy production in strata developments** such as apartment buildings and townhouse complexes.

Furthermore, **the economic benefits of investing in sustainability within the strata environment are more readily apparent than in individual households**, with the multiplier effect of decisions made by owners corporations and bodies corporate around sustainability affecting the habits of more households and consumers. For example, when improving their NABERS energy rating from 3 to 5 stars, apartment buildings can save an average of \$104,402 p.a.³

Electric Vehicles (EV's)

Modelling estimates a rapid uptake of EV's in Australia in the coming decades, with moderate estimates suggesting that EV's will represent 49 percent of total vehicle sales in Australia by 2030, and 100 per cent of total vehicle sales by 2040⁴. This expected uptake is due to a number of factors, namely

- Falling battery prices.
- Increased availability of EV's.
- Increased differential between electricity and petrol prices.
- Better technology leading to increased driving ranges for EV's.

³NABERS *Apartment Buildings Fact Sheet* | Jan 2020 p.4 | Accessed at: https://nabers.govcms.gov.au/file/24313/download?token=Mo6LdOTv&_ga=2.27684799.2002004183.1642565438-1535668719.1642565438

⁴Energeia. (2018). *Australian Electric Vehicle Markey Study*. Australian Renewable Energy Agency. p. 69

- Overall public endorsement of renewable energy technology moving forward.

Investment into EV charging stations throughout strata in Australia is excellent preparation for future attitudes and uptake of EV's in the coming years.

Lighting and Infrastructure

Residential and commercial buildings account for just under half of Australia's total electricity consumption.⁵ Of that consumption, a large majority of it can be attributed to both lighting as well as Heating, Ventilation and Air Conditioning (HVAC) systems.

Investment allocated to implementing energy efficient lighting systems and HVAC systems in strata complexes could have an exponential impact on reducing both emissions and energy consumption nationwide.

SCA's membership base of over 5,000 owners corporation and body corporate managers and suppliers across Australia are responsible for supporting and empowering owners corporations and bodies corporate in transitioning to a greener, cleaner future for residents of strata-titled properties.

SCA's own alignment with the United Nations' Sustainable Development Goals (SDGs) has also formed the basis of our support for the incorporation of the built environment into future commitments to combat climate change.

Recommendations

Prioritising investment and support for strata communities to magnify the take up of sustainability initiatives by:

- the establishment of significant grants and low-interest loan packages made available to support schemes for owners corporations and bodies corporate around Australia,
- Supporting the retrofitting and installation of EV infrastructure across all strata communities in Australia.
- Renewable energy generation, storage, and consumption.
- Better waste management.
- Upgrading to energy-efficient lighting and electrical appliances.

⁵ Australian Government. (2021). *Australia's Long-term Emissions Reduction Plan*. Commonwealth of Australia. p.69. Accessed at: <https://www.industry.gov.au/sites/default/files/October%202021/document/australias-long-term-emissions-reduction-plan.pdf>

Priority 2: Improving building quality and restoring trust

Background

Building defects remain a pressing, yet avoidable issue affecting strata consumers throughout every jurisdiction in Australia, costing considerable time and money to rectify, all the while affecting the health and safety, as well as the mental wellbeing of residents. SCA has heard a consistent message from residents throughout Australia regarding poor construction issues that are leading to negative consumer outcomes.

High-profile, and sometimes fatal incidents surrounding building defects and the use of poor-quality construction materials, such as **the Grenfell and Lacrosse Building fires, Surfside apartment complex collapse, and evacuation of the Opal and Mascot Towers, have been ingrained into public awareness in recent years.** In Australia, more than 3,400 buildings have so far been identified with dangerous flammable cladding alone.⁶

As a result, these events, and others, have affected public perceptions of, and confidence in, strata living, particularly within apartment buildings, in spite of its many benefits and practicalities for consumers. Improving compliance to ensure that health and safety requirements are being met is critical to regaining strong public trust.

Strata managers are the first to respond to the issue of building defects, working with stakeholders such as insurers, owners corporation or body corporate committees, and government agencies and departments in the process of seeking and executing appropriate rectification measures.

Research into building defects in residential multi-owned properties throughout Australia shows that the biggest contributing reasons towards the prevalence of building defects may be attributed to ‘endogenous organizational factors’ namely:

- Organisational Instability.
- Client project control.
- Time pressure.
- Cost pressure.
- Human error.⁷

SCA believes that all building defects are avoidable, and that changes to project management and organisational practices can have an immense impact on the reduction of building defects throughout Australia. 40-50 per cent of building defects are known to arise in the construction phase, and an overwhelming 50-60 per cent of building issues can be combatted with better project design.⁸

SCA believes that support from government towards addressing the issue of building defects should leverage this knowledge and experience from the strata industry, draw upon research undertaken into the issue, and ultimately improve consumer outcomes in this context.

⁶ Oswald, D. Moore, T. & Lockrey, S. (2021). *Combustible costs! financial implications of flammable cladding for homeowners*. International Journal of Housing. p. 2. Accessed at: <https://www.tandfonline.com/doi/full/10.1080/19491247.2021.1893119>

⁷ Johnston, N. & Reid, Sacha. (2019). *An Examination of Building Defects in Residential Multi-owned Properties*. Deakin University. p11

⁸ Ibid. p11

Recommendations

SCA is seeking significant investment in improvements in regulation, compliance, building standards and construction practices for strata complexes through:

- Requiring more targeted registration for building practitioners involved in the design, construction and maintenance of buildings, especially those whose trades make the most impact on defects.
- Improving of trades and improvements of standards – certifications.
- Improving regulatory oversight through state and local government collaboration with private surveyors.
- Pressuring Australia’s state and territory governments to requiring buildings to develop and maintain a comprehensive building specific manual that is readily available to property owners, consisting of information such as building product information, occupancy, maintenance records etc.. With the goal of improving strata manager and owners corporation operational decision-making.⁹

⁹ ABCB. (2021). *Building Manuals – A response to the Building Confidence Report Discussion paper*. p.4

Priority 3: Solving the crisis of affordability and availability of strata insurance

Background

The affordability and availability of strata insurance is a crisis that subsists throughout the entirety of the Australian market, as consumers struggle to navigate rising costs and lack of access to affordable insurance options, particularly in disaster-affected regions such as Northern Australia. The total insurance costs for owners corporations in 2020 throughout Australia was approximately \$1.08 billion, increasing from \$619 million in 2016.¹⁰

In 2021, SCA released a comprehensive report into strata insurance in Australia, *A Holistic and Data-Driven Analysis of Strata Insurance in Australia and New Zealand*, led by Dr Nicole Johnston, Senior Lecturer in the Department of Finance at Deakin Business School. It highlighted a number of immediately apparent areas in need of reform surrounding strata insurance.

Strata Managers and the insurance supply chain

Strata insurance is a complex system, and owners' corporations require specialized assistance from qualified strata managers to effectively obtain the best consumer outcomes. The Deakin Strata Insurance Report 2021 report identified that across Australia and New Zealand there are 38 pieces of legislation regulating strata insurance, 12 legal topics relevant to strata insurance and that strata managers carry out 47 different insurance services.

Strata managers are an essential operator within the strata insurance supply chain, undertaking claims management, sourcing policies, insurance administration and a multitude of other tasks that assist Owners Corporations and their clients. SCA hopes to drive understanding of the role that strata managers play, to ensure that their value is being communicated to the relevant stakeholders.

Stamp Duties, Taxes and Levies

Stamp duties, taxes and levies account for a significant proportion of the insurance costs for strata insurance consumers throughout Australia, representing between 20 and 40 per cent of the total insurance costs, with the national average at 27.45 per cent.¹¹

Total levies, duties and taxes paid on insurance in Australia rose from approximately \$134 million in 2016 to \$228 million in 2020.¹²

Individual states are required to pay a large variety of duties, taxes and levies on strata insurance, including GST, emergency services levies and others depending on the area. Some states experience 'tax on tax' whereby both the federal government and state and territory governments charge GST on components of strata insurance, leading to compounding charges incurred by consumers.

¹⁰ Johnston, N., Lee, A., Mishra, S., Powell, K., Bowler-Smith, M and Zutshi, A. *A data-driven holistic understanding of strata insurance in Australia and New Zealand, June 2021*. Deakin University, Accessed at <https://www.strata.community/strata-insurance-report>.

¹¹ Ibid p24

¹² Ibid.

The Deakin Strata Insurance Report 2021 recommends abolition of duty on strata insurance premiums, and SCA agrees that this would be an effective method to increase affordability of insurance for consumers.

Northern Australia

Northern Australia is particularly affected by affordability and availability issues, as lack of population density and the high-risk of disaster related weather events drive up premiums and disincentivise many insurers to remain in the market. Between 2007-08 and 2018-19, home insurance premiums rose by 178 per cent in Northern Australia, compared to a 52 per cent increase across the rest of Australia. Similarly, Northern Australians paid \$79.6 million in stamp duties in 2018-19.

The Federal Government has announced its intention to introduce a \$10 Billion reinsurance pool for the affected areas of Northern Australia. SCA believes that the Federal Government should rely on the knowledge and expertise of our organisation, working closely alongside SCA in order to obtain the best consumer outcomes for the affected parties.

Mitigation

Contributions towards mitigation efforts have the potential to address issues of affordability and may potentially put downward pressure on insurance costs. As of 2019, only 3 per cent of natural disaster funding was spent on mitigation, and instead 97 per cent is spent on post-disaster recovery.¹³ A readjustment of funding alignments relating to disaster events may have an impact when done in conjunction with intervention in other areas.

Building Regulation

In conjunction with recommendations made with regards to building defects above, better regulatory oversight of the building and construction industry, particularly in relation to certifications for areas with high claim rates such as waterproofing and fire-safety, may have an impact on both the affordability and availability of insurance. Insurers may gain more confidence and offer more competitive premiums if the quality of buildings increase, and the rate of serious defects decrease.

¹³ ICA. (2019). *Statement on climate change, insurance affordability and accessibility*. p.2

Recommendations

In order to work towards solving the affordability and availability of strata insurance crisis, we recommend that the federal government consider:

- **Reinsurance Pool:** Work alongside SCA to facilitate the introduction of the incoming Northern Australian insurance pool, in order to ensure the best consumer outcomes for strata residents in the affected areas, taking special note of the complexity and specific needs of strata buildings when identifying and managing risk and mitigation efforts.
- **Stamp Duties, Taxes and Levies:** Highlight the very large proportion of insurance policies paid to state and territory governments through stamp duties and work with those governments to provide relief, especially where premiums have increased the most and stamp duties have become a large burden for consumers.
- **Working with the whole insurance supply chain including insurers, underwriters, brokers and strata managers and their companies within the current legislation** and regulation to further improve transparency and disclosure to ensure consumer protections.
- **Building on the work of the \$40 million Strata Titles Resilience Fund to invest in mitigation efforts**, which right now only account for 3 per cent of disaster related investment.

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