

TRANSCRIPT

STANDING COMMITTEE ON LEGAL AND SOCIAL ISSUES

Inquiry into the retirement housing sector

Melbourne — 28 September 2016

Members

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Participating Members

Ms Colleen Hartland

Mr Gordon Rich-Phillips

Staff

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Witnesses

Mr Rob Spence, Chief Executive Officer, and

Mr Owen Harvey-Beavis, Manager, Insurance, Research and Strategy, Municipal Association of Victoria.

The CHAIR — I would now like to welcome Mr Rob Spence, the CEO of the Municipal Association of Victoria, and Mr Owen Harvey-Beavis of the MAV as well. Thank you both for joining us this afternoon. Before I invite you to make some opening remarks I will just caution that all evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders. Therefore you are protected against any action for what you say here today, but any comments you make outside the hearing are not afforded such privilege. Today's evidence is being recorded. You will be provided with proof versions of the transcript within the next week, and transcripts will be ultimately made public and posted on the committee's website. We have allowed half an hour for our time today. Thanks again for being with us. I would invite you to make any opening comments you wish to make, and thereafter we will have questions.

Mr SPENCE — Thanks for the opportunity to come and speak here yesterday. We were asked to come and speak about differential rates. Just to give you some context in the retirement village space and in the work the MAV has been doing in recent times, we have been working with a group of retirement village residents in the Yarra Ranges shire and with the council, so that everyone that was participating in this exercise gets an understanding of how the rating system works and what the drivers are for particular outcomes in particular municipalities.

We have some municipalities that use a differential rate for retirement villages. They have predominantly been councils where there has been a municipal charge. A municipal charge is a fixed charge. It sits on the rate to deal with the administrative costs. It can be up to a maximum of 20 per cent of the total amount collected for rates and municipal charge. So what we have seen across the councils, in the council we have been working with and then the examination of other councils, is that it is common to see differential rates used where there is a municipal charge as a sort of a balancing item against the municipal charge because the municipal charge is quite a regressive revenue instrument. So because retirement villages are generally low value, they sit at the bottom of the curve of property values in the municipality. They will attract a high proportion of its impact; the municipal charge will be high on retirement villages, and the councils, it seems to us, have been using the differential rate to offset that, so it is sort of a balancing item.

We have been progressing in the discussions with the group and that has been very productive. Everyone is getting a much better understanding of the pressures on people residing in retirement villages — the cost, deferred management fees, entry fees, how much you get back on exit — all of those issues — so we are learning about those and learning about the complexity of the retirement village market. We have been dealing with one at Yarra Ranges that is for people who are not going to get accommodation elsewhere and it is subsidised with a grant from the council through to really high-quality and relatively high cost. We have been educating the individuals involved in the way rating works and the impact of differential rates and what the negatives and positives are of that.

One of the things that is clearly misunderstood in the rating space is that rating is a zero-sum game. A council works out what how much it has got to collect and it uses the value of the properties in the municipality to distribute the amount they have got to collect. So if you have got differential rates for farmers or you have got differential rates rating lower than the general rate for retirement villages, the rest of the municipality are picking up the cost of that. So that has been a significant part of the discussion we have been having with the group, but very productive to date.

That is the sort of work we have been doing. We have done some analysis. We are still continuing with that analysis to understand local impacts. We were supposed to be meeting a group out at Yarra Ranges today, but we deferred it to meet with you — —

The CHAIR — Thank you.

Mr SPENCE — We will meet with them in the next couple of weeks and get a much better understanding.

The CHAIR — Excellent; thank you. Just on the issue of differential rates, we have received a lot of submissions about the number of services that are provided within a retirement village. Many of those services are traditionally done by the council — the road maintenance, the rubbish et cetera. So I suppose that is more a cost-per-service type argument. Does the MAV have a position on that argument itself?

Mr SPENCE — Well, the way rates work, they are a revenue collection vehicle and they are not service based. For example, if I look at the amount I pay in rates compared to relatively the services I get back, I would not be able to get equal value, in my view. But there are other people in the municipality who need the service who are getting it and I am assisting in it. It works the same as income tax law, company tax and so on.

Mr HARVEY-BEAVIS — I think the view of the MAV is that rates are a tax and as such you would not necessarily expect the hypothecation of contributions to benefits, although it is not uncommon for some councils to view rating equity as having some element of beneficiary pays within it. There are quite a few complexities in understanding beneficiary pays — for instance, access to service is not necessarily the same as not using those services. So effectively you can still have access to those services even if you choose not to use those services. We also need to understand how the cost of providing those services differs by different cohorts within the community as well. So there may be geographic distances that mean that certain services are more expensive for certain groups of ratepayers and not for others. That is probably more common within argument around farming differential rates than retirement villages. Of course there can be questions around lifetime access to services as well, so the bundle of services I would use from my council would be quite different from Rob's, just because we are at different times of our lives. So actually coming up with a clear beneficiary pays model, we are not aware that it has ever been done adequately on a whole of a rating basis.

Mr SPENCE — Yes, across the life cycle of an individual living in a property.

Mr HARVEY-BEAVIS — It would probably be fair to say that a council would not have sufficient tools to be able to actually implement a system even if they were able to come up with such a system.

Mr SPENCE — So one of the issues we have been debating with a group at Yarra Ranges is the question: if I am a pensioner and I am living in my own home in a municipality and I have got a mortgage, how does that compare to someone who is in a retirement village? There is no consideration of a differential rate for someone who is a pensioner living in their own property but there is for retirement villages. It is a difficult question for a council to deal with because cross-subsidising one for the other is quite a complex issue.

The CHAIR — Can just ask one other on a different topic before I pass to my colleagues? One of our terms of reference asks us to examine the impact of local government rate capping on retirement housing. I would just invite you to respond to any impact that you are aware of or to that proposition.

Mr SPENCE — We are not seeing it at the moment but it is very early days. I would expect where you have got councils involved in or supporting or part funding community-based housing, the potential will grow over time, I think, as rate capping bites and, assuming the Essential Services Commission does not deal with it, where the cost drivers are exceeding the amount of revenue a council can raise. So it is potentially a problem for the future, but it is one of many problems that I think we are going to face as we work our way through the rate capping issue.

The CHAIR — Would it be fair to say that rate capping will also make the provision of differential rates less likely given those revenue pressures?

Mr SPENCE — Because it is a zero-sum game it is really a question of who is going to pay. So if the retirement villages are getting a benefit, then the other ratepayers will be paying for that. We have seen in some of the surveying — we have done a quick scan of the rate assessments that have been done in some municipalities — the community is sensitive to having to cross-subsidise another sector without a clear argument as to why it has happened. It is quite a challenging issue dealing with those cross-subsidies. In rural Victoria we have them with farms. We have some retirement villages. Commercial industrial in rural usually carries a high premium where they pay over the odds. Yes, it is a mixed bag.

Mr HARVEY-BEAVIS — I think one of the issues that you may see is that the communication of any significant shift in rating strategy would be more difficult for councils than environment rate capping. So if the headline number is 2.5 per cent, as is the case this year, if you are shifting around differential rates and so a significant cohort is paying, say, 3 per cent on average increase, that may be more difficult for the council to actually implement it at a political level. But there is no real evidence of that at this point in time.

Mr SPENCE — So it really becomes sensitive. Again, if I use me as an example, my rates have gone up by 40 per cent. I am not in a situation where the money is a problem for me, but if I was, the sensitivity of it and then the reality of the cross-subsidies I think just exacerbates the problem.

Mr MULINO — I have just a couple of very brief questions. You have raised the framing issues: that you view rates as a revenue mechanism, a tax like income tax, and you should not necessarily expect to get back from what you put in. I think others view it, at least in part, as a payment for services. Leaving all of those framing issues to one side, regardless as to how you view it, you have also raised the fact that it is very difficult to identify all of the various cross-subsidies going on within a council area; there are so many of them that you could potentially identify others other than retirement villages. I just wanted to ask, I guess, a basic kind of empirical question: within many retirement villages a lot of services are provided by the village, so it might be roads maintenance, rubbish collection and other things that are traditionally considered basic council functions. I am just wondering is there much variation across retirement villages in terms of what services are provided based upon the analysis you have been doing?

Mr HARVEY-BEAVIS — We have not drilled into the actual services to that level of detail at this point of time. That is probably the next step of the analysis that we will be doing.

Mr SPENCE — We have asked the retirement villages to come back to us with more information about their local scene. We want to work our way through that and understand it. It is a really interesting area to work in, as you would know, and incredibly complicated because of the various models that are used in the retirement village space — the various funding models. You can have people in the same facility with equal sorts of services and so on but come in on different arrangements; it is really complex. I would hope within the next probably four weeks or so we would be starting to unravel that question a bit.

Mr MULINO — One other question: I am just thinking here it is a zero-sum game in the short run. Hypothetically if there were efficiencies in some areas of service provision, from certain services being provided — and this might be most likely by very large providers which had multiple facilities, and it does not appear obvious to me that it would be the case but if there were efficiencies — then you might imagine that there could even be arrangements between local government and providers to reduce overall costs over time by some kind of arrangement. I am just wondering if that is an aspect that you have thought about, or are there any areas where you think there are greater efficiencies by providing services?

Mr SPENCE — I do not think we understand it well enough to say yes or no. I mean again it is a really complex question because is a 50-level apartment block the same as a retirement village and do you deal with it in the same way — the services that are all provided internally, car parking underneath et cetera? It is an incredibly complex question. As the Productivity Commission has said, the local government taxing system in Victoria is one of the beauties of the world in that it relates only to the value of the property. It is quite simple, and the right is against the property, so it is a very efficient tax, and in changing that model you would want to be careful, I would say.

Ms HARTLAND — I know you came here to talk about differential rates, but can I ask —

Mr SPENCE — We will talk about anything, Colleen, you know. We are here regularly.

Ms HARTLAND — Thanks, Rob. I particularly wanted to talk about planning and what controls local councils have over especially the caravan park-type places. Can you talk about what actual controls councils have?

Mr SPENCE — I wish I had brought my planning guide with me because it would be able to answer that question. The discussion about caravan parks is on at the moment in relation to licensing and so on as a result of work being conducted by the red tape commissioner. I would really like to take that on notice because I would not want to mislead you, and it has been a while since I have worked on caravan parks — since the 80s — but I am not quite up to speed on the planning issue, so we will pick that up.

Ms HARTLAND — That would be really good because obviously it is a complex thing and they just seem to pop up overnight. I have got a number of them in the western suburbs and suddenly they are just there.

Mr SPENCE — These are the big caravan parks that have got moveable dwellings on them?

Ms HARTLAND — Yes. I know they come under the Residential Tenancies Act but does the council have any say in how they are planned, where they are positioned?

Mr SPENCE — They will have, yes.

Ms HARTLAND — Do they inspect after they are built? That kind of information would be great.

Mr SPENCE — That is the question we are working our way through with the state at the moment in relation to fire safety and issues like that around these caravan parks, and what the model could look like going forward. Currently it is a three-year cycle of licensing, with the full inspections and so on.

Ms HARTLAND — And so you mean in terms of the council going in to do an inspection?

Mr SPENCE — The requirement for a licence requires inspections by the fire services et cetera — plans and so on.

Ms HARTLAND — So that data is collected by council?

Mr SPENCE — That will be with the councils.

Ms HARTLAND — All right. So that might be something that we should ask for about how that operates.

Mr SPENCE — They are the licensing body.

Ms HARTLAND — So in terms of park regulation, do you know whether there is a consistent level of collection of information, and is this information publicly available? It is around planning, who owns the property, how people are living — all those kinds of — —

Mr SPENCE — Let me come back.

Ms HARTLAND — Yes, that would be great.

Mr SPENCE — I would be happy to do that. We will take that on notice. If we can come and talk to you again or make a written submission, we are happy to do either.

Ms HARTLAND — That would be really good.

Mr SPENCE — Questions and answers are always good because we can sort of poke and prod it a bit more.

Ms HARTLAND — I will send a few questions via the Chair.

Mr SPENCE — That is good.

The CHAIR — I think they are the only questions we have for today, so thank you, gentlemen, for your time. Ms Hartland has some extra questions. Perhaps you could provide answers in due course.

Mr SPENCE — Yes, and if you are interested, we are happy to put a submission to you on what we have found to date, which might be useful to you — a bit of research we are doing.

The CHAIR — Yes. That would be really terrific.

Ms HARTLAND — That would be really helpful.

Mr SPENCE — Our economist is working through it in fine detail, so give us a couple of weeks and we can get something to you.

The CHAIR — Yes, very useful. Thanks very much. Thanks for your time today.

Mr SPENCE — Thank you for the opportunity.

Witnesses withdrew.