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RRVV

Environment, Natural Resources and Regional Development Committee

Inquiry into Sustainability and Operational Challenges of Victoria's Rural and Regional Councils

A submission by
Residents of Retirement Villages Inc.
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1. Introduction

The children born in the immediate post World War 2 era (the 'baby boomers') are reaching retirement age. In less than 40 years' time, there will be 2.4 million Victorians over the age of 60 years. This rapid increase in retiree population will require the construction of more retirement villages.

Retirement villages are the main form of service integrated housing (SIH) developed by the community and private sectors to provide housing, support and care for older people in Australia.

SIH is one of three components of aged care in Australia, intermediate between community care and residential care, and overlapping both these components.

Interest in this form of housing provision derives from the ageing of the Australian population, and the impacts of disability and frailty on the capacity of many individuals and households to manage the tasks of daily life in the domestic housing environment without support. While the majority of those in need of assistance live in the general community with care from formal services and family or other informal carers, a proportion live in a range of purpose-built housing for older people that provides varying levels of support and care services.

The main reason seniors relocate to a retirement village is declining physical capability to maintain former larger family homes due to chronic health conditions.

Current rating systems disadvantage residents of retirement villages and thus tend to make villages less attractive to retirees than they might otherwise be.

This submission focusses solely on the needs of residents of retirement villages in rural and regional Victoria for a fairer and more equitable rating system.

2. Executive Summary

Residents of Retirement Villages Victoria (RRVV) asks the Environment, Natural Resources and Regional Development Committee to recommend changes to the current rating system to remove features that disadvantage retirement village residents. These changes include:

- adjusting the formula for determining rates paid to recognise that retirement villages provide certain infrastructure, facilities and services that save their council money
- changing the way valuers value retirement village units for rating purposes to remove the value of infrastructure and facilities that, if not for the village, the Council would have to provide
- instructing valuers not to use the loan amount levied on units in loan-lease villages as the market price. RRVV recommends a bottom-up approach to valuing retirement village units.
- requiring valuers to recognise that different villages have different deferred management fees and retirement village owners and operators change the level of the fee from time to time

RVVV seeks compulsory rate relief for retirement villages and estimates a fair rate would be at least 25% below the historical rate.

3. About RRVV

RRVV represents residents of retirement villages.

RRVV has four primary activity streams:

- Member support
- Research
- Government relations
- Industry relations

RRVV devotes the greater part of its resources to member support. This includes:

- Responding to telephone and e-mail queries (around 1,000 a year)
- Publishing four newsletters a year
- Holding two primary member events a year
- Visiting villages
- Advocating on behalf of residents making complaints
- Provision and maintenance of the website www.rrvv.org.au as a service to members and a source of information for people interested in retirement villages.

RRVV research explores; the retirement village satisfaction, interactions with management, problems encountered, disputes, access to information and participation in decision-making of residents.

During the last financial year, RRVV lodged formal submissions to:

- The Department of Justice on retirement village residents access to justice
- The Department of Consumer Affairs on Retirement Village Owners Corporations
- Local Government Victoria, Review of the Local Government Act 1989
- The Legal and Social Issues Committee of the Parliament of Victoria on retirement housing

RRVV meets regularly with retirement village operators to explore areas of common interest and resolve differences.

4. About Retirement Villages

With few exceptions, retirement villages are resident funded. Residents contribute all the funds for day to day running expenses and routine maintenance, and all the funds for major maintenance including replacement of plant, equipment and infrastructure as required. Resident funded villages are essentially not-for-profit entities that utilise a professional management company.

Owners and operators make their profit from separate revenue streams.

One stream is the deferred management fee (DMF) also contributed by residents and collected when they leave their villages.

One widely held contract contains the following definition:

"Deferred Payment" means the fee calculated on the Purchase Price at the rate of 2.5o/o per annum for each year or part of a year computed from the period from the Commencement Date up to the date upon which the Owner receives the new

purchase price under clause ... ("relevant period"), so that for example, if the relevant period is 2 years and 1 day, the Deferred Payment shall be equivalent to 7 .5% of the Purchase Price. However, the Deferred Payment shall not be less than 5%o nor more than 25% of the Purchase Price;

Other contracts have higher or lower annual percentages, higher or lower caps and caps that take effect earlier or later in the resident's tenure. Some contracts base the fee on the new purchase price rather than the price paid by the outgoing resident.

Contrary to some operators sales literature, the DMF is not primarily a deferred payment levied to recover a discount on the purchase price of units. The market sets the price both in the primary and secondary markets.

In some villages, residents share any capital appreciation of their units with their owner or operator.

In the case of leasehold villages, residents pay for their right to live in the village and use the facilities provided in three ways;

- the DMF as identified above
- the capital gain share as identified above
- the interest-free loan they make to the owner or operator (also known as an ingoing contribution)

RRVV contends that rating regimes that fail to recognise that retirement villages are resident funded and fail to recognise the effect of the DMF and capital gain share are inherently unfair.

Retirement villages operate in a market economy. The units in popular villages attract higher prices than in the less popular villages, both in the primary and secondary markets. Nevertheless, it is wrong to compare the market values of retirement village units with those of non-retirement village units as is done when apportioning the rate burden across the community. This is not comparing apples with apples – the product bought by the retirement village resident is a package of residence rights and financial obligations whereas the product bought by the neighbour on the other side of the village fence is purely a residence.

However, the market for retirement village units is imperfect because buyers rarely understand the full implications of the complex array of fees they will end up paying. This is particularly the case with the DMF. In an efficient market, prices for units with a low DMF would be higher than identical units with a high DMF. Realised prices do not show this relationship.

5. Fairness, equity and adequacy of rating systems

On 9 April 2013, the Government released new Ministerial Guidelines for the use of differential rates by Victorian Councils.

One of the key reforms contained in the new Guidelines is a revised definition of the types and classes of land open to consideration for a differential rate. RRVV understands that the inclusion of retirement village land reflected recognition of some of the unique characteristics of retirement villages.

Thousands of Victoria's retirement village residents pay rates to local governments to help fund the delivery of services and infrastructure maintenance in their local communities.

In the vast majority of cases, local councils collect these rates from retirement village residents at an amount similar to the General Residential Rate.

Residents in a typical village pay for the maintenance of their internal infrastructure (roads, footpaths, stormwater drains, underground power cables, street lights (including power)) and facilities (community centre, swimming pool, tennis court, bowling green and community bus). They do this through a contribution to a long-term maintenance fund and for cleaning and other routine maintenance through a monthly maintenance fee. Non-retirement village ratepayers pay for these services and facilities only through their rates. Table 1 gives further detail.

Table 1

Retirement Village Ratepayers and Other Ratepayers Compared

Item	Retirement Village Ratepayers	Other Ratepayers
Operation and Maintenance		
Street lighting	Council and residents' funds	Council funds
Roads	Council and residents' funds	Council funds
Footpaths	Council and residents' funds	Council funds
Drains	Council and residents' funds	Council funds
Neighbourhood community centre	Mostly residents' funds	Council funds
Neighbourhood sporting facilities	Mostly residents' funds	Council funds
Neighbourhood open space	Mostly residents' funds	Council funds
Elderly citizens bus	Mostly residents' funds	Council funds
Capital		
Street lighting	Council and residents' funds	Council funds
Neighbourhood community centre	Mostly residents' funds	Council funds
Neighbourhood sporting facilities	Mostly residents' funds	Council funds
Library	Mostly residents' funds	Council funds
Elderly citizens bus	Mostly residents' funds	Council funds

Retirement village residents do, of course, use many municipal facilities in much the same way as other ratepayers do. They also use neighbourhood facilities in much the same way as other ratepayers do but with one big difference – their village provides the facilities they most use. Village provision of facilities spares the local council from the capital expenditure and the maintenance costs involved.

The imposition of full rates by most municipalities means retirement village residents pay for some facilities and services a second time. This is a form of double taxation.

RRVV members in villages with significant open space and community facilities report that the rateable value of properties in their village is higher than on the other side of their village fence when adjusted for house and land size. Community open space, infrastructure and facilities within the village add to the rateable value of its units, and so increase rates paid above those paid on comparable properties outside the village. This increase is consistent with published guidelines for valuing retirement village properties. These guidelines state "The value of the common property is inherently taken into consideration in the unit's value and is not separately assessed' (Valuer-

General Victoria and Municipal Group of Valuers, Specialist Property Guidelines for Aged Care and Private Health Care Facilities, August 2011).

Not only are residents paying twice for some infrastructure and facilities, but they are also paying rates on a higher valuation than if their properties were outside the retirement village.

Outside community organisations do use the facilities of some retirement villages. For example, the University of the Third Age holds classes in many villages. Likewise, local choirs, Rotary Cubs, and Probus Clubs use the facilities of some villages. Retirement villages serve the wider community, not just their residents.

RRVV members report that only one rural or regional council applies a differential rate despite having for years pressed many of them to do so.

Those councils, metropolitan and regional, applying a differential rate to retirement villages cite a desire to achieve an equitable rate distribution. Councils refusing to apply a differential rate also cite equitable rate distribution amongst their reasons. Both cannot be correct. Inconsistency is egregious unfairness.

Some councils refusing to apply a differential rate for retirement villages argue that a discount for retirement villages would necessarily mean the rest of the community would pay a higher rate, and this would have the effect of distortion and so be neither fair nor equitable. This argument fails to recognise that retirement village residents currently shoulder an unfair rate burden.

Some councils give retirement villages rebates or like concessions in recognition of their unique characteristics and resulting rate unfairness. The rebate or concession is typically of a token amount.

Leaving it to individual councils to decide whether to recognise the contribution retirement villages to the municipality, whether by differential rate or some other mechanism, has produced arbitrary effects and will continue to do so? Why does a retirement village on one side of a municipal boundary not receive recognition for its contribution to the community when a similar on the other side of the boundary does?

Similarly, Knox City Council recently reduced the 25% rate discount for retirement villages it introduced in 2006 to 10%. RRVV understands Melton Council recently considered removing its differential rate for retirement villages. RRVV submits a differential rate is not something to apply, change or withdraw capriciously. Rather Councils should apply a differential rate when equity demands it and only modify or withdraw the rate it when it no longer achieves this objective.

In RRVV's experience, municipal valuers tend to use the loan amount or ingoing contribution as the market value of a retirement village unit, amongst other things because it is readily available. As pointed out in Section 4 above, RRVV contends that valuers who do this are at risk of falling into error. RRVV recommends a bottom-up approach to valuing retirement village units.

The relevant guidelines require valuers to take the quantum of the deferred management fee (DMF) into account when valuing a retirement village property. RRVV's experience is that valuers do not understand the DMF and therefore do not take it into account. Misunderstanding is hardly surprising because the DMF definition given in the guidelines is simplistic and potentially misleading.

RRVV points out that some operators have recently changed their DMF terms and that the new increase their revenue. This should result in lower valuations for rating purposes. Affected RRVV members suggest their rate notices do not reflect this change. RRVV submits residents deserve more accurate and timely valuations based on revised guidelines. Given the variety of DMF structures, RRVV recommends calculating the net present value of the cash payment assuming payment at the end of the tenth year of occupancy and where necessary assuming the historical rate of capital appreciation and using this figure to adjust valuations.

RVVV seeks compulsory rate relief for rural and regional retirement villages and estimates a fair rate would be at least 25% below the standard historical rate.