

## **Retirement Villages - a proposal for asset management plans**

### **SUBMISSION**

#### **Overview**

We understand and agree with the need for increased transparency when it comes to the asset management plans of retirement villages and the impact this has on residents. We also feel there are some matters which require further guidance and analysis and believe the following also must be considered in any consultation and development:

- It should be recognized that it is in the best interest as the operator of a retirement village to keep assets in good condition
- There should be a clearer distinction made between a capital repair and capital maintenance – the terms seem to be used interchangeably however, in our business they are fundamentally different costs. A good maintenance plan extends the life of an asset and reduces requirements for repairs.
- It should be made very clear who (operator and resident) is responsible for the costs being incurred
- We accept that having a plan such as this in place may improve budgeting and provide a clearer timeline of capital asset replacement
- The proposals put forward in this document are quite prescriptive, our preference would be for a principles based approach. We believe the prescriptiveness of some of the proposals may skew the behaviour of operators. For example, operators may not invest in the best products available – products which will last longer and ultimately reduce costs overall for the residents – if there is an expectation that when an asset is at the end of its “effective life” it will be replaced, regardless of the state of the asset.
- It is imperative that it is recognized that additional administration costs will be incurred in preparing and maintaining the asset management plan and these additional costs will ultimately increase the administration and management fees that the residents pay
- Overall, it needs to be ensured that the effective lives chosen for assets and the treatment of maintenance costs over the life of the asset are treated such that they drive the correct and best behavior by the operators of villages.

#### **Response to questions posed**

	<b>Question</b>	<b>Response</b>
1	Do you agree to a threshold of \$1,000 to identify the village’s major items of capital? If not, why not?	<p>Yes.</p> <p>We agree with a \$1,000 threshold and would argue strongly that it should not be any lower.</p> <p>There should be some consideration given to indexing this threshold for the future to ensure that the right value of assets are included in the plan.</p>

2	Is the ATO Commissioner's ruling the right method to calculate the effective life of the village's items of capital? If not, what method would be more appropriate for the industry to adopt?	<p>Yes</p> <p>Although this is quite an arbitrary method, we believe it provides suitable guidance.</p> <p>We believe that operators should be able to "self assess" the effective life of an asset. However, they should not be able to assess for a period longer than the ATO ruling.</p> <p>For example, on page 16 of the document an "air handling unit" has an effective life of 20 years. An operator may consider this asset in their village has an effective life of 15 years which could then be used in the asset management plan. However the operator could not opt to use an effective life of 25 years.</p>
3	Is there any specific information that should be included or excluded from the maintenance schedule?	<p>We believe that maintenance needs to be categorized differently from repairs.</p> <p>Overall, the information required in the maintenance schedule is prescriptive and quite detailed and will require significant time to maintain in such a format. In particular the "Costs" section – such as the cost estimate, actual maintenance, % of maintenance costs/original purchase cost, replacement costs. Refer further comments below.</p>
4	Do you have any suggestions for the format, duration and availability of the approved plan?	<p>These comments are based on the proposed asset management plan on page 13 of the document</p> <p>Section 1 – Register of major items of capital</p> <ul style="list-style-type: none"> <li>• We agree and accept that this would cover items in each unit and all assets in the community centre and other common areas (with a cost of more than \$1,000)</li> <li>• We believe this detail is relevant and useful to residents</li> <li>• We believe disclosing the cost of the asset and the effective life is appropriate</li> <li>• We believe that this information should already be somewhat available to operators depending on how they maintain their depreciation schedules.</li> </ul>

		<p>Section 2 Maintenance schedule</p> <ul style="list-style-type: none"> <li>• We believe the information contained in this section is too detailed</li> <li>• We don't think this information should be made publicly available to all residents. However, details of a residents dwelling should be made available to that resident if requested.</li> <li>• We believe this should not cover "maintenance" it should cover capital repairs</li> </ul> <p>Section 3 – Budget</p> <ul style="list-style-type: none"> <li>• In principal, we have no major objections to providing this information in the approved plan. However we have a concern around setting a precedent of three year budgeting as we currently budget on an annual basis and believe this is the best way to provide the most useful and accurate information.</li> </ul>
5	Is the proposed formula to determine when an item of capital needs replacement appropriate? If not, is there another method/formula that could be used?	<p>We understand the logic and reasoning behind the formula but make the following comments:</p> <ol style="list-style-type: none"> <li>1. It will be difficult to maintain an actual maintenance cost register for all assets in every unit</li> <li>2. Annual maintenance of an asset should prolong the effective life of the asset and we don't believe it's correct to consider that when maintenance costs equal the cost of the asset, the asset should be replaced</li> <li>3. Repair costs are more relevant in this instance, than maintenance costs</li> </ol>