



# UPdate

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Will the Carbon Tax affect the Building Industry?  YES  NO

Will the Carbon Tax affect the insurance of our Strata Plan?  YES  NO

However... for Strata Managers and their Body Corporate customers, this affect is a little hard to determine right now.

The Carbon Tax is not a direct tax on insurance such as Stamp Duty, the Fire Services Levy or GST but it does have a direct affect on strata property underwriters such as CHU. This is because one of the major components of an insurer's expense is its claims costs. These costs are directly influenced by the cost of building materials and other reconstruction costs (like power) so any increases are more than likely to be passed on by the building industry, rather than being absorbed.

Should this occur, this will increase insurance costs and the impact will subsequently flow through to strata insurance premiums. The real question for Bodies Corporate then becomes "by how much will the cost of building materials increase because of carbon tax?"

Again, any price changes in the building industry, as a direct result of Carbon Tax, is hard to determine.

Both Rawlingsons and Cordells (Australia's two main Building Costs Guide producers) cannot predict or guess the overall effect of the tax as it flows through the building industry. Only time will tell how the initial 250 companies impacted by the carbon tax directly will handle any increase. They may choose to absorb the entire increase (if any) of this tax or to pass it on in full to the consumer.

What is clear is the Government restriction on these companies to guess or project the cost and increase to their pricing. Companies must be able to demonstrate the real increase and direct impact of the carbon tax before they can contemplate passing on any increase.

For this reason, Rawlingsons and Cordells will continue to monitor and report on cost changes over the next three, six, nine and twelve months as these statistics are reported and analysed, and they are in a better position to update their Guides.

Potentially, another 80 companies will face this tax in twelve months' time, which means that the full impact might not be known for eighteen months.

While some of the government named companies have announced increased costs none are reporting that they are the single result of the Carbon Tax.



## What are the main risks for Bodies Corporate?

In practical terms, if it's deemed likely that the introduction of Carbon Tax will impact the value of the strata building or its full replacement value, then it is important that any change is reflected in the amount of insurance cover that is in place.

Across Australia it is the Body's Corporate responsibility to ensure that the building insurance is adequate to rebuild or replace the Strata building. This means that the Body Corporate will need to determine the affect this tax will have (if any) to their Sum Insured amount. In many cases, the Body Corporate will rely on insurance valuations to determine the amount of insurance required for their strata block. In some States it is mandatory to obtain a valuation at least every five years but CHU recommends that all Bodies Corporate adhere to 'best practice' and opt for a new valuation at least every two or three years.

A large majority of strata insurance valuations use in part, calculations based on either Rawlingsons or Cordells Building Cost Guides, so if Carbon Tax does impact the costs of building materials, it is likely that these costs will be reflected in these Guides.

The extent to which your current valuation will reflect the true replacement value will depend upon the instructions given to the valuer. Instructions should factor in a number of scenarios beyond just price changes in building costs. You may wish to refer to CHU for more information.



## In Summary

- The actual impact of the carbon tax may not be known for some 12-18 months
- The actual impact of the carbon tax on building materials and costs is also unknown, but, early estimates suggest an increase in the range of 2-5% ( for example Allan Manning article below).
- CHU recommends that Managers remind Bodies Corporate to review their sum insured amount to take into account any potential impact of the carbon tax, in line with their legal responsibility to insure for the full replacement value of their buildings.
- CHU also recommends that Strata buildings are valued professionally at least every 2/3 years, and the instructions to valuers are detailed enough to cater for the various factors that may increase the full reinstatement value the building, including the carbon tax.
- Ensure that any general advice or recommendations are properly documented e.g. minuted

It is for these reasons CHU is recommending that Bodies Corporate consider the potential impact of the carbon tax, which is estimated to be upto 3% over and above the normal inflationary increases attached to building costs.

Please consider the circumstances relevant to your strata plan as the information here represents general advice only.

For further reading on this topic, you may also wish to refer an article by Professor Allan Manning ANZIIIF (Fellow) DBA, BComm, MBA, FCPA, HM, FCII, FCLA, FIICO, FCILA, FUEDILAE - [www.allanmanning.com](http://www.allanmanning.com)



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