



2009 Victorian Bushfires
Royal Commission

Response to Discussion Paper – cover sheet

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Response
2009 Victorian Bushfires Royal Commission
GPO Box 4358
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SUBMISSION

2009 VICTORIAN BUSHFIRES ROYAL COMMISSION

FIRE SERVICES LEVY (TAX) AND INSURANCE

Background

This submission has been prepared based on experience with the Delburn Complex fire – please refer to my submission dated May 13, 2009 (your reference number SUBM.002.017.02334-R).

I recently received my insurance renewal invoice for 2010. When compare to the 2009 bill I found that the Premium had increased from \$937.06 to \$1,115.57 – up 19%. The Fire Service Tax increased from \$253.13 to \$420.94 – up a massive 66%. On top of this of course is GST and Stamp Duty – a tax on a tax on a tax – bloody highway robbery! Apart from the usual automatic indexing applied to some risk categories the sum insured is essentially the same '09 compared to '10.

I can accept the premium increase as we did have claims as a result of the fire and no doubt all insurers took a bit of a beating. I must say that my insurer (RACV Farm Insurance) handled my claims promptly and professionally. I have no issue with them other than it would have been beneficial to them and me to include an official State Government explanation and justification of the Fire Service Tax with the renewal documents. The fact that the State Government does not do this is both extremely arrogant and cowardly. The Premier and relevant Ministers have failed thus far to face any scrutiny at the Royal Commission just as they fail to accept any accountability for their decisions re the Fire Service Tax.

The 66% jump in the Fire Service Tax is quite outrageous, even in the post fire circumstances. It has pushed my total bill up from \$1,440.15 to \$1,859.20 of which \$743.63 is tax! This is getting to the stage where I have to question whether insurance is going to be affordable from this point onwards. I really do not think driving people away from taking out insurance cover is a desirable result.

Discussion Paper

I commend the Commission on the work done on the Discussion Paper. It has thrown light on a previously murky area that has had no real scrutiny for some time, if ever.

I consider myself to be a reasonably simple, practical person. Despite having read point 19, page 3 of the Discussion Paper I cannot get a grip on how the Fire Service Tax works, how it is calculated, how it is justified etc. I have asked my insurer for an explanation and advice on whether my policy/cover is voided if I do not pay the tax in full or in part. They have advised that if I do this a process will be followed which will ultimately result in my

policy being cancelled. I had thought a little civil disobedience might be called for given the 66% increase, but perhaps not!

It seems to me the process has too many vested interests involved, is too bureaucratic and autocratic and lacks scrutiny and accountability. There is apparently no audit process to ensure the money raised is actually passed on in full to the MFB/CFA.

My Thoughts

The following comments apply mainly to the CFA and its role in regional Victoria.

I was astonished to read that 77.5% of CFA funding relies on the Fire Service Tax whereas Victoria Police and the SES are fully funded from general revenue.

Clearly the Government contribution to the CFA could be increased from 22.5%. The Government would appear to have the capacity to find more money from better management, more accountability, more auditing and cost cutting in other non essential areas. For example I would think \$40 to \$50million could be trimmed from their advertising (propaganda) budget alone. I also believe the TAC should provide 10% of the CFA's operating budget (based on call-out rates involving motor vehicles). Once again the TAC appears to be rolling in money given their spending on advertising, sponsorships etc. and should be able to find the \$39.1m required for 09/10 through efficiencies.

In an ideal world the CFA should be fully funded from general revenue or at least majority funded from this source. If this is truly impossible and a special tax is the only option then the question is 'Which form of tax is best?'

Clearly the insurance based tax system is not the answer. There are no advantages and the major disadvantage is that it does not encompass the majority of property owners and businesses. Those who do have insurance carry those who do not. It was frustrating to read that the Government's own 2001 Victorian State Tax Review '...recommended replacing statutory contributions by insurance companies with an equivalent, property-based levy collected by local councils.' What has happened since then? Absolutely bloody nothing other than announcement of yet another review that will not report until February 2011! This is classic 'Yes Minister' stuff.

It is also perfectly clear that a property based tax (if we absolutely have to have one) is the answer.

There are two things local councils/shires are very good at – generous remuneration of their CEO's and senior staff and collecting rates. They generally have very reliable, accurate data bases of property owners and businesses. It would therefore be possible to reach the majority of property owners and businesses through councils/shires. I would not set a rate based on improved capital value on the rate certificate as there are far too many variables to make this fair. As a simple person it seems to me that councils/shires could allocate rate payers into some basic categories eg. residences within town boundaries,

businesses within town boundaries, hobby farms (smaller properties that are not businesses), smaller farms involved in intensive agriculture eg. viticulture, aquaculture, orchards, horticulture etc.) and larger farms eg. dairy, beef, sheep, crops etc. Once the total number of rated properties has been assembled into categories an actuary or statistician could run the numbers to come up with a fair and equitable rate for each category. It could well be that the increased number of properties involved would raise the money required at a quite reasonable rate.

Another advantage of collecting the tax through councils/shires is that the tax could be paid quarterly with rates – a method used by many people. This would ease the burden for those on tight budgets eg if the rate was \$280 this could be paid in four instalments of \$70. Some people will hold the view that if you can afford insurance you are therefore rich and should subsidise those with no insurance. What 1950's socialist rubbish! I believe that if more people pay then the cost should be reduced to an affordable level for all.

The rate could vary depending on whether a property was located in a designated fire risk area or not. Complications with this include the risk of arson where a fire can be started in a low risk area eg. Delburn Complex. Of course it is not only the threat of bushfire that has to be considered. Fires can be caused by electrical faults, a spark from an open fire, a child playing with matches, burglary/vandalism/arson, lightning strike etc.

There will be many other issues to consider in setting a fair and equitable property based rate. How should flats/apartments be handled? What happens to properties that overlap council/shire boundaries? Issues like these will be put up by opponents to a property based tax – but they are excuses not reasons that prove such a system will not work.

Another issue that becomes a factor is a product of Melbourne's ever increasing urban sprawl. The CFA is more and more responsible for fire protection/fighting services in essentially suburban areas. A property based tax is the best way to have all households and businesses in these urban areas share the load in funding the CFA.

Insurance

I believe that the majority of people who do have insurance would be under insured. I certainly was in terms of fencing and have one neighbour who was not insured. I believe more could be done by the insurance industry to provide guideline information to help people work out replacement costs more accurately. For example I understand that up to \$20,000 should be included in the home building figure for site clean-up after a major fire. Costs per square metre guidelines for various methods of construction are always increasing not to mention Government overlays for fire prone areas. Regularly updated information and check-lists would be very helpful.

I can't see any reason to have direct Government action to force or coerce residents/businesses in fire prone areas to take out insurance. I would like to see less Government interference in my life rather than more! I can see a case for the Government

and insurance industry to work cooperatively to educate and encourage people to take out insurance. A very good first step would be to dump the Fire Service Tax and Stamp Duty. It might be possible to link a CFA endorsed fire readiness appraisal to a premium discount for example. Perhaps the insurance industry could allow people to pay quarterly as shires/councils do with rates. Perhaps there could be a discount if you pay the total amount up front. I am sure if the right people sit down and think this issue through even better ideas will emerge.

Summary

The CFA (and MFB) should ideally be funded out of general revenue as is the case with Victoria Police and the SES.

If a special tax is absolutely necessary then the current insurance based system has no advantages and several disadvantages.

A property based system would be fairer, more equitable and more inclusive.

There should be no need to make a property based tax overly complicated.

The property based system should be subject to scrutiny and audit to ensure that councils/shires do not rot the system and that the State Government allocates all of all the funds raised to the CFA and MFB.

A new system needs to be implemented sooner rather than later – there are no reasons to put it off any longer.

Stamp Duty on insurance premiums should be dumped.

The State Government should work openly and constructively with the insurance industry to develop a programme that encourages (rather than discourages as is the case currently) people to insure their property adequately.

John Ross
December 16, 2009