

Please quote our reference in your reply
Our Ref: RP:jh

27 May 2014

Natural Disaster Funding Arrangement
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Via email: disaster.funding@pc.gov.au

Dear Sir

RE: SUBMISSION TO THE ENQUIRY INTO NATURAL DISASTER FUNDING

Mitchell Shire Council is pleased to make a submission to the above Enquiry. Our submission focusses on the question on p 23 of the Issues Paper seeking to understand the impact of mitigation activity on insurance premiums.

The ability to deliver targeted flood and other natural disaster mitigation projects that increase the resilience of communities and infrastructure is an issue of national importance for Councils across Australia.

We believe there is an imbalance in existing disaster funding models which over emphasises response and recovery over pre-emptive mitigation. Effective mitigation not only reduces the impact of natural disasters on communities but it increases their resilience and sustainability, in part by contributing to a reduction in insurance premiums. Appropriate mitigation also significantly decreases the costs associated with response and recovery.

Local communities in every State are faced with a heightened risk of natural disaster due to climate change, which is increasing the frequency of events, particularly flood events previously classified as 1 in 100 (a 1% chance of flood occurring in any given year).

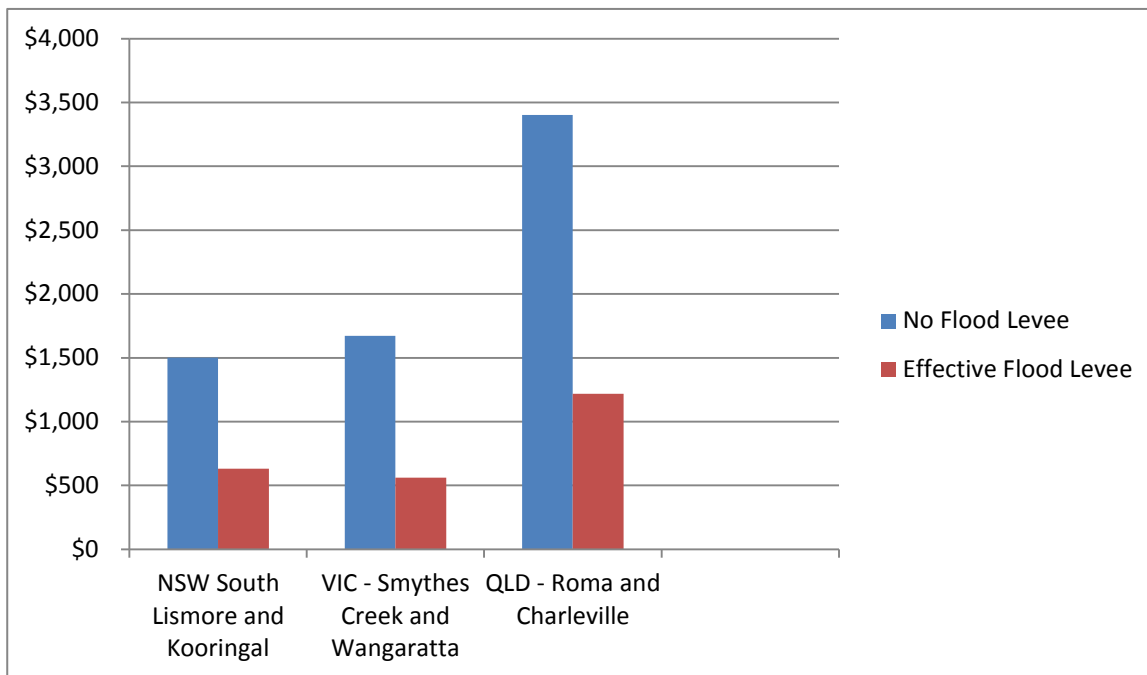
The previous Federal Government sought to address the imbalance in mitigation measures through the National Insurance Affordability Initiative (NIAI) fund. This was announced in the Federal Budget 2013 as an investment of \$100 million over two years specifically for targeted flood and other natural disaster mitigation measures designed to reduce insurance premiums. This is currently on hold.

The availability and affordability of flood cover is a major issue for communities and councils in flood-prone areas across Australia. Insurance provides households, businesses and governments with financial protection from some of the financial impacts of natural disasters but premiums are charged on the perceived level of risk. When the perceived risk is high, there is much less incentive and ability to afford effective cover. Indeed in some particularly high risk areas, insurers may decline to provide cover for new customers, do so only at an exorbitant rate or exclude certain forms of disaster (e.g. riverine flooding).

Experience in Australia and overseas indicates that physical mitigation measures designed to minimise damage from flood and other natural disasters may be the most sustainable way to deliver a long-term reduction in insurance premiums and thus increase the incentive to take out insurance cover.

The detailed attachment to this letter illustrates by way of example, the impact of flooding in Seymour and the estimated consequent saving of over \$21 million in recovery costs from a 1 in 100 year flood, were a levee bank to be constructed. Seymour is located on the Goulburn River in Victoria.

Additionally, an example of the impact of a flood levee on insurance premiums is set out below. The figure compares the average home insurance premiums between 3 towns with flood mitigation in place and 3 without.



As well as reducing private insurance premiums, mitigation measures funded through the NIAI had the potential to help cut national natural disaster recovery costs - which have amounted to nearly \$3.5 billion since 2009. (*Historical Disaster Statistics, Insurance Council of Australia 2012*).

While the political incentives for mitigation (p 24 of the Issues Paper) may be weaker than those that come from being seen to spend on disaster relief, we submit this should not be a factor in strategic funding decisions when the potential net benefits of

mitigation clearly contribute to reducing the very high levels of recovery expenditure that may otherwise be required. We believe that avoiding the costs of infrastructure reconstruction and individual trauma recovery through effective mitigation must necessarily make a significant contribution to community resilience.

We therefore submit that there is a strong case for providing increased funding for mitigation, whether that is through the National Partnership Agreement on Natural Disaster Resilience (NPANDR) and increased State and territory expenditure or such other mechanisms as the Commission may see fit to recommend, such as the reinstatement of the NIAI Fund.

Yours sincerely

CR RODNEY PARKER
MAYOR