

**Productivity Commission Inquiry  
Natural Disaster Funding Arrangements  
Submission  
Senator the Hon Doug Cameron  
June 2014**

**Introduction**

This submission is based on my personal experience during the recent Blue Mountains bushfires, both as a Blue Mountains resident and a member of the Blue Mountains Bushfire Recovery Committee.

I have been a long-term critic of the Productivity Commission, particularly its narrow neo classical focus on economic matters under the guise of improved productivity.

I believe that the social and political imperatives of operating in a society as distinct from an economy are often neglected in Productivity Commission reports. Nevertheless I feel it is important to place my experience with the Blue Mountains bushfires on the record and relate them to the areas that the Commission has been asked to develop findings on.

I do this in the hope that the principles-based approach to the assessment of current Commonwealth state and territory expenditures natural disaster mitigation, resilience and recovery will be considered in a broad context which includes the effects on individuals and their communities.

Approaching this issue under the requirements of the Productivity Commission Act 1998 which requires the Commission to have regard to the need to achieve higher living standards for all members of the Australian community will impose restrictions on the Commission's capacity to balance the cost of mitigation, resilience and recovery initiatives against higher living standards for all members of the Australian community. It will be interesting to analyse how the Commission will approach this extremely complex challenge.

My experience with the Blue Mountains bushfires was that there was a lack of preparation based on the experiences of the 2009 Victorian bushfires and the January 2013 Tasmanian bushfires. Basic issues such as asbestos and arsenic identification and removal should have been dealt with in a more systematic manner and the recovery committee should have had access to response manuals.

There was inconsistent treatment of the victims of the Blue Mountains bushfires when compared to the victims of the Victorian and Tasmanian bushfires. The community was confused when local politicians advised that support was under "active consideration" and was never forthcoming.

There was a lack of coordination between the Commonwealth and New South Wales state government on a range of issues, including but not limited to, clean up and disposal policies, and recovery assistance to small business in the Blue Mountains. In addition there was a lack of accountability demanded by the Commonwealth from the New South Wales state government which resulted in delays and non-implementation of Commonwealth policy, particularly in the area of business recovery.

Nothing in my criticism of the governmental response takes away from the magnificent effort made by the Rural Fire Service (RFS), the State Emergency Service, Fire and Rescue NSW, Federal and State public servants, community groups, Blue Mountains City Council and individual community members.

### **Climate change**

No analysis of natural disaster funding arrangements can be undertaken without assessing the scientific findings on the effects of climate change on the environment and how this relates to a predicted increase in natural disasters within Australia.

I do not intend to traverse the scientific findings of the Intergovernmental Panel on Climate Change (IPCC) as they are well known. However in the context of natural disaster funding arrangements the implications for increased exposure to natural disasters and the need for improved mitigation, resilience and recovery initiatives are clear.

The Climate Commission, CSIRO and Bureau of Meteorology have consistently raised the environmental, economic, social, and health implications of climate change. The social, environmental and economic consequences of climate change must be factored in to any report of the Productivity Commission. This will require factoring in an increased incidence of heatwaves, bushfire weather, rainfall, and in the long-term sea level rises. The risks associated with climate change will require long-term thinking and policy development which is inconsistent with recent political developments in Australia, including the views of Prime Minister Abbott expressed on Radio 3AW on 23 October 2013:

**NEIL MITCHELL:**

Does climate change have anything to do with the New South Wales fires? I know the head of the UN climate change negotiations says there's a clear link, she said this week, a clear link between climate change and the New South Wales fires.

**PRIME MINISTER:**

Well I think the official in question is talking through her hat, if I may say so, Neil. Look, we've had bad fires since almost the beginning of European settlement. I think the first massive bushfires in Victoria were back in the 1850s. We had terrible fires in 1939 in Victoria. We had shocking fires in 1983 in South Australia, in Victoria. We had terrible fires in Hobart in 1968 – something like 70 people were killed on the edges of Hobart. We've had bad fires in New South Wales in 1968, in 1994, in 2001. Of course, we had the terrible fires here in Victoria in 2009. Look, fire is a part of the Australian experience. It has been since humans were on this continent. The Aboriginal people managed the landscape through various forms of fire stick farming. It took us a long time to figure out that our landscape needed to be managed and at times burnt. So, look, climate change is real as I've often said and we should take strong action against it, but these fires are certainly not a function of climate change, they're just a function of life in Australia.

Source: <http://www.pm.gov.au/media/2013-10-23/interview-neil-mitchell-radio-3aw-melbourne>

There will be significant economic cost to the economy from natural disasters especially climate change induced disasters that will surpass the \$12 billion spent in response to significant weather events since 2009. I note the Deloitte Access Economics (2013) estimate that the annual economic cost of natural disasters would rise from \$6 billion in 2012 to \$12 billion by 2030 and \$23 billion by 2050. I also note the recommendation to increase identification and prioritisation of mitigation activities and the capacity of mitigation to reduce these costs by 50 percent by 2050. A detailed analysis of appropriate mitigation activities should be undertaken as a matter of urgency.

The Commission has been tasked to develop findings on the following topics:

- **The Sustainability and Effectiveness of Current Arrangements for Funding Natural Disaster Mitigation, Resilience and Recovery Initiatives.**

The issue of sustainability is, in my view, separate to the effectiveness of the current arrangements. If, as expected, expenditure on natural disasters continues to rise then an analysis of the fiscal implications needs to be undertaken. I would suspect this will be a matter that the Commission will undertake as part of this review. I am of the view that a specific review of the Natural Disaster Relief and Recovery Arrangements (NDRRA) using predictions and modelling consistent with the projected effects of climate change on the Australian environment will be required. Without access to modelling it is difficult to predict the sustainability of the current approach with any degree of accuracy. Notwithstanding this, common-sense would dictate that additional funding from the Commonwealth will be required to deal with mitigation, resilience and recovery initiatives.

In relation to effectiveness of current arrangements I am of the view that the current arrangements are ineffective and not in the public interest. Given the constitutional separation of responsibility for disaster recovery, the Commonwealth must take steps to ensure that the expenditure of Commonwealth funding is done in an efficient and effective manner. This will require an end to the "hands-off" approach adopted by the Commonwealth and a "carrot and stick" strategy coupled with increased accountability measures. This approach should be implemented in an effort to improve the effectiveness of current arrangements as a pre-requisite to developing new arrangements that meet constitutional requirements and effective Commonwealth/state cooperation.

#### **The risk management measures available to and being taken by asset owners**

No one would argue that individuals have a responsibility to take steps to manage the risk from natural disasters. Apart from adhering to best practice measures in relation to domestic bushfire mitigation, the primary risk management measure is the purchase of insurance for house and contents.

Unfortunately, there is a significant information asymmetry when it comes to insurance. Many of the homeowners affected by the Blue Mountains bushfires have discovered that they are under insured, predominantly due to the lack of information on appropriate insurance coverage in bushfire areas. Prior to the fires, the insurance Council of Australia website had an insurance calculator for the Blue Mountains area; this rated the Blue Mountains as having the same risk profile as Mosman. Individuals who calculated the amount to insure their home based on the calculator were significantly under insured. This came about as a result of changes to building regulations imposed by the state government and designed by the RFS. Many bushfire victims will be unable to rebuild resulting in personal financial hardship, lower house valuations in bushfire prone areas and, diminished rates for Blue Mountains Council.

It is difficult to identify the nature and quantum of the risk to individual homes without detailed analysis. Neither the insurance industry nor the Council are willing to take responsibility to advise individual homeowners the scope of the bushfire risk to their home. As I understand it, homeowners have to seek information from the RFS. This is an unacceptable situation and, if homeowners are to take effective risk management measures through insurance there must be a one-stop shop where

they can effectively assess the risk and insure appropriately. There is a responsibility on the insurance industry, state government, and local government to resolve this information asymmetry as a matter of urgency. Buck-passing one to another is unacceptable and should be resolved.

### **The Interaction between Natural Disaster Funding and Federal Financial Arrangements**

As discussed previously, the interaction between state and federal governments in relation to the federal financial arrangements for natural disaster funding is inefficient, ineffective and in need of change.

The penny-pinching approach by the Commonwealth to declare only 'significantly impacted criteria' in the *Social Security (Australian Government Disaster Recovery Payment) Determination 2013 (No 5)* was unnecessary and unfair. The AGDRP declaration in many disasters previously including the Tasmanian bushfires in January 2013 and the Victorian bushfires in 2009 included both significantly impacted and moderately impacted criteria.

For example the AGDRP declaration for the Tasmanian bushfires <http://www.comlaw.gov.au/Details/F2013C00351> included the criteria:

#### **Schedule 2—Circumstances in which person adversely affected**

A person is adversely affected by a major disaster mentioned in Schedule 1 if:

- (a) as a direct result of the disaster:
  - (i) the person is seriously injured; or
  - (ii) the person is an immediate family member of an Australian who is killed; or
  - (iii) the person's principal place of residence has been destroyed or has sustained major damage; or
  - (iv) the person is unable to gain access to his or her principal place of residence for at least 24 hours because:
    - (A) access to the place of residence is cut off; or
    - (B) the person is unable to leave a place affected by the disaster; or
- (b) as a result of the disaster, the person's principal place of residence was without a particular utility service for a continuous period of 48 hours; or
- (c) the person is the principal carer of a child to whom paragraph (a) or (b) applies.

The AGDRP declaration for the Blue Mountains fires <http://www.comlaw.gov.au/Details/F2013C00965> only included the significantly affected criteria:

#### **Schedule 2—Circumstances in which person adversely affected**

A person is adversely affected by a major disaster mentioned in Schedule 1 if:

- (a) as a direct result of the disaster:

- (i) the person is seriously injured; or
- (ii) the person is an immediate family member of an Australian who is killed; or
- (iii) the person's principal place of residence has been destroyed or has sustained major damage; or

(b) the person is the principal carer of a child to whom paragraph (a) applies.

Thus the payment of \$1000 for eligible adults and \$400 for eligible children was not made in the circumstances where many residents could not access or leave their homes for 24 hours or where utilities were cut-off for 48 hours or more. The payment was made following these previous bushfire events to assist individuals with the unexpected immediate costs arising from the fires; including being unable to access work, having to purchase replacement foodstuffs, ensuring clothing is available in the short-term, and to assist with short-term alternate accommodation costs. There is no logic to the denial of this payment to Blue Mountains bushfire victims, other than as a short-term cost-cutting approach.

Federal financial arrangements should ensure that all Australians are treated equally when faced with similar circumstances. As noted in your issues paper (page 11) only four percent of eligible expenditure was on Category A– emergency assistance to individuals. This small expenditure is a significant assistance to individuals as they seek to deal with the immediate aftermath of a natural disaster such as bushfires which is also often a personal emergency. This assistance also promotes community and economic recovery and should be a pre-requisite payment in future bushfires. Bushfire victims should not be treated with contempt, as they were in the Blue Mountains bushfire, by government ministers and local members advising that the payments were "under active consideration" when they are not going to be delivered.

The failure by the New South Wales state government to act immediately and decisively to deal with disaster waste resulted in delays to recovery for individuals and the local economy. The lessons of the Victorian and Tasmanian bushfires were not taken into account by the New South Wales state government despite the local bushfire recovery committee advising government representatives of steps taken in previous bushfires. The Resilient Organisations, Disaster Waste Management Case Study of the 2009 Victorian bushfires (research report 2010/04 [http://www.resorgs.org.nz/images/stories/pdfs/resorgs%20report%20-%20bushfire%20waste\\_website.pdf](http://www.resorgs.org.nz/images/stories/pdfs/resorgs%20report%20-%20bushfire%20waste_website.pdf) ) notes on page 38 the following:

*“Another, implicitly stated objective (which results from fast community recovery) was to facilitate economic recovery in the area. This includes:*

- *business regeneration*
- *economic stimulus through rebuilding*
- *reduction of dependence on government assistance”*

These important objectives were delayed as a result of ineffective state government responses and a lack of federal government levers designed to ensure effective and efficient use of federal funds.

The state government's decision to deal with individual insurance companies on the waste management issue resulted in confusion, delay and economic cost to individuals and the local

economy. In future, clear guidelines should be established to assist state governments and local communities recover quickly through a common and consistent and centralised waste management strategy.

An additional area of concern was the failure of the Commonwealth government to ensure that an election promise to provide small business loans to businesses consequentially affected by natural disasters was implemented through a cooperative federal/state approach.

Notwithstanding a number of letters to the Minister for Small Business, the Hon Bruce Billson MP, the promised assistance to small business (formally made possible by amendments to the NDRRA Guideline 10 on 23 December 2013 <http://www.disasterassist.gov.au/NDRRADetermination/Documents/ndrra-guideline10-concessional-loans-and-interest-rate-subsidy.pdf>) has not been implemented by the NSW government in the Blue Mountains, despite the obvious advantage of assisting to fast-track economic recovery. Again, a process of buck-passing between the state and federal governments took place and the result was small business in the Blue Mountains suffered.

The Blue Mountains Economic Enterprise analysis of the effects of the bushfires on the local economy is that economic output will decline by an estimated \$100.271 million. This is represented by anticipated decreases in:

- 518 jobs
- \$24.793 million wages and salaries
- \$46.744 million in value added

(Source: *BMEE Economic Impact Report Blue Mountains Bushfire emergency October 2013, Report 3, 25 February 2014*)

The interaction between the Attorney Generals Department, the Minister for Small Business, and the New South Wales state government was a clear demonstration of political ineptitude and bureaucratic failure.

Steps should be taken to ensure that political commitments to provide assistance to consequentially affected businesses are met and processes developed to ensure that business is given the support required to recover after natural disasters such as the Blue Mountains bushfires. One of the major flaws, obviously brought about by Federal-State arrangements, is that the responsibility for administering federal government support is a matter for the state government. These constitutional issues need to be addressed or processes implemented through a "carrot and stick" approach which ensures that state governments efficiently and effectively meet the needs of bushfire affected communities in the recovery period.

### **Options to Achieve an Effective and Sustainable Balance of Expenditure on Natural Disaster Mitigation and Recovery**

This part of the Commission's task is particularly difficult. Given the predictions of increased expenditure on natural disasters, it would be tempting to allocate percentages of expenditure between mitigation and recovery. I do not believe that there can be a simple formula for allocation by diminishing expenditure either on mitigation and/or recovery. It seems to me that there is a simplistic argument being promoted in some quarters that mitigation should be funded at the expense of recovery. The experience from the Victorian, Tasmanian and Blue Mountains bushfires

leads me to believe that recovery expenditure is absolutely essential to facilitate personal, community and economic recovery. I would be opposed to any attempt to trade mitigation of against recovery or vice versa. Achieving an effective and sustainable balance on expenditure on both of these important areas will require a more detailed and sophisticated analysis based on the particular circumstances in various regions. As you would be aware, the capacity to mitigate against floods and fire are significantly different and would require different analytical and economic approaches. Communities affected by natural disasters have a reasonable expectation that recovery will be supported and funded by various levels of government. Any changes to this would be a significant change to the social contract in place on disaster funding.

Mitigation is a huge challenge to all levels of government, the private sector and the community. There should be no knee-jerk ideological responses to this part of the terms of reference without significant analysis of the scope of the mitigation challenge and an acceptance that recovery support is essential to help communities faced with natural disasters recover socially and economically.

### **How Stakeholders Can Most Effectively Fund Natural Disaster Recovery and Mitigation Initiatives**

This issue can only be dealt with when an estimate is made of the projected costs involved in natural disaster recovery and mitigation. Any analysis would be subject to the quality of the inputs into modelling and the experience of communities being brought to be on the modelling. In the short term, the consultation and roundtable approach is a small step towards more detailed and sophisticated modelling and analysis. I would recommend that local roundtables are conducted to provide local industry, community, non-government organisations and councils an input to the analysis of this issue.

I would be opposed to any ideologically based economic analysis that seeks to transfer more of the responsibility back to individuals and the communities while diminishing the role of all levels of government in natural disaster mitigation and recovery. Estimates need to be made of the most appropriate mitigation initiatives in various communities and the estimated cost of the mitigation including the role of taxation, insurers and private sector involvement.

### **How to Ensure the Right Incentives in Place to Support Cost Effective Decision-Making**

Given the lack of cost effective decision-making following the Blue Mountains bushfires, the Productivity Commission should require the federal, state, and local governments to participate in a roundtable to discuss the lessons of the Victorian, Tasmanian and Blue Mountains bushfires. These roundtables should include local politicians who have experience of the issues arising from natural disasters in their electorates. The roundtables could be conducted at the peak level bringing together all governments who have faced natural disasters in recent years.

Given my experience in New South Wales, incentives on their own are insufficient and there must be appropriate checks and balances on all levels of government to ensure the effective and efficient expenditure of funds during the recovery period following a natural disaster. A process of "carrots and sticks" must be in place as incentives on their own have been shown to be ineffective especially when state governments have no obligation to account for their actions or financial expenditure.

## **Mechanisms Models to Prioritise and Evaluate Mitigation Opportunities**

One of the first steps to be taken should be a global literature analysis on effective mitigation taking place around the world. The mechanism and model to prioritise and evaluate mitigation should be based on international best practice and if no effective model exists then a process including governments, academics, environmentalists, and scientists should be convened to develop best practice evaluation of mitigation opportunities.

## **The Role of Urban Planning, Land-Use Policy and Infrastructure Investment in Supporting Cost Effective Risk Management**

This is one of the controversial areas identified following the Blue Mountains bushfires. Urban planning and land use policy is viewed by many victims of the Blue Mountains bushfire as an impediment to social and economic recovery. Managing the balance between planning and land use in areas that are subject to bushfire is not only controversial but essential to ensure that long-established communities can rebuild and prosper. Determining whether to abandon communities in close proximity to bushfire prone areas and denying communities the capacity to coexist in bushfire prone areas must only be considered following detailed analysis and consultation. The role of insurance, mitigation and the recovery capacity of communities needs to be factored into any urban planning and land use policy.

Infrastructure investment is obviously important not only for risk management but mitigation. Given the increased potential for climate change induced natural disasters the need for investment in infrastructure that assists with mitigation is an important factor in reducing the future course of natural disasters. Developing cost-effective infrastructure investment and balancing the needs of the community with the profit motive of infrastructure investors should be discussed in the various roundtables are being conducted.

## **Options to Fund Identified Natural Disaster Recovery and Mitigation Needs**

The bulk of the funding for natural disaster recovery will, in my view, continue to be predominantly the role of the state and federal government. Councils have no significant capacity to fund natural disaster recovery and discussion should take place in relation to whether the tax base is sufficiently robust to deal with projected climate change induced natural disasters.

Short-termism and political ideology is driving the push to "small government". This has significant consequences for disaster recovery and mitigation within Australia.

I have not identified any private sector will or capacity to engage in environmental mitigation unless supported by government. The insurance industry would have a role but a limited role given the scope of the challenge.

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