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Response to Draft Report of the Productivity Commission

"NATURAL DISASTER FUNDING ARRANGEMENTS"

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We welcome the opportunity to comment on the draft report "Natural Disaster Funding Arrangements" and its recommendations and findings.

The draft report provides a comprehensive, contemporary and thoughtful addition to the debate on the relevance and appropriateness of the natural disaster policy and funding frameworks in Australia. It is apparent from the report that the Productivity Commission, through Commissioners Coppel and Chester, have considered the many submissions provided to this inquiry and the feedback obtained through the accompanying consultative processes.

The Supplementary Papers which are published in Volume 2 of the draft report provide rich sources of information across a range of important policy areas of emergency (disaster) management, including historical information on the impacts of natural disasters and natural disaster funding arrangements in Australia. Importantly the chapters on *Effective natural disaster risk management, Natural Disaster Mitigation, the Role of insurance, and Managing Natural Disaster Risk to the Built Environment*, provide both useful theoretical frameworks for and practical application of the emergency management concepts and strategies. International perspectives are also canvassed.

In general terms, we would endorse all draft recommendations except for draft recommendation 3.2. Recommendation 3.2 states

> *"If the Australian Government reduces the relief and recovery funding it provides to state and territory governments, it should increase annual mitigation expenditure gradually to $200 million, distributed to the states and territories on a per capita basis. The amount of mitigation spending could be adjusted over time to reflect the imputed 'savings' from reduced relief and recovery funding.*
>
> *Increased mitigation funding should be conditional on matched funding contributions from the states and territories and best-practice institutional and governance arrangements for identifying and selecting mitigation projects. These would include:*
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> - *project proposals that are supported by robust and transparent evaluations (including cost–benefit analysis and assessment of non-quantifiable impacts), consistent with National Emergency Risk Assessment Guidelines risk assessments and long-term asset management plans, and subject to public consultation and public disclosure of analysis and decisions*
> - *considering all alternative or complementary mitigation options (including both structural and non-structural measures)*
> - *using private funding sources where it is feasible and efficient to do so (including charging beneficiaries)*

- *partnering with insurers to encourage take-up of adequate private insurance and private mitigation through measures such as improved information sharing and reduced premiums."* (p37)

We would offer 'in principle' support for most aspects of Draft recommendation 3.2 (including the preferred post disaster funding options), but we have serious reservations about the proposed level of mitigation funding and the proposed model for distributing mitigation funding. We outline our specific concerns about these matters below.

Proposed Level of Mitigation Funding

The proposed level of mitigation funding from the Commonwealth Government of $200 million per year (p 37) is grossly inadequate, given the

- very limited mitigation expenditure to date;
- natural disaster risk profile for Australia;
- potential increase in the frequency and intensity of natural disasters as a consequence of climate change;
- proposed reductions to the Commonwealth Government's commitment to the NDRRA (See Draft Recommendations 3.1 (p 35) and 3.5 (p 40) and the AGDRP (See Draft Recommendation 3.5 p 40); and
- recognition in the draft report of the existing barriers to investment in "betterment" projects (p 21).

The draft report identifies possible savings from the proposed future funding options of $600 million annually (p 20). The majority of these potential savings should be committed to mitigation projects. It is unlikely that State and Territory governments, particularly those most prone to natural disaster events, will accept the funding proposals in the draft report without such a commitment. It would be regrettable if the otherwise thoughtful proposals from the Productivity Commission were rejected because the proposed changes to the natural disaster funding arrangements were seen as a mechanism largely designed to limit the Commonwealth Government's exposure to the costs arising from natural disasters.

In order to manage the financial pressures associated with the redirection of resources away from response and recovery towards mitigation, the phasing in of the increased mitigation commitment over a period greater than that proposed in the report of three years to a more significant quantum should be considered in the final report.

Proposed Model for the Distribution of Mitigation Funding

The draft report proposes three options for funding post disaster impacts. The report refers to the options as

- **Option 1: Reformed NDRRA**
- **Option 2: Option 1 plus 'top-up' insurance; and**
- **Option 3: Block grant model.** (p18)

These are all worthy of further consideration and debate. Option 2 would seem to better reflect the "Resilience" aspiration of the National Strategy for Disaster Resilience.

Disappointingly though, the draft report proposes that mitigation funding under all options is to be allocated to states and territories on a "per capita" basis:

> *"The Commission is recommending that increased mitigation funding be distributed among the states on a per-capita basis. Project selection and distribution of funds within states would be based on risk assessment and cost–benefit analysis.*
>
> *Funding would be conditional on matched contributions from the states and implementation of best-practice institutional and governance arrangements for identifying and selecting mitigation projects."* (p135)

Within those two paragraphs, the inconsistency between the allocations to states and territories and within for states and territories is obvious. No rationale is provided as to why allocations from the Commonwealth should be on a per capita basis. Indeed the notion of risk and the need for risk assessments permeates the draft report.

To be consistent and equitable, the allocative model for mitigation funding to the states and territories should be based on risk and risk assessments. Sufficient historical data is available to enable the development of an acceptable formula. Of course, total population and the population of "vulnerable" locations are relevant to risk assessments.

The requirements of the states and territories to match the Commonwealth's funding and to allocate on the basis of risk assessment and cost-benefit analysis are consistent with good public policy. The Commonwealth should apply such discipline to itself.

The "per capita" proposal is a retrograde step as the current model for the allocation of mitigation funds to states and territories is

> *"based on historic allocations, populations, costs of disasters and relative disadvantage and adjusted by agreement to provide a minimum share for the territories and Tasmania (table 2.4)."* (p75)

The Productivity Commission should reconsider the proposed mitigation funding model to ensure consistency across the three levels of government and commission work on the development of a fair and robust risk-based model.

In the interim, the current formula, which has been accepted by all jurisdictions, should continue until a suitable alternative can be agreed.

The role that insurance companies should play in mitigation is supported.

> *"Insurers also benefit indirectly from increased expenditure on mitigation and hence should be willing to partner and share information with state and local governments to inform land use planning decisions and the prioritisation of mitigation expenditure (chapter 4). For example, insurers are well placed to facilitate mitigation through identifying mitigation options and mechanisms for private funding."* (p136)

Other Issues

Assistance to Small Business and Primary Producers

Draft finding 2.7 challenges the current arrangements under the NDRRA to support small businesses and primary producers impacted by natural disasters.

> *"The case for government assistance to businesses and primary producers after a natural disaster is weak. Viable businesses should have access to insurance and credit through commercial institutions."* (p25)

Other than a reference to some US literature, the Productivity Commission provides little evidence to support this draft finding. Indeed the Regional Institute Australia (RAI) report titled *"From Disaster To Renewal: The Centrality of Business Recovery to Community Resilience." (RAI, 2012)* found:

> *"The lack of funding for small business recovery reflects a lack of appreciation of the critical interdependencies between business recovery and community recovery, particularly in rural settings where the majority of businesses are owned and operated by local residents."* (p6) and that
>
> *"...resilient individuals do not make a resilient community. Particularly in rural and regional areas, businesses form the central element of a community, providing jobs, income and underpinning economic vitality. Without a strong and diverse economy, a disaster affected community cannot recover, and beyond that positively adapt, to the impacts of a disaster.* (p18)

The "fall-back" position (p 25) of the Productivity Commission which advocates the use of direct grants rather than concessional loans has merit and is consistent with the findings in the RAI Report (p 18). In our view, this proposal warrants further consideration.

Accountability Frameworks

The Productivity Commission's position to support greater autonomy for state and territory governments in the use of post disaster funding from the Commonwealth with a focus on monitoring outputs and outcomes is welcomed. We note it is consistent with the White Paper on Federalism's Terms of Reference.

Recommendation

The Productivity Commission should review the proposals in the draft report, which are related to Recommendation 3.2 with a view to recommending:

1. A significant increase in the total allocation from the Commonwealth Government for mitigation, provided that there is an obligation from states and territories to "match" the federal funding.

2. A "risk-based" model for the allocation of mitigation funding or the adoption of a model similar to that currently used for mitigation funding.

Conclusion

The authors of this brief response to the draft report from Griffith University's School of Government and International Relations again acknowledge its thoroughness and thoughtfulness. We would welcome the opportunity to further elaborate on recommendations and commentary contained in the response.

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