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Natural Disaster Funding Arrangements
Productivity Commission
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Dear Commissioners,

Thank you for the opportunity to comment on the draft Productivity Commission report – Natural Disaster Funding Arrangements, September 2014 ('the Report').

The report is timely and valuable and we appreciate the Productivity Commission's contribution to the analysis of this important policy area. The growth in the costs and impacts of natural hazards has become unmanageable. Nationally our overemphasis on reconstruction and recovery leaves us constantly scrambling to meet escalating costs. It is essential that we rebalance our approach.

This response is based on a range of officer-level consultations within Western Australian Government central agencies and is presented in two parts: the commentary that follows in this letter; and two attachments that summarise preliminary views against the Report's findings and recommendations.

Overview

Western Australia (WA) strongly endorses the Commission's proposition encapsulated in option 1 and in particular the proposed increased Commonwealth funding for risk mitigation. Increased risk mitigation:

- reduces the cost of reconstruction and recovery;
- improves the availability and cost of insurance;
- contributes significantly to improved public safety;
- reduces the threat to first responders (including volunteers); and
- reduces the cost of hazard response.

Issues with Current Arrangements

We agree with the Commission's analysis concerning shortcomings in the current arrangements. In particular Western Australia believes:

Lack of appropriate incentives for mitigation and betterment

Current Commonwealth funding arrangements fail to provide an incentive for cost effective treatment of damage and no incentive for the development of effective mitigation strategies. It is essential that this situation is changed so that flexibility exists such that mitigation funding can be applied to betterment initiatives during recovery and reconstruction. Presently, following a natural disaster the focus is inevitably on rapid restoration and there is no effective incentive for the improvement of community resilience through the adoption of risk mitigation strategies. The urgent need to replace damaged infrastructure such as a bridge often results in resorting to like-for-like replacement rather than with a more robust facility.

Present mitigation allocations

Under current arrangements the Commonwealth has little more than a tokenistic approach to effective risk treatment. Commonwealth financial contributions to risk mitigation are insignificant when set against the State's continuously increasing expenditure on a wide range of risk treatments.

Examples of increasing WA expenditure include:

- The Department of Fire and Emergency Services (DFES) received funding of \$277m in 2012/13, up from \$165m in 2005/06 which is a 67% increase.
- The Department of Parks and Wildlife (DPaW) spent \$65m on bushfire mitigation and suppression activities in 2012/13, up from \$33m in 2005/06 which is a 96% increase.
- Western Power's total spend on bushfire mitigation is forecasted to be \$418.9m in 2013/14, up from \$148m in 2005/06 which is a 183% increase.

Over the same period the Commonwealth's investment through NDRP or equivalent funding programs has increased by a mere \$1m (from \$2.1m to \$3.1m) and for these projects the Commonwealth contribution was matched by State and local government contributions.

Inconsistency in application

Clarity regarding State and Commonwealth financial contributions in response to natural disaster is essential if individuals and businesses are to make rational decisions regarding the risks they confront, particularly what level of insurance they require. Communities face a lack of clarity around potential government contributions, as well as the contributions of charitable organisations in the wake

of disaster events. In the face of these ambiguities, political representatives will advocate publicly and seek judgments in favour of a generous provision to their communities which further confuses the situation. Furthermore these ambiguities lead to inequity, increased administrative costs and delays which are often attributed to the State.

Comment on Proposed Arrangements

Proposed changes to mitigation funding

Should the Commonwealth increase its mitigation funding, as per the recommendation of the Productivity Commission, it is important that the following conditions apply:

- Commonwealth funding should be available for the treatment of all prescribed hazards and not be limited to only those eligible under present NDRRA arrangements. For example a prolonged heatwave event, though not as immediately dramatic as a bushfire, can have an equally significant impact on affected communities and their infrastructure.
- All risk treatments should be eligible for funding subject to the application of an objective transparent process for the assessment of risk and the selection of treatments. The key is to carefully select the most effective treatment – or mix of treatments – that have the greatest return on investment. Given the current insurance market, there is certainly the potential for exploration of insurance/reinsurance as a cost effective risk treatment.
- The risk analysis process and the selection of risk treatments must acknowledge all of the values that we seek to protect including environmental, psychosocial and community safety. It should not be limited to a cost benefit analysis limited to the economic and employment benefits. Western Australia is presently undertaking a comprehensive risk assessment process following the National Emergency Risk Assessment Guidelines which give equal weighting to the wellbeing of the people, economy, infrastructure, social setting, public administration, and environment of the State. Hence when prioritising risk treatments it is essential that we not limit our evaluation to only cost benefit analysis focussed on economic and employment aspects. The prioritization of risk treatments involves complex judgments which need to consider both qualitative and quantitative aspects
- There should be no requirement for matched funding:
 - Western Australia already invests heavily in mitigation which is unmatched by the Commonwealth and as such the State already has a strong financial incentive to make informed, logical and cost effective judgments on treatment regimes. It is the Commonwealth which has lacked a rational approach to judgments about the relative investments in mitigation and recovery.

- The State's previous and ongoing expenditure has also greatly reduced the Commonwealth's liability for reconstruction and recovery costs.
- Furthermore should the Productivity Commission's recommendations for increased thresholds be implemented Western Australia will be almost entirely liable for the reconstruction and recovery costs, which would remain at current levels, whilst mitigation programs are objectively assessed and implemented. There will be a lag between increased expenditure on risk treatments and reduced impacts. This lag exists because it is not possible to immediately apply mitigation broadly and evenly across the threatened area and because mitigation projects require time for planning and construction before they provide improved protection.

Insurance Duties

While it is acknowledged that insurance duty (along with other stamp duties) is one of the most inefficient taxes for the states, in the absence of alternative revenue sources it would be difficult for state governments to abolish or significantly reduce insurance duty in the current fiscal environment. Nevertheless, it is expected that reforms to state taxes, including insurance duty, will be considered as part of the Commonwealth's White Paper on taxation reform.

Relief Payments

It is agreed that there can be duplication and perceived inequity in emergency relief payments. Though it is not possible to control payments by non-government organisations, AGDRP payments need to be consistent, equitable, timely and transparent in process with sufficient discretion to suit local circumstances such as high cost areas in remote locations.

Mitigation Planning

Planning is a key tool in mitigating risk. Western Australia is already actively engaged with the Planning issues noted in the report. It is advisable that mitigation funding be available to innovate in the planning sector and to skill local government planners.

Catastrophic events

Though the report's suggestion that the proportion of Commonwealth funds committed to recovery ought to be limited to 50%, this State can envisage circumstances where an event is of such widespread and catastrophic proportions that State finances would not be expected to cope with its portion. As a result, these impacts and recovery operations would be financed through a case-by-case negotiation with the Commonwealth and other jurisdictions.

Shared responsibility

The management of the risks arising from natural hazards is a shared responsibility. In order to enable those who share this responsibility to manage their risk, it is essential that each understands the extent to which they are liable for consequences of risk. The ambiguous nature of the current NDRRA arrangements obscures the extent to which each responsible party is exposed to those risks. Should a new determination be developed, it is essential that the Commonwealth consult broadly with each of the parties that share responsibility for the consequences arising from the risk. Any new determination should therefore be jointly developed in order to produce a clear, unambiguous policy environment. In this way efficient, cost effective decisions can be made about the treatment of the shared risk.

In a similar vein, the potential impacts on local government's capacity and capability will need careful examination and consultation.

Thank you for the opportunity for the State to comment on the analysis, proposed arrangements and recommendations as put forward by the Productivity Commission.

Yours sincerely

Mal Cronstedt AFSM
EXECUTIVE DIRECTOR
STATE EMERGENCY MANAGEMENT COMMITTEE SECRETARIAT

3/11/2014

Attachments (2)

Budget treatment of natural disaster risks	
Information Request	<p>Do state, territory and local governments maintain up-to-date asset registers?</p> <p>Under the Western Australian Government’s Strategic Asset Management Framework (SAMF), individual agencies maintain a complete asset register as part of their Strategic Asset Plans, with the information required to be stored in a reliable database and be readily at hand. The registers cover aspects including asset classification, function, quantity, age and location, replacement value and total operating costs, and whether the asset is owned or leased.</p> <p>How is asset management planning integrated into state, territory and local government budgets?</p> <p>As part of the annual budget cycle in Western Australia, agencies are required to submit, through their CEO and Minister a Strategic Asset Plan to Treasury each year, which includes justification for asset investment proposals based on the agency’s future service delivery model and demand. The information informs discussions between Treasury, agencies, and government on what should be funded under the State’s Asset Investment Program as part of the State Budget.</p> <p>How do state, territory and local governments’ asset management plans incorporate natural disaster risk management?</p> <p>Risk evaluation and mitigation are fundamental aspects of an agency’s Strategic Asset Plan, including assessment of natural disaster risk. All Western Australian local governments, under an Integrated Planning and Reporting (IPR) regulation (2010), are required to have developed and adopted, a Strategic Community Plan to cover a period of at least 10 financial years. These plans are linked to the Annual Budget and Annual Report and include managing and identifying resourcing requirements in the area of natural disasters. While significant progress has been made in the implementation of asset management planning, further work is required, particularly with country local governments</p> <p>The State has also commenced a tenure blind Bushfire Risk Management Planning project and State Risk Project which will give further information on hazard and vulnerabilities at State, District and Local level that can be incorporated in to asset management plans.</p>
Draft Finding 2.1	The budgetary treatment of natural disaster costs as an unquantified contingent liability means that governments

	<p>make decisions about natural disaster risk management without having full information about the potential consequences.</p> <p>Where governments make no explicit budgetary provision for the costs of recovery from future natural disasters there is a systematic bias against mitigation and insurance.</p> <p>Western Australia considers these comments to be a fair assessment of the current situation</p>
Draft Rec 3.3	<p>The Australian Government should publish estimates of the future costs of natural disasters to its budget in the Statement of Risks. It should also provision through annual appropriation for some base level of natural disaster risks that can be reasonably foreseen. For more catastrophic, less quantifiable risks, it is likely to be more efficient to finance the related costs if and when the risks are realised.</p> <p>Western Australia considers this recommendation to be prudent. The publishing of future costs from natural disasters in the Statement of Risks and annual appropriation for base level (reasonably foreseeable) natural disaster costs will help sharpen the focus for mitigation activities. Catastrophic event loss provisions are difficult to quantify, due to long/non-consistent return intervals and lack of impact compact, and may not be efficient to finance annually. However the State still recognises the potential for such events, and that these would likely outstrip the capacity of State finances for recovery. Hence recovery operations would need to be financed through a case-by-case negotiation with the Commonwealth.</p>
	<p>The Commission seeks feedback on approaches for the Australian Government to provision for some base level of natural disaster risk in the budget each year.</p> <ul style="list-style-type: none"> • What would be the advantages and disadvantages of using historical averages? <p>Historical averages are likely a necessary starting point. However when considering Western Australia projections based on historical averages will underestimate the required base level provisions due to recent and rapid economic/infrastructural and demographic development. Projections will need to be normalised for population, asset growth, asset value growth and inflation, as well as sea-level change parameters and associated increasing asset 'exposures.</p> <ul style="list-style-type: none"> • Are there more sophisticated models available to estimate potential future liabilities? <p>Western Australia will be guided by research work presently underway through CSIRO, Bushfire and Natural Hazards</p>

	<p>CRC, Risk Frontiers and Bureau of Meteorology.</p> <ul style="list-style-type: none"> • How should ‘imputed savings’ from changes to the Natural Disaster Relief and Recovery Arrangements be estimated? <p>The Deloitte’s Access Economics example of increased mitigation expenditure versus expected reduction in recovery cost is a logical approach to estimating imputed savings. However due to the lack of quantitative studies in this area and duration required to effectively assess the impact of mitigation activities, these savings estimates will likely lack precision. This should not however diminish the value of mitigation which will in qualitative terms reduce reconstruction and recovery costs, improve workability of insurance, enhance public safety, reduce threat to responders and reduce the cost of responding. These disaster reduction aspects in turn provide psychosocial benefits to the community.</p>
Funding arrangements for recovery	
Draft Finding 2.2	<p>Some cost sharing between the Australian and state and territory governments in the form of a fiscal ‘safety net’ to assist with the cost of natural disasters is inevitable because of vertical fiscal imbalance.</p> <p>The current funding arrangements exceed the requirements for such a safety net.</p> <ul style="list-style-type: none"> • The current thresholds for funding under the Natural Disaster Relief and Recovery Arrangements (NDRRA) do not constitute a major fiscal burden that exceeds state and territory governments’ funding capacity. • The NDRRA ‘small disaster criterion’ is too low. It captures small, routine events that are unlikely to constitute natural disasters. • A marginal reimbursement rate of 75 per cent is excessive and is not consistent with other cost-sharing arrangements in the Federation. • The scope of eligible expenditures under the NDRRA is unclear in some cases, and includes activities that are the core responsibilities of state and territory governments. Ministerial discretion for ‘exceptional circumstances’ assistance adds more uncertainty around eligible expenditure. <p>The ambiguity of the current Determination creates a marked increase in administration costs at State level and inconsistent treatment of parties over time. The shifting interpretation of eligibility has produced constant negotiations between jurisdictions and created delays which affect claimants. While the new Guidelines will assist with interpretation issues, eligibility should be addressed in the determination. Any new arrangements should show clear and robust definitions of eligible expenditure.</p>

<p>Draft Finding 2.4</p>	<p>Prescriptive requirements in the Natural Disaster Relief and Recovery Arrangements (NDRRA) limit the scope for cost shifting, but also impose administrative costs.</p> <ul style="list-style-type: none"> • The reimbursement model under the NDRRA reduces the incentives for state, territory and local governments to implement the most cost-effective options for disaster recovery. • Restrictions on reimbursement for inputs for reconstruction (such as restrictions on reimbursing the use of ‘day labour’) lead to wasteful spending. • The bias in the NDRRA toward rebuilding damaged assets to their pre-disaster standard leads to excessive reconstruction expenditure. • There are numerous barriers to the use of the Betterment provisions. • A lack of clarity around what constitutes ‘current building and engineering standards’ leads to inconsistent application of the clause and inequitable outcomes. <p>The current arrangements, which limit the use of day labour, create inefficiencies and delays in Western Australia. Due to the geographic isolation of many affected communities, there is often no immediate access to contractors. The current requirement to replace damaged assets on a ‘like for like’ basis has created inconsistency regarding eligibility decisions.</p> <p>The separate and uncoordinated administration of the NDRP and NDRRA funds results in lost opportunities for asset betterment and increased resilience.</p>
<p>Draft Rec 3.1</p>	<p>The Australian Government should:</p> <ul style="list-style-type: none"> • reduce its marginal cost sharing contribution rate to disaster recovery outlays to 50 per cent under the Natural Disaster Relief and Recovery Arrangements • increase the triggers for Australian Government assistance (small disaster criterion and annual expenditure threshold). <p>In conjunction with this reduction in funding assistance, the Australian Government should provide state and territory governments with increased autonomy to manage relief and recovery expenditure in a way that reflects the preferences and characteristics of their communities.</p> <p>Any increased autonomy in the State’s administration of funds is welcomed. The State is best placed to ensure cost effective outcomes which build resilience. As this State seldom receives any financial support (as thresholds are rarely met) the State is incentivised to ensure efficient treatment of the damage making excessive Commonwealth oversight an unnecessary and costly burden.</p>

Information Request	<p>The Commission seeks information from state and territory governments regarding natural disaster costs by event to inform its analysis of the small disaster criterion. In particular, the Commission requests a list of Natural Disaster Relief and Recovery Arrangements eligible events with total expenditure for each event for the past five financial years.</p> <p>Schedule prepared (Attachment 2).</p>
Information Request	<p>Should there be a more explicit definition of counter disaster operations under the Natural Disaster Relief and Recovery Arrangements (or any future arrangements)?</p> <ul style="list-style-type: none"> • To what extent are extraordinary counter disaster operations costs subject to separate Australian Government cost-sharing arrangements? • To what extent are activities that are the normal responsibilities of state and territory governments being included as eligible expenditure under this clause? • To what extent do councils utilise day labour and own equipment for community recovery activities, such as counter disaster operations? <p>Guideline 10 was issued on 1st October 2014 to confirm the current interpretation of Counter Disaster Operations in the Determination. The Guideline appears to be helpful but no opportunity has arisen to apply the guideline broadly. Guideline 10 would need to be further analysed to see what needs to be considered as 'normal' State responsibilities.</p> <p>It is current practice to use the resources of local government and consider contractor usage when local government resources are exhausted. It is important to note that in Western Australia there are a large number of small, isolated local governments whose capacity is quickly exhausted when responding to sudden onset events. Regional assistance may be an option, but is currently not supported.</p>
Information Request	<p>What sort of trigger is most appropriate for an upfront grants model (under the Commission's reform option 3)? Is a threshold of 0.2 per cent of state or territory government revenue an appropriate measure of fiscal capacity where an event-based trigger is used?</p> <p>This model is not supported by Western Australia. It is not possible to accurately estimate costs quickly due to the geographic isolation and the infrequent use of services which can result in contractors offering widely varying prices over time.</p>

Funding arrangements for mitigation	
Draft Finding 2.5	<p>On balance, total mitigation expenditure across all levels of government is more likely to be below the optimal level than above it, given the biased incentives towards recovery under current budget treatments and funding arrangements. However, the extent of the underinvestment in mitigation is not known, and the benefits of significantly increasing mitigation spending have not been sufficiently demonstrated.</p> <p>Presently the incentive model is not strong for mitigation hence it is logical that all levels of government are underinvesting in mitigation. However Western Australia acknowledges that it is difficult, at this time, to robustly estimate the benefit to cost of mitigation activities for natural hazards. This is due to a lack of repeatability in events, the potentially lengthy return intervals and a dearth of quantitative studies of mitigation and their counterfactual positions. The State believes however that this should not diminish the value of mitigation which in qualitative terms reduces reconstruction and recovery costs, improves workability of insurance, enhances public safety, reduces threat to responders and reduces the cost of responding. These disaster reduction aspects in turn provide psychosocial benefits to the community.</p> <p>Although it may take time to truly assess the value of mitigation (determined either on a quantitative cost to benefit basis or semi-quantitative Multi Criteria basis incorporating extensive social impact criteria), the losses expected from doing nothing will certainly grow.</p>
Draft Rec 3.2	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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 <p>The State agrees with the strategy of a gradual annual increase of mitigation expenditure to the States to \$200</p>

million. However Western Australia does not support the concept of matched funding. The State already invests heavily in mitigation activities, that are unmatched by the Commonwealth but are lowering the Commonwealths liability for reconstruction and recovery costs. Based on the States investment it already has strong incentive to make informed, logical and cost effective judgements and should not need to earn autonomy through a matching system.

Furthermore the concept of match funding is inconsistent with the principles underpinning the *Intergovernmental Agreement on Federal Financial Relations*. Over-prescription of implementation by the Commonwealth diminishes the States capability to deliver outcomes efficiently according to the community needs and obscures the State versus Commonwealths accountability.

The State supports the concept that robust and transparent evaluation of mitigation projects should be undertaken looking equally at both the monetised (i.e. cost to benefit components) and the non-monetised (social impact components). These should follow the National Emergency Risk Assessment Guidelines which include assessments of risks to People, Economic/Infrastructure, Public Administration, Social Setting and Environmental areas. Western Australia also notes the complexities and administrative overheads of undertaking the assessment task and that project cycles will need longer durations and flexibility to enable projects to be assessed, planned, implemented and reviewed.

Western Australia also believes hazard projects eligible for mitigation funding should not be restricted to only those hazards presently specified for recovery payments under the NDRRA. Hazard mitigation project selection should be on a risk basis pertinent to the State (e.g. an all hazards approach).

- considering all alternative or complementary mitigation options (including both structural and non-structural measures)

Western Australia agrees with this position. Each NERAG category is analysed on an equal footing and a full range of treatment options presented for assessment (both structural and non-structural). All forms of risk treatment options should be eligible for mitigation funding (including insurance).

- using private funding sources where it is feasible and efficient to do so (including charging beneficiaries)

	<p>This is consistent with the principle of shared responsibility that the State supports. However the systems for attributing ownership of risk, and responsibility for treatment, are not well established and likely require a National mechanism.</p> <ul style="list-style-type: none"> • partnering with insurers to encourage take-up of adequate private insurance and private mitigation through measures such as improved information sharing and reduced premiums. <p>The State supports this concept as enhancing mechanisms that support the insurance market has net social benefits. Greater hazard/mitigation information sharing allows insurers to adequately price risk which in turn may serve to expand insurable regions and assets. Granular information on risk will allow for appropriate differentiation on premiums e.g. private mitigations activities may then be taken in to consideration when calculating premiums.</p>
Transitional requirements	
Information Request	<p>To what extent would currently available estimation methods, such as the National Impact Assessment Model, inform the estimation of benchmark costs? Would additional assessment tools need to be developed? Who should be responsible for developing these tools?</p> <ul style="list-style-type: none"> • Could this be overseen by the Australian Government Reconstruction Inspectorate? • What timeframe would be required for the development of benchmark cost estimates to be applied across all jurisdictions? <p>The State acknowledges that having an impact estimate tool is valuable for rapid assessment and predictive/planning capabilities and is aware of the National Impact Assessment Model (NIAM). However as yet the NIAM model has not been trialled in the State. The model requires impact data collected on-ground across four categories. The State would need to reposition to systematically collect this data and as such it would likely be a number of years for consistent application across jurisdictions. Better alignment with the National Emergency Assessment Guidelines (NERAG) and the National Capability Assessment Tool (NCAT), including the development of benchmark costs could be a very useful body of work nationally.</p>
Information Request	<p>What governance and institutional arrangements would be required to implement the Commission’s ‘top-up’ insurance option? Could premiums be estimated by the Department of Finance, the Australian Government Actuary, Comcover or another body?</p>

	<ul style="list-style-type: none"> • How could reinsurers be involved in this process? • What timeframe would be required before such a model could be operational? In addition to allowing cover for a lower small disaster criterion, smaller annual expenditure threshold and higher rate of cost sharing from the Australian Government, would there be merit in the 'top-up' insurance option also providing cover for broader eligible expenditure? <p>Whichever Australian Government body is selected to oversee a 'top-up' insurance option, if adopted, would benefit from input from the Australian Government Actuary and/or actuaries in general and reinsurers, to determine premiums to be charged to states electing to take up the option.</p> <p>It is anticipated that reinsurers would, as a minimum, be very keen to participate in assisting or providing methodologies and processes to facilitate a 'top up' insurance option. They will probably also want to propose alternative reinsurance solutions/products to finance natural disaster risks external to the Australian Government having to provide 'top up' insurance.</p> <p>Depending on the availability of appropriate data required to calculate premiums, a model could be established within 6-12 months.</p>
Information Request	<p>What transitional arrangements are required for state and territory governments to meet the proposed accountability requirements put forward by the Commission to apply to both mitigation and recovery assistance?</p> <p>The accountability requirements include that States must undertake robust and transparent assessments including using cost to benefit (monetised) and qualitative (non-monetised) analysis when assessing mitigation projects. Western Australia acknowledges that it is difficult, at this time, to robustly estimate the benefit to cost of mitigation activities for natural hazards but that the validity of such techniques would improve overtime as the models/techniques mature and the hazard/vulnerability datasets improve.</p> <p>Furthermore analysis of projects needs to be on a Multi Criteria basis, including non-monetised social impact criteria. The development of such Multi Criteria assessment tools needs to be undertaken at a Commonwealth level, likely engaging the research institutions. Further national tools to comprehensively assess total impact costs would also be beneficial for accountability for the recovery assistance components.</p> <p>Western Australia agrees with the principle of a staged transition so it can restructure its resourcing/management of the recovery and mitigation components.</p>
Interaction with federal financial relations	
Draft Rec 3.6	The Commonwealth Grants Commission should revisit its assessment of 'average state policy' and accompanying

	<p>accountability requirements for natural disaster policies once the Australian Government has announced its decision regarding relief and recovery funding arrangements.</p> <p>Supported.</p>
Government insurance	
Draft finding 2.3	<p>There are several impediments to state, territory and local governments taking out adequate insurance for their road assets against natural disaster damage.</p> <ul style="list-style-type: none"> • The current natural disaster funding arrangements reduce the incentive for state, territory and local governments to insure their assets. • Most state, territory and local government asset registers are not adequate for the requirements of insurers. • Most state, territory and local governments have not fully explored the use of non-traditional insurance instruments for insuring roads. <p>Western Australia agrees that the natural disaster funding arrangements lowers the incentive for Government agencies to insure their assets and that most have not explored the full range of instruments for insuring roads. Asset registers for infrastructure assets such as road, rail, water and power networks may not be adequate for the requirements of insurers. However other asset registers are likely to be adequate as they are currently covered by either the Western Australian Government’s self-insurance arrangement (i.e. RiskCover Fund) or by commercial insurers.</p>
Draft rec 3.4	<p>State, territory and local governments should further investigate non-traditional insurance products for roads.</p> <p>Agreed. There appears to be significant capital availability in the current reinsurance market and it is probable that reinsurers may be interested in providing cover under a range of products; more so than when Queensland, in particular, explored reinsurance cover for roads in 2011.</p> <p>Where they do not already do so, state, territory and local governments should compile and publish detailed registers of road asset condition and maintenance for all roads over which they have jurisdiction (and have these registers independently audited). This may help insurance markets to understand and price the risk.</p> <p>Western Australia agrees with this position.</p>

	<p>Consideration should be given to the Victorian model in this regard.</p> <p>Agreed.</p>
Information request	<p>The Commission seeks information on recent advances in tailored parametric or index-based insurance and catastrophe bonds, or other relevant instruments through capital markets, for use by governments to provision for natural disaster risk on an ex-ante basis.</p> <p>Western Australia supports this endeavour. Reinsurance market capacity and appetite for this type of cover is currently very strong. The Productivity Commission should seek confirmation of this from the reinsurance market.</p>
Managing sharing risks	
Draft Finding 2.6	<p>The Australian Government Disaster Recovery Payment (AGDRP) is significantly higher than the Crisis Payment that is provided to assist income support recipients with the impacts of traumatic events. As such, the AGDRP may be higher than necessary to meet the emergency needs of people affected by natural disasters.</p> <p>Eligibility criteria for the AGDRP tend to be adjusted following a major natural disaster and have progressively become broader in their scope. Ministerial discretion over the eligibility criteria has led to inconsistent and inequitable treatment of people in comparable circumstances and has contributed to increased program costs.</p> <p>There is overlap and duplication between the AGDRP and state and territory government emergency assistance to individuals. The Australian Government is better placed than the states and territories to provide emergency assistance to individuals in an efficient and timely manner.</p> <p>Western Australia agrees that there can be duplication and perceived inequity in emergency relief payments. Though it is not possible to control payments by non-government organizations, clear activation and eligibility criteria for AGDRP should be in place that is not subject to political or other influences. These payments should be consistent, equitable, timely and transparent in process but with consideration (i.e. discretionary flexibility) for regional circumstances where costs can be significantly higher such as the Pilbara and Kimberley regions. Clear advice on the interpretation for each Category Measure under the Determination also needs to be provided to lower ambiguity amongst providers and recipients.</p> <p>Centrelink may be well placed to provide relief payments in a post disaster context, but requires the flexibility to potentially deliver the service on weekends, after hours and in remote locations. In such circumstances jurisdictions</p>

	<p>may need discretion to provide targeted immediate support based on assessed need, with ability to seek reimbursement accordingly. The Western Australian Department of Child Protection and Family Support has a robust, well managed system, for this circumstance</p>
Draft Finding 2.7	<p>The case for government assistance to businesses and primary producers after a natural disaster is weak. If governments do provide assistance to businesses and primary producers, untied grants are a more efficient, effective and equitable instrument than loans and subsidies.</p> <p>The State does not support assistance to businesses and primary producers following sudden onset natural disasters. It is extremely difficult to maintain competitive neutrality and avoid creating a disincentive for insurance when providing this type of assistance.</p>
Draft Rec 3.5	<p>The Australian Government should:</p> <ul style="list-style-type: none"> • cease reimbursement to state and territory governments under the Natural Disaster Relief and Recovery Arrangements for relief payments for emergency food, clothing or temporary accommodation and assistance to businesses and primary producers (including concessional loans, subsidies, grants and clean-up and recovery grants) • reduce the amount provided under the Australian Government Disaster Recovery Payment (AGDRP). The Australian Government Crisis Payment may provide a reasonable benchmark in this regard • legislate the eligibility criteria for the AGDRP and the Disaster Recovery Allowance and make these not subject to Ministerial discretion. <p>As per the States comments on draft finding 2.6</p>
Information	
Draft Finding 4.1	<p>The availability of information on natural hazards and exposure has improved significantly in recent years, especially in relation to floods. However, there is scope for greater coordination and prioritisation of natural hazard research activities across governments and research institutions.</p> <p>Western Australia supports the finding that greater coordination and prioritisation of natural hazard research is required. Convenient centralised access to consistent all hazard, vulnerability and exposure information is necessary. Each State should have the opportunity to prioritise data capture and analysis pertinent to their jurisdiction and carried out by government and research institutions.</p>

Information request	<p>If guidelines for the collection and dissemination of hazard mapping and modelling are developed:</p> <ul style="list-style-type: none"> • who would be best placed to develop these guidelines? <p>The guidelines could be established by under ANZEMC and the Risk and Mitigation and Measurement Subcommittee in conjunction with the Attorney Generals Department (Emergency Management Australia). Technical criteria should be provided by Geoscience Australia, CSIRO, Bureau of Meteorology and research institutions.</p> <ul style="list-style-type: none"> • what hazards could be covered? <p>Earthquake, tsunami, collapse, storm, cyclone, flood, heatwave, bushfire, storm surge, coastal erosion, landslide</p> <ul style="list-style-type: none"> • how could guidelines for hazard types be prioritised for development? <p>The States submit their priority hazards based on their state risk assessments, following the National Emergency Risk Assessment Guidelines.</p>
Draft Rec 4.1	<p>When collecting new natural hazard data or undertaking modelling, all levels of governments should:</p> <ul style="list-style-type: none"> • make information publicly available where it is used for their own risk management and/or there are significant public benefits from doing so. <p>Western Australia supports the principle of sharing data publically. Greater information available to all stakeholders would enhance the promotion/understanding of shared responsibility in turn supporting the development of State/National resilience. The historical and ongoing collection of hazard information in a consistent fashion, and its central availability is an imperative. Interpreted/modelled data needs to be dealt with carefully and released through an appropriate reporting chain where deemed fit with clear provisos on accuracy and useability.</p> <ul style="list-style-type: none"> • use private sector providers where cost effective, and use licencing arrangements that allow for public dissemination. Where there are costs involved in obtaining intellectual property rights for existing data, governments should weigh up these costs against the public benefits of making the data freely accessible. <p>Western Australia sees this recommendation as logical. Additionally as part of certain project approvals private</p>

	<p>sector data could be mandated for release to government and in turn the public domain after certain duration. Governments should ‘stocktake’ what is available presently in private sector and determine the range of data access options.</p> <ul style="list-style-type: none"> • apply cost recovery where governments are best placed to collect or analyse specialist data for which the benefits accrue mostly to private sector users. <p>This is reasonable and this system is already applied to specialist data such as meteorological information that is specifically tailored for private sector use.</p>
Draft Rec 4.2	<p>State and territory governments, local governments and insurers should explore opportunities for collaboration and partnerships. Partnerships, for example, could be formed through the Insurance Council of Australia and state-based local government associations (or regional organisations of councils). Consideration could be given to the Trusted Information Sharing Network model, and involve:</p> <ul style="list-style-type: none"> • governments sharing natural hazard data that they already hold and undertaking land use planning and mitigation to reduce risk exposure and vulnerability. <p>Western Australia supports the recommendation of governments sharing natural hazard data and undertaking land-use planning and mitigation to reduce risk exposure and vulnerability. Natural hazard information is already considered in Landuse planning decisions. This is looking to be enhanced to incorporate a broader range of hazards as well as considering changing ‘exposures’ and ‘vulnerabilities’ through population, economic and infrastructural growth in the State and climate change.</p> <p>The State has a well-established cross Government shared GIS platform which allows government agencies and the wider community to review available hazard data. However there are considerable gaps in available data and this is currently being reviewed. A stronger relationship between State-based Government agencies and the Insurance Council of Australia would be particularly beneficial. Sharing of information could improve the mechanisms of insurance, increasing the capacity to accurately price risk and help ascertain where mitigation would aid insurance viability. Information on private sector insurance coverage would also help governments understand the potential social costs of a disaster and how well resilience is being built.</p>

	<ul style="list-style-type: none"> • insurers sharing expertise and information (for example, claims data) to inform land use planning and mitigation <p>The State supports this proposal (as above) and is a key recommendation of the WA Capability and Investment Plan.</p> <ul style="list-style-type: none"> • collaboration to inform households of the risks that they face and adequacy of their insurance to fully cover rebuilding costs, and to encourage private funding of mitigation through incentives such as reduced premiums. <p>The State supports this proposal (as above). Reducing information asymmetry is useful for building shared responsibility and resilience. Householders being fully informed of potential risks and the estimated total re-building costs could encourage take-up of private insurance to the appropriate level. Insurance companies benefit from the lowering of their exposure and could help to promote/educate on mitigation methodologies and incentivise through lower premiums (this is well seen presently in the health insurance market).</p>
Draft Rec 4.3	<p>State and territory governments should hasten implementation of the Enhancing Disaster Resilience in the Built Environment Roadmap, including reviewing the regulatory components of vendor disclosure statements. Furthermore, the Land Use Planning and Building Codes Taskforce should consider possibilities for regular, low-cost dissemination of hazard information to households by governments and insurers (for example, the work of the Insurance Council of Australia to develop natural hazard ratings at a household level).</p> <p>A draft Western Australian Capability and Investment Plan (CIP) has been developed and will be finalised in 2014 which provides for implementation of the seven improvement areas identified in the Enhancing Disaster Resilience in the Built Environment Roadmap, tailored for Western Australia.</p> <p>Presently in Western Australia, if land affected by natural hazards is subdivided notifications are required on titles. However a new legislative head of power would be required if notifications are to be applied to titles of all existing properties within designated hazard areas without requiring landowners' consent. Investigations in the State have concluded that the retrospective application of notifications on all titles is not practical. This is due to the significant extent of notifications and associated resources required and their ineffectiveness as a mechanism to inform prospective purchasers. A more effective to prospective purchasers is through the Property Interest Report.</p> <p>Western Australia is currently undertaking a project to improve hazard risk information at a State, District and Local Government scale. On a granular/household scale work undertaken by the Insurance Council Australia would be of</p>

	significant benefit.
Regulating the built environment	
Draft Rec 4.4	<p>State governments should:</p> <ul style="list-style-type: none"> • clearly articulate the state-wide natural hazard risk appetite in land use planning policy frameworks • provide local governments with guidance on how to prioritise competing objectives within land use planning • provide local government with guidance on how to integrate land use planning and building standards. <p>Consideration should be given to Victoria’s Integrated Planning and Building Framework for Bushfire in this regard.</p> <p>The State government has an established policy framework to guide Landuse planning decisions and is committed to further updating and improving how natural hazard risk management is incorporated into the land use planning framework. At present, State Planning Policies do not adequately address all hazards and this is looking to be strengthened. Recent examples include improvement of the <i>State Coastal Planning Policy</i> and a new policy for <i>Planning for Bushfire Risk Management</i>.</p> <p>State Planning policies and associated materials (local planning schemes, structure plans, subdivision and development assessments) guide the balancing of natural hazards mitigation with other planning considerations. The extent to which these restrict development is based on the level of hazard risk in that location, the availability of risk management options, and community expectations.</p> <p>Furthermore, local governments should publish the reasoning behind development assessment decisions.</p> <p>The state and local government policy frameworks, on which development assessment decisions are based, is reported publicly and provide guidance on addressing natural hazards in decision making. Publishing the reasoning behind all development assessment determinations is administratively demanding on Local Governments and natural hazards are better addressed at the higher stages of planning such as local planning schemes.</p>
Draft Rec 4.5	<p>The onus is on state governments to ensure that local governments in their jurisdiction are sufficiently resourced to effectively implement their land use planning responsibilities. State governments should review the adequacy of local governments’ resources and capabilities, and provide further resources and support where they are not adequate.</p> <p>Western Australia supports adequate resourcing of state and local government to better address natural hazards in</p>

	<p>the built environment. However current resourcing arrangements are not adequate to undertake these assessments across the priority agencies. Changes to funding arrangements as outlined in Draft Recommendation 3.2 would provide greater state funding for mitigation, and enhance state and local government capacity. A range of local and state agencies would work collaboratively to assess the current resourcing capabilities and identify future needs.</p>
Draft Rec 4.6	<p>State governments should provide additional support and guidance to local governments that addresses the extent of local governments' legal liability when releasing natural hazard information and making changes to land use planning regulations.</p> <p>Local governments should determine their own liability by engaging formal legal advice given that each local government's liability will differ dependent on the information being made available and at what scale; and the associated policy and regulatory framework in which that information is applied. However State agencies have identified that legal liability of local governments in relation to emergency management/natural disasters/hazard data is an area for further consideration.</p> <p>Legal liability when making changes to land use planning regulation is set out in the Planning and Development Act (e.g. injurious affection).</p>
Draft Rec 4.7	<p>The provisions in the Queensland Sustainable Planning Act 2009 for injurious affection should be repealed.</p>
Draft Rec 4.10	<p>All governments should put in place best-practice institutional and governance arrangements for the provision of public infrastructure, including road infrastructure. These should include:</p> <ul style="list-style-type: none"> • stronger processes for project selection that incorporate requirements for cost–benefit analyses that are independently scrutinised and publicly released • consideration of natural disaster risk in project selection • a clearer link between road-user preferences and maintenance and investment decisions. <p>The draft recommendations are generally sound and are in line with practices promoted by Infrastructure Australia and the Productivity Commission's recently completed Inquiry into Public Infrastructure (provision, funding, financing and costs), and are supported. One of the key findings of the inquiry was a call to reform governance and institutional arrangements for public infrastructure to promote better decision making in project selection, funding etc (including rigorous and transparent use of cost-benefit analyses).</p> <p>While the rigorous and transparent use of cost-benefit analysis to support effective project selection is supported, it is</p>

	<p>important that the scope and detail of such analysis for individual projects be tailored to their scale, scope and complexity. It is not cost-effective to apply comprehensive and intensive cost-benefit analysis (which can be an expensive exercise) to all projects, particularly those that are of small scale. Independent scrutiny and publication of cost-benefit analyses are supported in principle on the grounds of improved transparency in decision-making.</p> <p>In Western Australia final Project selection is the responsibility of Cabinet. Project selection requires proposals to be identified, evaluated and justified by agencies in accordance with the Strategic Asset Management Framework (SAMF), for which Treasury has overall policy responsibility.</p> <p>Western Australia supports the incorporation of “consideration of natural disaster risk in project selection”, this is generally considered as part of existing processes.</p> <p>The Transport Portfolio process includes, as far as practicable, review of cost-benefit analyses and prioritisation of proposals within the Portfolio so as to ensure that the proposals of greatest need are recommended for investment.</p>
Insurance	
Draft Rec 4.8	<p>State and territory taxes and levies on general insurance should be phased out and replaced with less distortionary taxes.</p> <p>While it is acknowledged that insurance duty (along with other stamp duties) is one of the most inefficient taxes for the states, in the absence of alternative revenue sources it would be difficult for state governments to abolish or significantly reduce insurance duty in the current fiscal environment. Nevertheless, it is expected that reforms to state taxes, including insurance duty, will be considered as part of the Commonwealth’s White Paper on taxation reform.</p>
Draft Rec 4.9	<p>Insurers should provide additional information to households regarding their insurance policies, the natural hazards they face and possible costs of rebuilding after a natural disaster. This work could be led by the Insurance Council of Australia to ensure consistency in the provision of information across insurers.</p> <p>Agreed but there should probably be sources of natural hazards information provided to householders and other land/property owners in addition to that provided by the Insurance Council of Australia.</p>
Information request	<p>What is the prevalence of sum insured versus total replacement cost cover in household building and contents insurance policies? Has this changed in recent years?</p>

	<p>Are there any impediments to insurers disclosing an indicative estimate of the difference between the sum insured and the replacement value of the property? Are there barriers to insurers recognising property-level mitigation through reduced premiums? Where commercial insurers adopt more risk-reflective pricing are reinsurers adjusting their prices accordingly?</p> <p>This information will best be sourced from Insurance Council of Australia and its members. Insurers will generally reduce premiums where risk is reduced, particularly where there is evidence of improved experience. The insurance market is competitive and insurers will respond with lower prices where they are able to achieve a positive underwriting/operating return.</p>
Draft Finding 4.2	<p>International experience has shown that government intervention in property insurance markets (either through direct provision of insurance or by providing reinsurance) weakens the price signals that insurance premiums send to households and businesses about the level of risk faced. These schemes also create fiscal risks. Governments have had to bear significant costs following large natural disasters because their insurance schemes failed to accumulate adequate reserves.</p> <p>These statements are probably correct.</p>

WANDRRA expenditure over last 5 financial years

AGRN	2009-10	2010-11	2011-12	2012-13	2013-14	Total
	\$	\$	\$	\$	\$	\$
<i>2009-10</i>						
364	19,739	353,601	4,068,071	5,826	1,458	4,448,695
365	1,008,454	509,943	254,783			1,773,180
384	279,767	2,046,166	400,936	4,023	2,390	2,733,282
<i>2010-11</i>						
418		5,497,078	24,522,578	18,057,615	9,618	48,086,889
427		3,097,584	5,225,970	1,173,052		9,496,606
431		1,102,243	3,481,690	8,109,688	3,370,617	16,064,238
433			2,708,186	214,540		2,922,726
434		113,599	1,842,721	5,979,675		7,935,995
435			440,119	1,693,450		2,133,569
436			6,494,445	22,042,519		28,536,964
438			50,714	-50,714		0
440			79,057,289	48,916,407	8,360,766	136,334,462
445			333,205			333,205
453			844,522	147,149		991,671
<i>2011-12</i>						
462			1,142,389	639,153	44,673	1,826,215
464						0
465			321,200	1,336,683	6,760,126	8,418,009
470			107,333	61,089	3,421,506	3,589,928
473				4,183,075	6,729,218	10,912,293
487			494,824	1,479,440	4,062,619	6,036,883
496				21,092,644	12,248,855	33,341,499
500				693,346	409,750	1,103,096
<i>2012-13</i>						
532				26,359	1,124,487	1,150,846
544					399,818	399,818

WANDRRA expenditure over last 5 financial years

546					157,560	119,505	277,065	
553					1,553,552	2,320,237	3,873,789	
580						500,610	500,610	
585						10,800	10,800	
591							0	
2013-14								
579						485,472	485,472	
583						2,799,254	2,799,254	
595						1,906,721	1,906,721	
600						2,486,656	2,486,656	
606						449,518	449,518	
627							0	341,359,954
		1,307,960	12,720,214	131,790,975	137,516,131	58,024,674	341,359,954	
This table shows WANDRRA expenditure for eligible events. There has been additional expenditure (not shown) which relates to events that occurred before the first financial year shown.								
This will include Loan Interest subsidies and expenditure on events which occurred prior but whose Allowable Time Limit (ALT) was still valid in the period shown								
It does not include payments made from other sources (e.g. Lord Mayor's Relief Distress Fund, Premier's awards etc.)								