Date: November 2022

Natural Disaster Funding Arrangements (2014)

Inquiry key points

- Natural disaster **funding arrangements are not efficient**, equitable or sustainable
  - Governments overinvest in post-disaster reconstruction and underinvest in mitigation that would limit the impact of natural disasters (about 97 per cent of funding is spent on recovery, and 3 per cent on mitigation)
- Funding arrangements affect **incentives to manage risks**, including by using levers like land use planning. The reform imperative is greatest for states most exposed to natural disaster risk, like Queensland.
- **States need to shoulder a greater share of natural disaster recovery costs** to sharpen incentives to manage, mitigate and insure against these risks.
  - The Australian Government should provide a base level of support to states commensurate with relative fiscal capacity and the original 'safety-net' objective of disaster recovery funding, with the option for states to purchase 'top-up' fiscal support.
- Governments can do better in terms of policies that **enable people to understand natural disaster risks** and to give them the incentive to manage the risks effectively.
  - There are opportunities to **improve information consistency**, sharing and communication of information on hazards and risk exposure
  - Regulations affecting the built environment have a significant influence on the exposure and vulnerability of communities to natural hazards. While building regulations have generally been effective, there is a need **to transparently incorporate natural disaster risk management into land use planning**.

Background

The Commission's inquiry report *Natural Disaster Funding Arrangements* was provided to Government in December 2014 and publicly released on 1 May 2015. The Australian Government released its **response** on 22 December 2016. The Government committed to examining, for two years and in conjunction with the States, models for disaster relief and recovery.

The Government **rejected the recommendation** that mitigation funding should be increased to $200 million per year on the basis that it was to be funded from savings achieved by reducing Commonwealth support for disaster recovery.

<u>Disaster Recovery Funding Arrangements</u>

Most disaster recovery expenditure is for assets that are owned by State and Local Governments, such as roads and bridges. The Australian Government shares the costs of disaster recovery (under the auspices of the Intergovernmental Agreement on Federal Financial Arrangements).

The **Commission found that the funding arrangements reduced incentives for State and Territory governments to manage the risks to their assets**. Governments rebuild assets as they were, as quickly as possible and for the lowest price possible, rather than take the opportunity to rebuild them to a higher level of resilience. (This is particularly relevant for assets that are subject to flooding, which is relatively predictable and likely to be repeated in the absence of mitigation works).

Disaster mitigation expenditure

At the time of the inquiry, the Australian Government provided funding for natural disaster mitigation through the National Partnership Agreement on Natural Disaster Resilience (NPANDR). Between 2009-10 and 2012-13, the Australian Government spent around $115 million through this agreement. (That is, less than $30 million per year, on average.) States matched this with about $110 million of expenditure.

The **Commission found this funding to be inadequate** and recommended that the Australian Government expenditure be increased to $200 million per year, matched by the states. States would have autonomy in how they spend the funding they receive and the activities they support, subject to the accountability requirements. The funding distribution would be guided by factors such as population and disaster risks.

Land use planning and the built environment

State and Local Government land use planning influences the extent of community exposure to natural disaster risks. Building regulations influence their vulnerability (e.g. regulations that require elevation can reduce the damage incurred during floods).

Land use planning regulation needs to balance competing priorities, and planning regulation has not always incorporated natural disaster risk successfully. The Commission **recommended that State Governments provide information to local governments on natural disaster risks** and guidance on risk appetite and risk management. State Governments should also provide adequate resources to local governments to interpret and apply this information.

Insurance

Insurance premiums in parts of Northern Australia that are subject to frequent cyclones and/or floods have reached extremely high levels. In some areas insurance is effectively unavailable. The **Commission recommended increasing access to information on disaster risks so consumers and insurers can better understand the risks they face and options for risk mitigation**.

The Commission acknowledged that information would not solve problems for people for whom premiums that are risk reflective are unaffordable. The Commission concluded that subsidised premiums would dull incentives to manage risks and would be a short-term and potentially costly solution.

Recent developments

On 30 March 2022, the Australian Government established a ‘reinsurance pool’ for cyclone and flood risk insurance, backed by a $10 billion government guarantee. The Commission considered such a mechanism in its inquiry and stated that it would effectively be a subsidy for insurance premiums and would dull incentives for risk management. Although the Commission has not examined the scheme in detail, it is unlikely to have any material effect on reducing natural disaster risk. In the 2014 inquiry, insurers indicated to the Commission that a government reinsurance pool would be unlikely to change their decisions about offering insurance in areas that are subject to extreme risks.