Queensland Government

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- 6 JUN 2014

Commissioners Jonathan Coppel and Karen Chester
Natural Disaster Funding Arrangements
Productivity Commission
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Collins St East
MELBOURNE VIC 8003

Dear Commissioners

On behalf of the Queensland Government I would like to thank you for the opportunity to provide a submission to the Productivity Commission Inquiry into Natural Disaster Funding Arrangements (the Inquiry).

Please find enclosed the Queensland Government Submission to the Inquiry which is the State Government's formal response to the Inquiry. In the absence of the detailed data and information requirements subsequently identified in the Issues Paper, the Submission addresses those topics presented in the terms of reference as being within the scope of the Inquiry to analyse current Commonwealth, state and territory expenditure on natural disaster mitigation, resilience and recovery.

The Queensland Government is currently compiling a response to the Issues Paper which will provide ancillary information to that presented in the Submission. The response will be submitted to the Productivity Commission in the near future.

Again, thank you for providing the opportunity to contribute to the Productivity Commission Inquiry into Natural Disaster Funding Arrangements. I look forward to working with you throughout the consultation process of the Inquiry.

Yours sincerely

David Crisafulli MP
Minister for Local Government,
Community Recovery and Resilience

Enc

Queensland Government Submission

Productivity Commission Inquiry

Natural Disaster Funding Arrangements

June 2014

Great state. Great opportunity.

AUDAX AT FIDELIS

Queensland Government

Executive summary

Large scale, rapid onset natural disasters are of national significance, regardless of where in the country they occur. When they strike, their impact is felt more broadly than just in the disaster zone, with ongoing effects on our nation's economic and social fabric. Governments have little option but to respond immediately to recover and rebuild, in order to preserve and protect life and ensure rapid economic and community recovery.

Australia's Natural Disaster Relief and Recovery Arrangements (NDRRA) have been an essential and effective basis for joint government efforts to enable all Australians to recover rapidly from natural disasters. While Queensland's specific challenge has been floods and cyclones, other states face bushfires and extreme heat. The current arrangements establish the platform for governments to work together at a national level to ensure Australia's overall recovery and resilience. No state is left to fend for itself.

Queensland is a large and decentralised state, which contributes significantly to Australia's economy through key industries including agriculture, resources, energy and tourism. The impact of disasters on Queensland's economy, such as the loss of secure international trade and the reduction of Queensland's Gross State Product, is a costly national issue. The World Bank estimates the Queensland flooding of 2010-11 caused US$15.9 billion in total damages and economic losses to Australia.

The Commonwealth Government has recognised the importance of Queensland's north, in particular with its commitment to develop northern Australia. In its vision for northern Australia, the Commonwealth has acknowledged the main task is "to create the right climate and environment to encourage the establishment of viable enterprises". The ability to quickly restore damaged infrastructure, rebuild communities and quickly resume economic activity in this region is critical to the continued economic growth of both the Queensland and national economies.

Australia's NDRRA have already been acknowledged as meeting international good practice standards. When reviewing Queensland's reconstruction from the 2010-11 floods, the World Bank recognised that the existence of an agreed funding arrangement allows for rapid response and recovery, with financial support able to be mobilised quickly and managed well. In effect, the NDRRA provide an effective safety net to aid rapid recovery when disaster strikes.

Queensland has a wealth of experience in disaster management and recovery, and over the past seven years has experienced rapid onset natural disasters that have taken 43 lives and cost approximately $14 billion in NDRRA expenditure. Despite this, the devastating events of 2010-11 were unusual and constituted a major disaster on an international scale. It was Australia's largest natural disaster in recent memory, and one of the major international disasters of the last decade[1].

So far, 2014 indicates a return to more usual weather evidenced prior to 2009. Changing an internationally recognised, effective NDRRA policy should be carefully considered if based solely on an aberration in weather patterns.

1 World Bank Report on Queensland's Reconstruction, June 2011.

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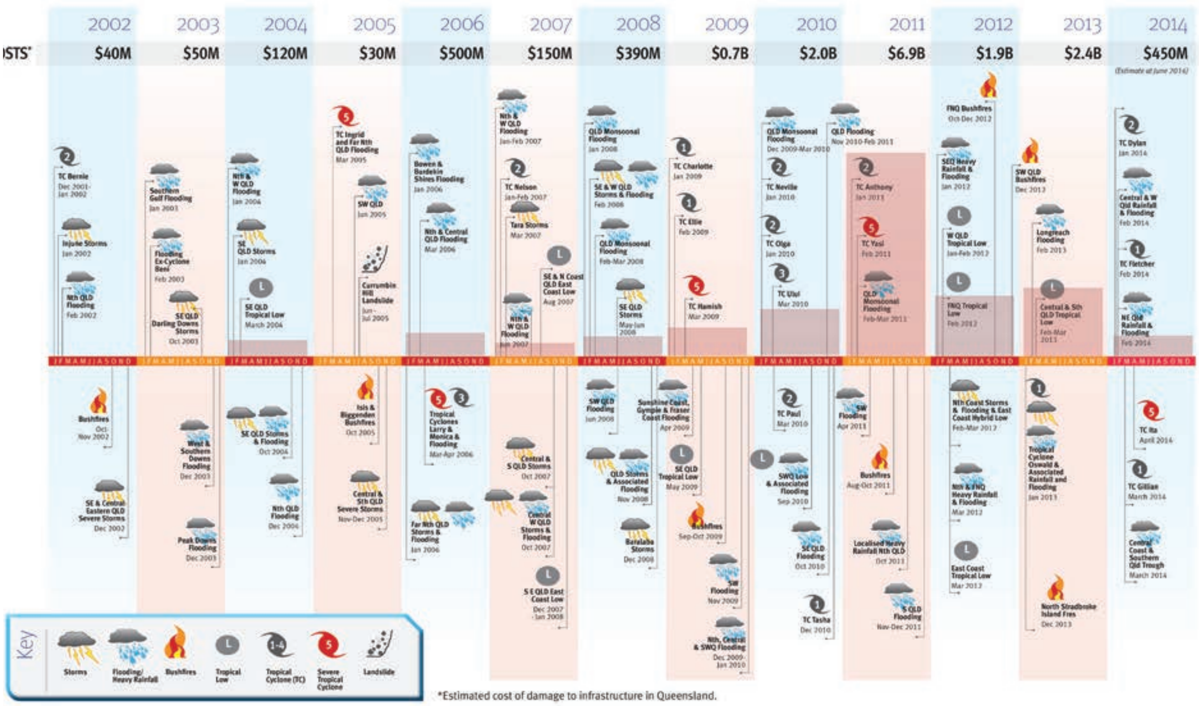
Over a decade of natural disaster events in Queensland



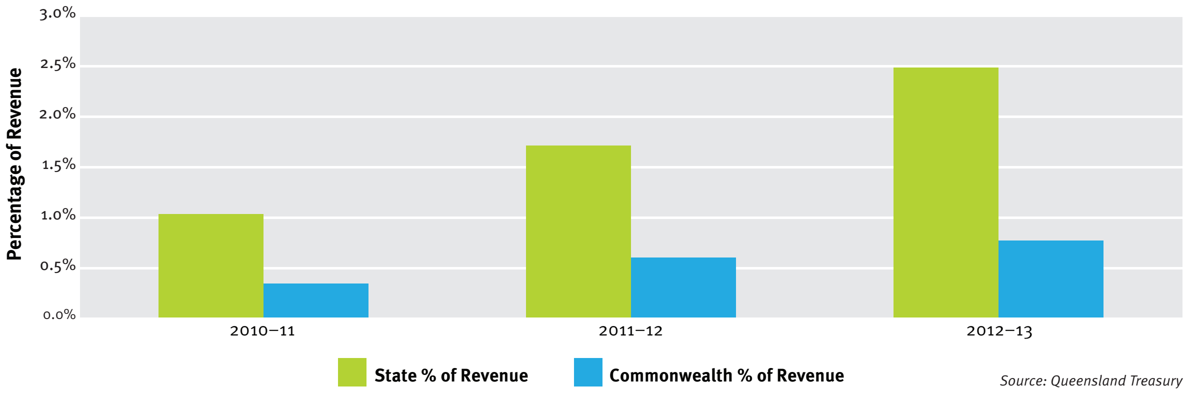
*Estimated cost of damage to infrastructure in Queensland.

The Queensland Government recognises that under NDRRA the Commonwealth and State liability has no specific cap, other than the limits placed by the NDRRA scope and eligibility. The Commonwealth and States fund this arrangement through existing source revenues, however, in the past, there have been additional national measures introduced to assist with extraordinary disaster events, such as the introduction of a flood levy to help fund the major floods recovery of 2010-11.

Queensland has done its share of heavy lifting, providing more than $3.5 billion in NDRRA funds over the past six years. In Queensland's view, the relative capacities of the Commonwealth and Queensland Governments to raise revenue and fund reconstruction are equitably reflected in the existing contributions to the NDRRA. It should be noted that the often referred to Commonwealth/State contribution of 75/25 per cent is the highest contribution rate for the Commonwealth Government. Because the arrangements use a sliding scale of funding contributions based on the state's total eligible expenditure in a financial year, Queensland has always contributed in excess of 25 per cent of costs under the arrangements. For example, the Commonwealth Government does not contribute any funding in years when eligible expenditure is under $103 million. For the period between 2003 and 2012, the Queensland Government has on average contributed 40 per cent of Queensland's NDRRA recovery and reconstruction costs.

The state contribution to NDRRA reconstruction spending in Queensland between 2010-11 and 2012-13, as a percentage of revenue, is **more than three times** that of the Commonwealth.

Proportion of revenue spent on reconstruction



Source: Queensland Treasury

As a result of the natural disasters, Queensland has been forced to divert funds away from targeted capital investments that would have provided positive impacts in terms of strategic economic growth. While it is accurate to say Queensland will receive approximately $9 billion in Commonwealth funding (and spend $3.5 billion of its own funds) for infrastructure repair, this has, by necessity, been used to undertake repairs across a broad area, rather than for more targeted major infrastructure investments. Given the limitations on the State's available infrastructure spending, a greater proportion spent on disaster repairs means less money available for strategic infrastructure.

Not undertaking necessary restoration works through a lack of funding allocation would result in reductions in living standards for members of the Queensland and Australian communities and would have significant economic impacts.

The Queensland Government rejects the assumption that the current arrangements act as a disincentive for states and territories to fund mitigation works. Queensland has recognised that additional investment in flood mitigation can provide economic returns and resilience benefits. Bureau of Transport Economics research in 2002 showed a 3:1 return on mitigation investment through avoided response and recovery costs, and the Federal Emergency Management Agency (FEMA) has estimated an average return of up to 5:1 on flood mitigation investment[2].

The Queensland Government has taken a proactive approach to disaster mitigation and resilience, providing large amounts of funding outside the scope of the NDRRA for mitigation and resilience works, including:

- more than $350 million in complementary funding towards roadworks during reconstruction
- major flood mitigation projects in Toowoomba, Charleville, Roma, St George and Bundaberg
- the jointly funded $68 million Natural Disaster Resilience Program
- investment in flood gauges and warning systems around the state to reduce the level of damage and the costs incurred as a result of disasters
- community resilience programs such as the Get Ready preparedness and resilience initiative
- the state response to the Queensland Floods Commission of Inquiry, including the delivery of the Queensland Flood Mapping Project.

From a human and social recovery perspective, the Queensland Government introduced significant community recovery reforms in October 2013. These reforms focused on issues such as managing demand, targeting services, value for money, achieving efficiencies, reducing red tape, reducing fraud, decreasing public expectation of payments as an entitlement or compensation and substantiating need and hardship as significant eligibility conditions – actions that are consistent with recommendation 41b of the Report of the National Commission of Audit.

Despite the Queensland Government's significant investment in mitigation and resilience since 2010, there is clearly unmet demand. In Queensland's latest round of mitigation and resilience funding grants, 58 councils submitted 173 projects for funding consideration, worth in excess of half a billion dollars. This is almost 12 times the amount available.

The introduction of the jointly funded $80 million Queensland Betterment Fund has also proven to be a significant incentive for local governments to increase the resilience of damaged assets, reducing future recovery costs. Previously, the strict limitations of NDRRA had only provided funding to restore assets to their pre-disaster standard, leading to repeated damage and repairs to vulnerable assets. Under the new framework developed by the Queensland Government in 2013, 220 projects around the state have now been approved to make public assets more resilient, with local governments contributing more than $11.5 million in funding. On announcement of the Betterment Fund, 47 local governments submitted 1,434

2 Rose et al, Benefit-Cost Analysis of FEMA Hazard Mitigation Grants, November 2007.

betterment project proposals for consideration with an estimated total value of $1.19 billion, indicating a significant unmet demand for this type of resilience funding.

The systems and processes put in place by the Queensland Reconstruction Authority, including its Value for Money Strategy, submission guidelines and infrastructure damage assessment processes, have resulted in avoided costs in excess of $1.7 billion[3] to the State and Commonwealth Governments. Potential exists to replicate this result nationally. Additionally, internal labour costs and other program cost saving initiatives should be eligible for reimbursement under NDRRA, where it can be demonstrated that they provide the best value for money.

Potential also exists to reduce the red tape that has become part of the NDRRA. Despite Queensland having sophisticated and robust governance arrangements in place, additional levels of oversight have been established that appear to be increasingly process-focused. The National Commission of Audit acknowledges the need to simplify and reduce the administrative burden of arrangements such as the NDRRA, and rationalise the number of National Partnership Agreements (NPAs). Queensland's natural disaster recovery, reconstruction and resilience program currently operates under a number of different governance arrangements including a Determination, 10 supporting guidelines and two separate NPAs.

While the need for accountability in the payment of NDRRA funds is acknowledged, the administration of NDRRA recoupment in Queensland's experience has been subjected to extremely high levels of red tape. Eligibility requirements are not identified by the Commonwealth when funding is agreed, definitions are not clear, policy decisions are made retrospectively and the states often operate under the burden of conflicting or changing requirements under multiple NPAs, guidelines and rulings. Any reform of natural disaster funding arrangements should reduce duplication of governance arrangements ensuring accountability, clarifying requirements and streamlining the process for state and local governments.

Issues relating to insurance were examined in detail in the 2011 Natural Disaster Insurance Review. The mitigation work delivered and underway in Queensland is resulting in positive insurance outcomes for Queenslanders. For example, investment in the Roma flood mitigation levee has meant major insurers have reversed their decision not to offer insurance policies for residents of the town.

While the purchase of insurance by individuals and asset owners is strongly endorsed and promoted by the Queensland Government as a risk management measure, the ability to insure some public assets in Queensland, particularly roads, is difficult – if not impossible – because the risk profile for this infrastructure is problematic and difficult to determine. Consequently, some road assets in Queensland's 170,000km road network are uninsurable, and alternative ways to provide better protection and resilience are required. An enhancement of the current Betterment Fund, where a combination of government funding is used at the time of repair to upgrade an asset's resilience, should be adopted for these assets.

Queensland's geography and the spatial distribution of its economic centres and infrastructure, together with its location within the tropics and sub-tropics, dictates that the state will never be disaster-proof or be able to completely mitigate against all impacts from natural disasters on infrastructure. There will always be an ongoing need for measures within the NDRRA to restore essential infrastructure.

3 Australian National Audit Office Report into the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland. www.anao.gov.au/Publications/Audit-Reports/2013-2014/Value-for-Money-Reviews-of-Flood-Reconstruction-Projects-in-Queensland/Audit-summary.

The contrast between mitigation and resilience investments, and relief and recovery costs is the government's ability to determine the timing, scale and location of its investment. The diagram below demonstrates this contrast, and outlines the resulting broad actions the Queensland Government believes are essential to reform natural disaster funding.

Natural Disaster Funding Arrangements

	Mitigation	Resilience	Relief	Recovery
Purpose	Prepare/Reduce Impact	Prevent/Reduce Impact	Preseve and Protect Life	Rapid Economic and Community Return
Choice of investment timing	Yes	Yes	No	No
Choice of investment scale	Yes	Yes	No	No
Recommended Actions	• Increase investment to reduce future recovery and relief needs • Opportunistic investment as part of recovery (ie Betterment) • Invest in research to quantify risk for assets to enable higher levels of insurance	• Increased investment to reduce future recovery and relief needs • Opportunistic investment as part of recovery (ie Betterment)	• Preserve current levels of protection (ie 75/25 per cent share) • Clarify eligibility	• Preserve current levels of protection (ie 75/25 per cent share) • Reduce red tape in processes • Reduce number of National Partnership Agreements • Clarify eligibility criteria • Adopt value for money assessment model • Adopt program cost-saving measures (including day labour)

Queensland proposes that an increase to the Commonwealth investment in mitigation and resilience is required, especially an increased investment in opportunistic resilience through the Betterment program. Implementing these measures will have the effect of reducing future recovery and relief needs. The Queensland Government does not believe there is a demonstrated need to change the current levels of funding protection to aid recovery from rapid onset disasters, and in fact believes that a change would have negative impacts on the Queensland and Australian communities. However, there is scope to reform the NDRRA to provide a more effective and efficient system that provides value for money.

The Queensland Government looks forward to working with the Productivity Commission and the Commonwealth Government to make positive investments to increase our resilience for the future and ensure our communities are adequately protected.

Contents

Recommendations

1. The Productivity Commission should recognise the NDRRA have been an essential and effective cornerstone in joint government efforts to enable all Australians to recover rapidly from natural disasters and to get local economies moving again.

2. Current Commonwealth and State NDRRA contribution thresholds should be maintained in recognition of the benefit to the Australian economy and community, in particular the current Commonwealth-State funding splits for the restoration of essential public infrastructure under NDRRA.

3. The current NDRRA Determination and National Partnership Agreements should be revised to reduce the red tape and duplication through all phases of the process. The current NDRRA policy to fund restoration of assets only to their pre-disaster condition is flawed, and the Queensland Government's streamlined application process for betterment should be adopted to provide protection and enhancement and reduce future restoration costs.

4. The Productivity Commission should consider recommending the broad adoption of the improved systems, processes and initiatives developed and implemented by the Queensland Government, and its globally recognised best practice strategies in NDRRA administration to reduce red tape and ensure value for money in reconstruction activities.

5. Commonwealth contributions to mitigation expenditure should be formalised in a revised version of the NDRRA, replicating the provisions of the Queensland Betterment Fund, and expanded to state assets (in particular, road assets), but not to the detriment of existing recovery funding measures.

6. A national strategy should be developed to identify high-risk, high-cost assets subject to ongoing damage from NDRRA events and a program established to fund these assets to make them more resilient.

7. The Productivity Commission should note that some assets are uninsurable, and alternative ways to provide better protection and resilience for those assets should be examined. The Productivity Commission should also consider the benefits of mitigation and resilience investments on insurance premiums for homeowners, asset owners, primary producers and small businesses.

8. To ensure reconstruction is delivered with the most cost-effective outcome, internal day labour costs and other program cost saving initiatives should be eligible for reimbursement under NDRRA, where it can be demonstrated that they provide the best value for money.

Introduction

1. This document forms the Queensland Government's formal response to the Productivity Commission Inquiry into Natural Disaster Funding Arrangements (the Inquiry), announced by the Commonwealth Government on 28 April 2014. The Productivity Commission will "analyse the full scope (incorporating the quantum, coherence, effectiveness and sustainability) of current Commonwealth, state and territory expenditure on natural disaster mitigation, resilience and recovery". The Commission will release a draft report to the public by September 2014 and the final report should be provided to the Government by the end of December 2014.

2. The Queensland Submission to the Productivity Commission Inquiry into Natural Disaster Funding Arrangements demonstrates that Queensland will always be exposed to major costly disaster events and that natural disasters have had devastating impacts on all sectors of the Queensland community.

3. This submission also provides clear evidence that Queensland has undertaken substantial work to rebuild and recover the state, while building disaster resilience across all elements of infrastructure and community, to mitigate against future disaster events.

Section 1: **Queensland's natural disaster experience**

(Refers to Terms of Reference: 1 and 4d)

4. Queensland is a large and decentralised state, which contributes significantly to Australia's economy through key industries including agriculture, resources, energy and tourism.

5. In Queensland, communities regularly confront and deal with rapid onset disasters such as bushfires, floods, cyclones and heatwaves. Queensland will always be exposed to major natural disasters. The continuing drought and dry weather across much of inland Queensland has led to predictions of further increases in the number of bushfires and heat waves in many parts of the state.

6. In the past seven years, Queensland has experienced rapid onset natural disasters that have taken 43 lives and cost approximately $14 billion in Natural Disaster Relief and Recovery Arrangements (NDRRA) expenditure. Major events to impact the state, such as Severe Tropical Cyclone Larry in 2006, the Queensland Floods in 2010-11, Severe Tropical Cyclone Yasi in February 2011, Tropical Cyclone Oswald in January 2013 and most recently Severe Tropical Cyclone Ita in April 2014, have cost the state dearly. Additionally, Queensland has also endured widespread flooding as a result of low category cyclones and monsoonal low pressure systems and has been impacted by bushfires, wildfires and protracted periods of extreme heat.

7. Between November 2010 and April 2011, Queensland was struck by a series of natural disasters. Extensive flooding caused by periods of extremely heavy rainfall, destruction caused by a number of weather systems including Cyclones Tasha, Anthony and Severe Tropical Cyclone Yasi, and subsequent monsoonal rainfall, resulted in all of Queensland being activated for NDRRA. These events caused dozens of casualties, the evacuation of many towns, and billions of dollars in damage and losses. They washed away roads, railways and other integral community infrastructure, and brought Queensland's $20 billion coal export industry to a near halt. This flooding was one of Australia's largest and most expensive natural disasters.[4]

4 World Bank Report on Queensland's Reconstruction, June 2011.

8. In January 2013, ex-Tropical Cyclone Oswald tracked southward along most of the Queensland coast bringing catastrophic effects. This event brought damaging winds including tornados, extreme rainfall and flooding across the State before extending south into New South Wales. The associated rainfall and flooding impacted 57 Queensland local government areas, many of which were just recovering from the unprecedented loss and damage brought by the destructive natural disasters of 2010-2012. Many regions devastated by the 2011 floods were not spared, with communities in the Lockyer Valley, including Laidley and Grantham, again impacted by flood waters.

9. Queensland's 2012 state-wide Natural Disaster Risk Assessment provides further evidence that flooding and tropical cyclones (including storm tide and cyclonic winds) are the State's most damaging natural hazards. When combined, these two hazards account for about 72 per cent of all building damage and 95 per cent of all fatalities from natural hazards for the period 1900-2011. Flooding alone has resulted in just over 50 per cent of all building losses and 43 per cent of fatalities in Queensland natural hazards, with the highest percentage of flood damage (82 per cent) having occurred in Southeast and North Queensland. Further information on the Risk Assessment is available at www.disaster.qld.gov.au/Disaster-Resources/SWNHRA.html

10. Despite the frequency and severity of the major rapid onset natural disasters experienced in Queensland over the last seven years, the devastating events of 2010-11 were unusual, and constituted a major disaster on an international scale. The occurrence of natural disasters is obviously variable, and so far 2014 indicates a return to more usual weather evidenced prior to 2009.

Section 2: Economic impacts of natural disasters on Queensland and Australia

(Refers to Terms of Reference: 1 and 5)

11. Rapid onset natural disasters are of national significance, regardless of where in the country they occur. When they strike, their impact is felt more broadly than just in the disaster zone, with ongoing effects on our nation's economic and social fabric.

12. Over the past few decades, natural disasters of all types have occurred with more regularity and severity. The impacts of natural disasters are rising as population density, economic activity and infrastructure assets become more concentrated in increasingly disaster-prone areas, resulting in larger restoration costs.[5]

13. Natural disaster events have had a devastating impact on the national and Queensland economies; costing in excess of $20 billion to the national economy and compromising the State's economic and fiscal position. They have negatively impacted business activity, mining and agricultural production, tourism, transport networks and energy and water supplies.

5 Federal Emergency Management Agency. National Strategy Recommendations: Future Disaster Preparedness, September 2013.

14. The catastrophic 2010-11 Queensland Floods and Severe Tropical Cyclone Yasi were estimated to have detracted 2¼ percentage points, or around $6 billion in real terms, from Gross State Product (GSP) in that financial year, including the following impacts:
   - loss in coal export tonnages estimated at around 27 million tonnes leading to a loss of an estimated $400 million in royalty revenue for the State in 2010-11, plus an estimated additional loss of 5 million export tonnes in 2011-12 due to the lengthy recovery process for some mines
   - combined loss of agricultural production estimated to be around $1.4 billion, including an estimated 75 per cent of the state's banana crop damaged, 20 per cent reduction in raw sugar production and cotton losses of around 370,000 bales, or $175 million
   - loss of around $400 million in the tourism market
   - damage, disruptions or closure of the Ports of Bundaberg, Port Alma, Abbot Point, Hay Point and Mackay terminals, resulting in reductions in harbour dues and tonnage rate revenue as well as repair bills for infrastructure such as breakwaters and foreshores.

15. In addition, there were major impacts on infrastructure planning and programming, including the rescheduling of and subsequent delays to the State's planned capital program, and the reconstruction costs, lost revenue and delayed capital investment incurred by the Public Non-financial Corporations (PNFC) sector, such as Queensland Rail and Government-owned Corporations, Ergon and ENERGEX.

16. With Queensland accounting for nearly half of Australia's cotton production, 28 per cent of Australia's fruit and vegetables (including almost all of the country's bananas), and 95 per cent of Australia's annual sugar cane crop[6], natural disaster damage in the state has a significant impact on the Australian economy as a whole.

17. The consequences of these events have been most evident in major, nationally significant agricultural, mining, energy, tourism regions and regional population centres. As illustrated in Figures 1-4, the key Queensland regional economic drivers, including population centres, production zones and major project sectors critical for export and investment growth, are concentrated in areas that are regularly impacted by natural disasters. An effective and resilient road transport network is essential to keep commodities moving.

18. For both the Queensland and Australian economies to remain vibrant and rapidly recover and resume activity following the disruptions of major disaster events, it is essential that Commonwealth financial assistance is maintained.

19. Since 2009, NDRRA funding in Queensland to repair natural disaster damage is expected to reach $14 billion. The benefits to the Australian economy of this quick recovery and restoration mechanism have been enormous, with many of the nation's key Queensland-based agricultural, mining, oil and gas producers swiftly returning to production and export trade. The current Commonwealth-State funding split for the restoration of essential public infrastructure under NDRRA reflects this benefit to the Australian economy, and it remains an equitable funding split for the future of NDRRA.

6 IBISWorld, Queensland floods: The economic impact. 2011. www.ibisworld.com.au

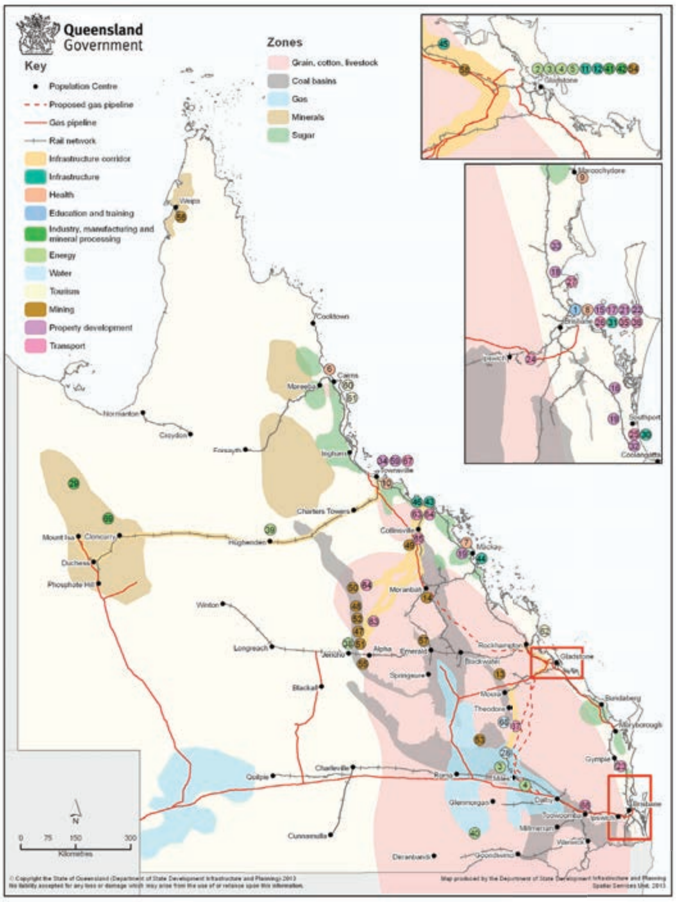
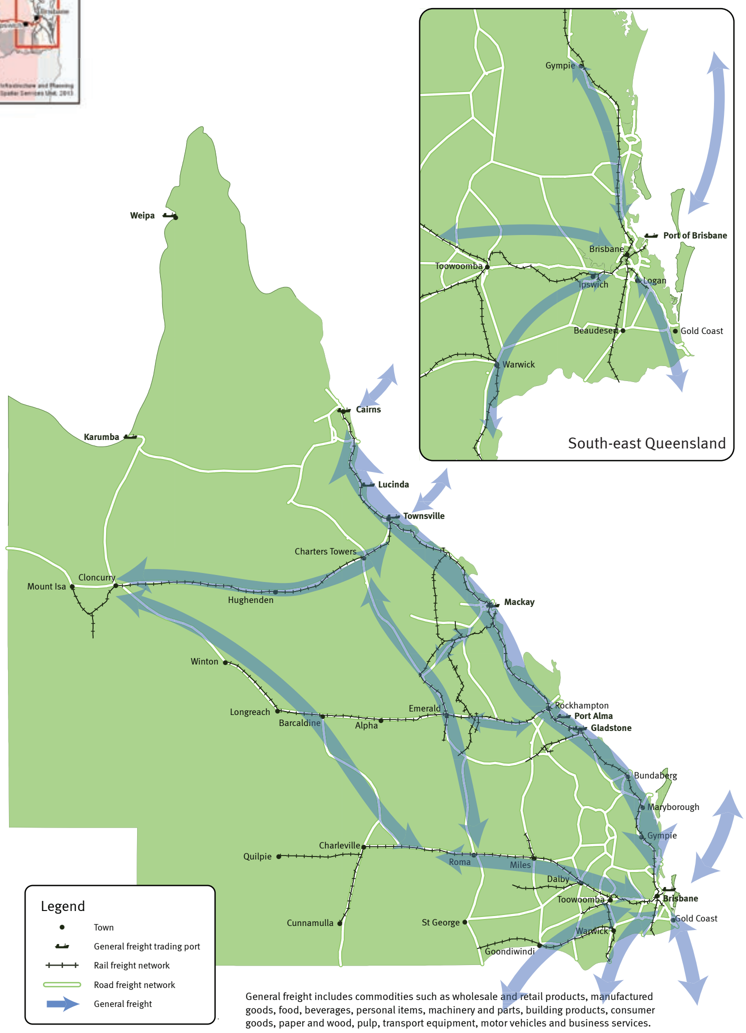


Figure 1: Key Queensland regional economic drivers, including population centres, production zones and major project sectors



Source: Department of Transport and Main Roads (2013)

Figure 2: Major Queensland commodities moved in bulk

Figure 1 (Source: Queensland Treasury and Trade)

Figure 2 (Source: Queensland Department of Transport and Main Roads)

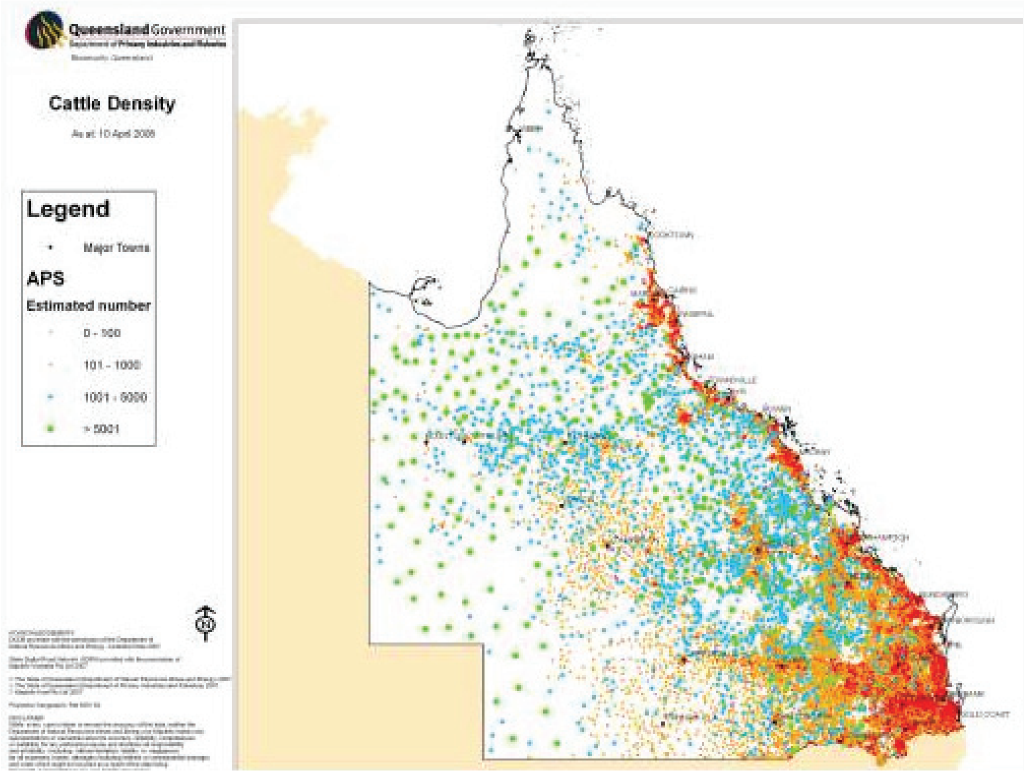


Figure 3: Cattle density in Queensland (Source: DAFF)

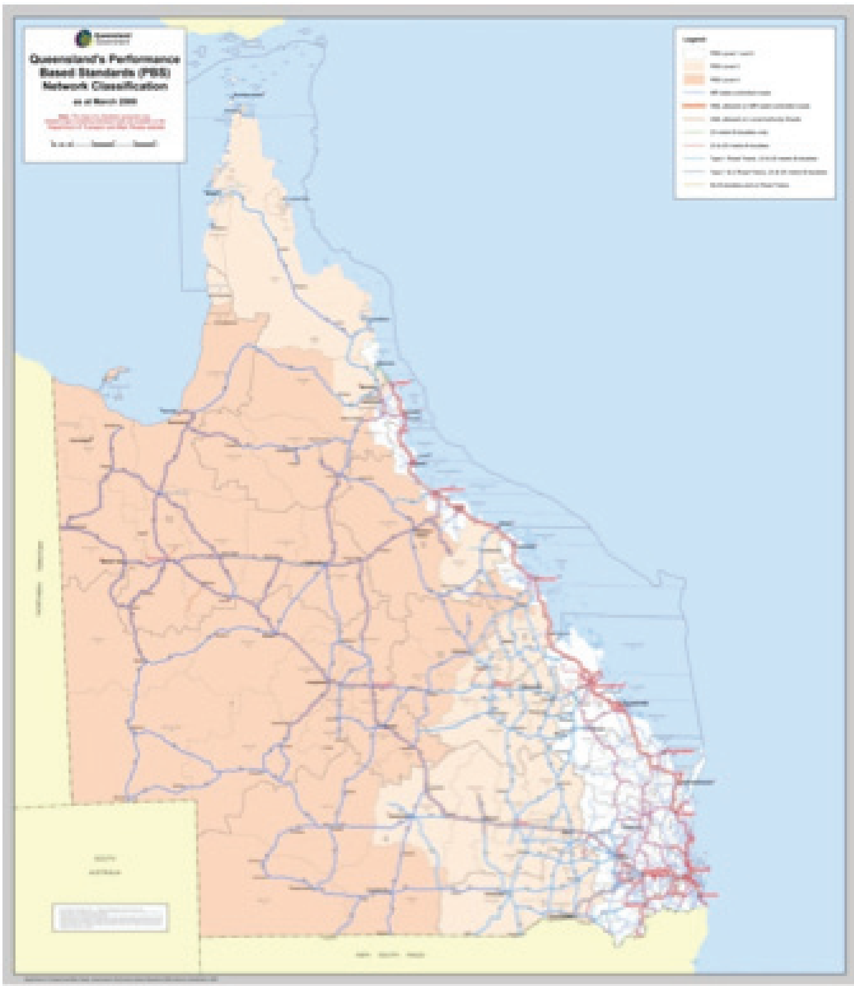


Figure 4: Queensland's major road network showing key transportation routes

Figure 3 (Source: Queensland Department of Agriculture, Fisheries and Forestry)
Figure 4 (Source: Queensland Department of Transport and Main Roads)

20. The Reserve Bank of Australia[7] estimated that the largest impacts of the 2010-11 Queensland Floods on the path of Gross Domestic Product (GDP) were in the December (2010), March (2011) and June (2011) quarters, primarily due to the disruption to coal production in the Bowen Basin coal fields in Queensland. Without taking Severe Tropical Cyclone Yasi into consideration, the RBA estimated GDP growth in each of the December and March quarters could have been around 0.5 percentage point lower than what it otherwise would have been due to the flood events.

21. According to The World Bank[8], the events of 2010-11 caused in excess of US$15 billion of damages and losses to Australia.

22. The economic impacts of the 2013 Tropical Cyclone Oswald event were similarly devastating. An August 2013 study[9] highlights a significant reduction in economic activity in the first quarter of 2013, in particular real Gross Regional Product in Wide Bay-Burnett (a quarterly reduction of 5.6 percentage points). At the State level, the quarterly reduction in real Gross State Product (GSP) was estimated to be 1.0 percentage point in the first quarter of 2013. This estimate is also consistent with the annual reduction in real GSP of around 0.25 percentage point in 2012-13 reported in the 2013-14 State Budget.

23. The focus of this 2013 study was not national impacts, however the modelling shows that direct losses to Queensland regions of an estimated $2.5 billion from the flooding event (including losses to production and infrastructure – transport, housing and commercial properties, public infrastructure) translated to a quarterly reduction in national real GDP (in the first quarter of 2013) of just over 0.2 percentage point relative to the forecast baseline.

24. The community, infrastructure, environmental and economic impacts of these natural disasters can be enormous. Figure 5 clearly illustrates the cost of recovery and restoration from natural disasters over the past 12 years.

7 Statement on Monetary Policy – February 2011, Box A: The Impact of the Recent Floods on the Australian Economy, Reserve Bank of Australia

8 World Bank Report on Queensland's Reconstruction, June 2011

9 Department of State Development Infrastructure and Planning, Regional Economic Impacts of the 2013 Floods in Queensland

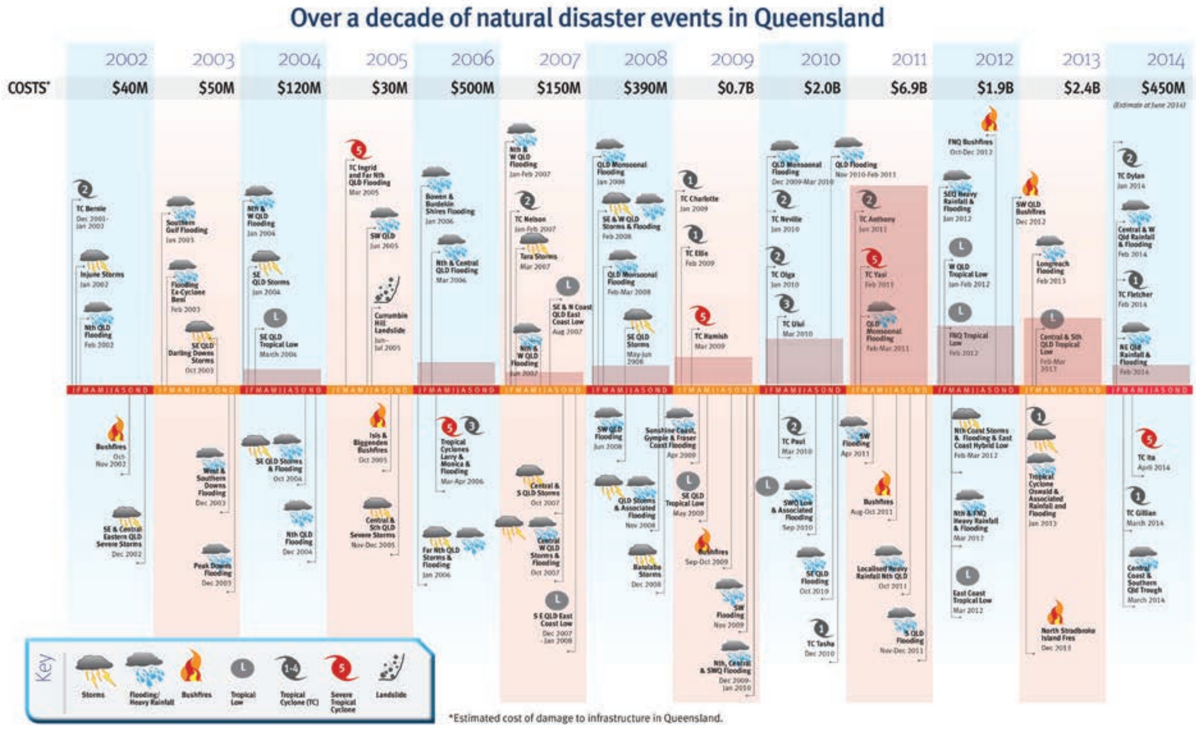


Figure 5: NDRRA cost of natural disaster events in Queensland, 2002-14

25. As evidenced above, the impact of disasters on the Queensland economy, such as the loss or insecurity of international trade and the reduction in Queensland's GSP affecting the GDP is also a costly national issue. Therefore, the ability to rapidly restore damaged infrastructure, rebuild communities and quickly resume economic activity through existing NDRRA measures is critical to the continued economic growth of both the Queensland and national economies.

26. The Australian Government's focus on realising the economic potential of Northern Australia, through the implementation of a White Paper on developing northern Australia, will see more infrastructure and services placed in an area that is susceptible to natural disasters. The Queensland Government supports the vision to capitalise on Northern Australia's strengths and advantages in agriculture, cattle, energy, tourism, education and health services, but recognises the challenges that will arise due to tropical weather conditions.

Section 3: Capacity to fund recovery and reconstruction

(Refers to Terms of Reference: 1, 3, 4a, 4c, 4d and 5)

27. The relative capacities of the Commonwealth and Queensland Governments to raise revenue and fund reconstruction are equitably reflected in the existing contributions in the NDRRA. While the highest contribution rate the Commonwealth Government funds under NDRRA is 75 per cent, analysis shows that for the period between 2003 and 2012 the Queensland Government has on average contributed 40 per cent of NDRRA recovery and reconstruction costs.

28. As shown in Figure 6 and Table 1, the state's contribution to NDRRA reconstruction spending in Queensland between 2010-11 and 2012-13, as a percentage of revenue, is more than three times that of the Commonwealth. With the Commonwealth collecting around 80 per cent of national tax revenue, it is evident that the existing cost sharing arrangements for NDRRA measures are appropriately divided between jurisdictions[10].

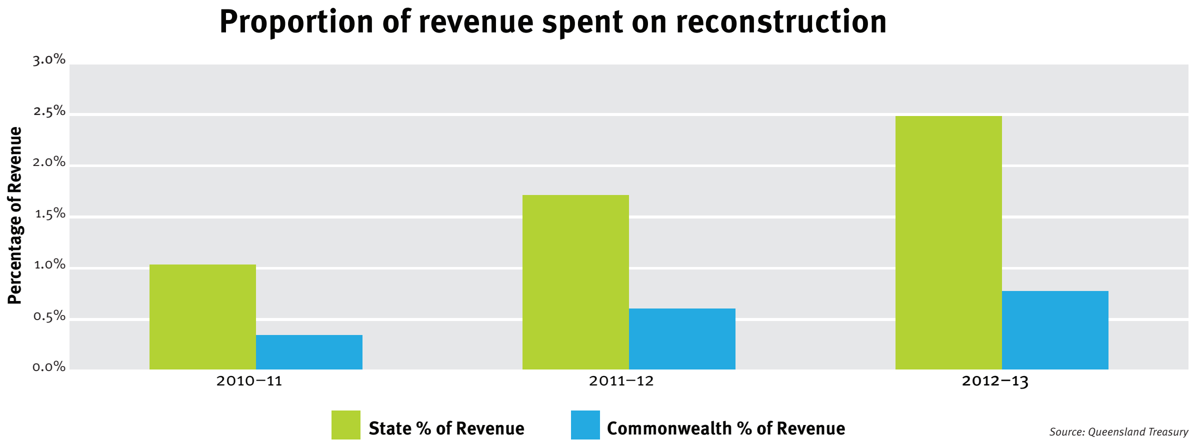


Figure 6: Comparison of Queensland and Commonwealth proportion of revenue spent on NDRRA

Table 1: Commonwealth and Queensland NDRRA Spending in Queensland, 2010-11 to 2012-13

	2010-11 $B	2011-12 $B	2012-13 $B
Total reconstruction spend	1.402	2.779	3.768
State share	0.429	0.779	1.031
Commonwealth share	0.973	2.000	2.737
Revenue			
State	41.957	45.794	41.746
Commonwealth	309.89	338.109	360.16
% of Revenue			
State	1.02%	1.70%	2.47%
Commonwealth	0.31%	0.59%	0.76%

10 The Commonwealth Treasury, Pocket Guide to the Australian Taxation System 2012-13, Page 2

29. Queensland has done its share of heavy lifting, providing more than $3.5 billion in NDRRA funds over the past six years. In Queensland's view, the relative capacities of the Commonwealth and Queensland Governments to raise revenue and fund reconstruction are equitably reflected in the existing contributions to the NDRRA. It should be noted that the often referred to Commonwealth/State contribution of 75/25 per cent is the highest contribution rate for the Commonwealth Government, which has never been reached. Queensland has always contributed in excess of 25 per cent of costs under the arrangements.

30. Additionally, the recently announced federal budget cuts to health and education spending will leave a shortfall the Queensland Government will be required to pick up. The Government will have even less ability to absorb additional unexpected costs such as those associated with natural disasters.

31. Local governments have also experienced funding cuts from the federal budget, with the Local Government Association of Queensland estimating that the three-year freeze on grants will cost Queensland councils $182 million they would have expected to receive.

32. The revenue base of local governments is substantially lower than those of the Queensland and Commonwealth Governments, with some councils having extremely small rates bases but suffering repeated disaster events. The local government areas of Diamantina (population 283), Barcoo (population 346), Boulia (population 230) and Winton (Population 1,500) in western Queensland's cattle country are prime examples. Since the 2010-11 Queensland floods, NDRRA infrastructure recovery and reconstruction in these councils has totalled approximately $21.8 million for Diamantina, $16.6 million for Barcoo, $7.1 million for Boulia and $7.7 million for Winton, representing an average of more than $22,500 per person. These figures do not include reconstruction of state-owned roads in the remote region. It would obviously not be tenable for local councils with such limited rates bases to meet these costs.

33. The relative size and population base of these remote parts of Queensland in comparison to Victoria and Tasmania is shown in Table 2.

Table 2: Comparative size and population of Victoria, Tasmania and four western Queensland councils

Location	Size km^2	Population
Victoria	**237,629**	**5,700,000**
Tasmania	**68,401**	**507,626**
Diamantina	94,823	283
Barcoo	31,974	346
Boulia	61,000	230
Winton	53,934	1,500
Four LGAs combined	**241,731**	**2,359**

34. While it may appear that there is opportunity to consolidate other infrastructure funding arrangements with NDRRA, the impact of rapid onset natural disasters in practice causes out-of-sequence infrastructure investments. Damage from natural disasters removes a government's discretion in relation to the timing and scale of infrastructure investments. Governments must bring forward investments to ensure recovery or make unplanned investments to restore assets. Programs such as the Queensland Betterment Fund can be used to take advantage of disaster reconstruction activities to also build infrastructure resilience and disaster mitigation. The current NDRRA policy to restore infrastructure to its pre-disaster standard is flawed and should be changed.

35. As a result of the natural disasters, Queensland has been forced to divert funds away from targeted capital investments that would have provided positive impacts in terms of strategic economic growth. While it is accurate to say Queensland will receive approximately $9 billion in Commonwealth funding (and spend $3.5 billion of its own funds) for infrastructure repair, this has by necessity been used to undertake repairs across a broad area, rather than for more targeted major infrastructure investments. Given the limitations on the State's available infrastructure spending, a greater proportion spent on disaster repairs means less money available for strategic infrastructure.

36. Currently a state's contribution to natural disaster recovery funding is assessed by the Commonwealth Grants Commission. Under the Commission's current methodology, the financial burden of the state's contribution is effectively shared across all jurisdictions through the allocation of the GST pool. In making this assessment, the Commission applies the Commonwealth's determination of the scope of expenses that states may claim under the NDRRA.

37. If the scope of claimable expenses were to remain the same but Queensland was required to contribute a greater portion, under the current methodology this additional portion would also be assessed by the Commission and the additional financial burden would be shared across all jurisdictions through a reallocation of the GST pool. If, however, the Commonwealth was to refine and clarify the scope of NDRRA claimable expenses, those expenses no longer in scope would not be assessed by the Commission and the financial burden of those expenses would be Queensland's responsibility.

38. In previous large-scale events, the Queensland Government has contributed to, managed and disbursed funds to aid recovery and reconstruction. In response to the 2010-11 Queensland Floods and Cyclone Yasi more than $276 million was raised and distributed to benefit more than 40,000 people. Following Tropical Cyclone Oswald in 2013, the Queensland Government, non-government organisations and the community rallied again, but this time donor fatigue was far more evident. The Appeal raised in excess of $10.8 million which was shared by 6,297 individuals, including 1,734 children.

39. New arrangements brokered by the Queensland Government with the Salvation Army, the St Vincent de Paul Society and Lifeline will see the non-government sector manage appeals for future events. However, these disaster relief appeals cannot be considered a reliable funding mechanism for disaster relief, particularly as repeated disasters have led to donor fatigue not only in Queensland but throughout the country.

Section 4: **Current disaster recovery arrangements**

(Refers to Terms of Reference: 1, 3, 4a, 4b, 4e and 5)

40. Australia's Natural Disaster Relief and Recovery Arrangements (NDRRA) have been an essential and effective basis for joint government efforts to enable all Australians to recover rapidly from natural disasters. The current arrangements require governments to work together at a national level, regardless of the type of natural disaster, to ensure Australia's overall recovery and resilience.

41. Australia's NDRRA have already been acknowledged as meeting international good practice standards. When reviewing Queensland's reconstruction from the 2010-11 floods, the World Bank recognised that the existence of an ongoing agreed funding arrangement allowed for rapid response and recovery, with financial support able to be mobilised quickly and managed well.

42. The primary funding mechanism available to the state and local governments following disaster events is the NDRRA. Through NDRRA, funding is provided to state and local governments to:
    - restore essential public infrastructure
    - alleviate an individual's personal hardship or distress following a natural disaster
    - provide loans, subsidies or grants to alleviate the financial burden of costs incurred by certain businesses, primary producers, voluntary non-profit bodies and individuals as a direct result of a natural disaster
    - conduct counter disaster operations for the protection of the general public
    - support the holistic recovery of regions through community recovery packages (to communities, small businesses and primary producers).

43. The Queensland Disaster Relief and Recovery Arrangements (QDRRA) (www.disaster.qld.gov.au/Financial%20Support/Documents/Queensland_Disaster_Relief_and_Recovery_Arrangements_Guidelines2.pdf) set out Queensland Government processes and agency responsibilities under both NDRRA and State Disaster Relief Arrangements (SDRA) funding. In addition to the NDRRA, the SDRA is a wholly state-funded program that is able to be activated for all hazards, and provides assistance where personal hardship and distress follows the impact of a disaster event.

44. The Queensland Minister for Police, Fire and Emergency Services, supported by the Queensland Reconstruction Authority (QRA) and in conjunction with lead Queensland Government agencies as set out in the QDRRA, is responsible for NDRRA activations. State expenditure on eligible measures must exceed the small disaster criterion of $240,000 before NDRRA assistance can be activated. The cost sharing formula for total eligible expenditure for all events in 2013-14 is:
    - $0 to $103,036,500 – 100 per cent Queensland funded
    - $103,036,501 to $180,313,875 – 50 per cent Queensland funded, 50 per cent Commonwealth funded
    - Over $180,313,876 – 25 per cent Queensland funded, 75 per cent Commonwealth funded

45. While the highest contribution rate the Commonwealth Government funds under NDRRA is 75 per cent, this only applies for significant disasters events. Analysis shows that for the period between 2003 and 2012, the Queensland Government has on average contributed 40 per cent of NDRRA recovery and reconstruction costs.

46. The state's NDRRA funded recovery and reconstruction efforts are managed and coordinated by the QRA. Established through state legislation on 21 February 2011 as a statutory authority for the efficient and effective coordination of reconstruction efforts after the 2010-11 Queensland Floods and Tropical Cyclone Yasi, the QRA is currently legislated to continue until June 2015. It has been given extended responsibility to administer NDRRA for additional events that have occurred in the 2013 and 2014 disaster periods with a focus on community resilience.

47. The World Bank[11] acknowledged that reconstruction is typically constrained by significant time pressures, where progress is measured on a month-by-month basis. The need for a swift response post-disaster means the time period available for project preparation, budget approval and procurement must be shortened considerably. The urgency and volume of reconstruction expenditure necessitates that special emphasis is placed on ensuring resources are spent for their intended purpose, without grinding project implementation to a halt. Having these systems and processes in place before a disaster strikes assists the progress of post-disaster reconstruction and recovery enormously.

48. With fully established end-to-end assessment, grants management, assurance and reporting processes within the QRA, Queensland has been recognised by the World Bank as currently operating at world's best practice in terms of disaster recovery and reconstruction (**Attachment 1**):

> ***"What you have here is absolutely marvellous, especially the quick response to the catastrophe, and also in the way you have institutionally put together the QRA. What you have done is world's best practice."*** **– World Bank Country Director for the Pacific, Ferid Belhaj, May 2011.**

49. The Queensland Government's capability in disaster reconstruction and recovery has increased with each successive disaster event. Improved systems and processes and new ways of operating have resulted in more streamlined reconstruction activities. Figure 7 demonstrates the growth and progress in Queensland's reconstruction capability since 2011. Results have included improved engagement with delivery agents, a significant reduction in average assessment times, and faster reconstruction works on the ground leading to improved community recovery.

2011

- Established QRA
- QRA Act 2011 drafted and enacted
- Reconstruction Guidelines developed
- Value for Money Strategy developed
- Grants Management database established
- DARMsys™ (property) developed and trialled
- NPA with Commonwealth negotiated
- Regional Liaison Officer (RLO) network established
- External Service Provider (ESP) network established

2012

- QRA Act amended (extension to June 2014)
- Reconstruction guidelines refined
- Electronic submission process trialled
- DARMsys™ (property) operational
- Grants management database endorsed by QGCIO
- DARM (infrastructure) trialled
- Day labour trial initiated
- RLO network fully operational
- ESP network fully operational

2013

- QRA Act amended (extension to June 2015)
- DARMsys™ (property) operational
- DARM (infrastructure) operational
- Reconstruction submissions integrated with grants database
- RLO active engagement for electronic submission process
- Technical & compliance teams deployed to councils
- Submission assessment average reduced from >40 days to <10 days
- NPA with Commonwealth updated
- Betterment trial initiated
- Day labour trial extended

Figure 7: Growth and progress in Queensland's reconstruction capability and activity 2011-2013

11 Fengler W, Ihsan A, Kaiser K, Managing Post-Disaster Reconstruction Finance (Policy research paper), January 2008.

50. By January 2013, it was evident there were substantial advantages in having an existing, recognised organisation in place focused on natural disaster recovery and reconstruction. Due to its established structure, resources and systems, the Queensland Government had the ability to respond more quickly and effectively, swiftly deploying staff to the most affected communities following the Tropical Cyclone Oswald (TC Oswald) event. This resulted in faster damage assessments of commercial, residential and council infrastructure in affected areas, enabling Government assistance to be targeted where it was needed most. It also meant that affected local governments received immediate assistance to inspect damage and then ongoing help to maintain the progress of their reconstruction programs. As a result, reconstruction work progressed more quickly – in 2011 it took the Bundaberg Regional Council 18 months to get $25 million worth of work to market; whereas in 2013, it took four months to get $40 million of work to market. These practices have continued into the 2013-14 disaster events.

51. The ability to start the 2013 TC Oswald reconstruction program quickly with a high capability and activity level has resulted in numerous advantages, including reducing or eliminating the 'gap' of perceived inaction between emergency response and reconstruction (Figure 8). The Government was able to immediately provide assistance to councils, allowing them to commence their damage assessment, planning and procurement more quickly, resulting in faster reconstruction activity on the ground.

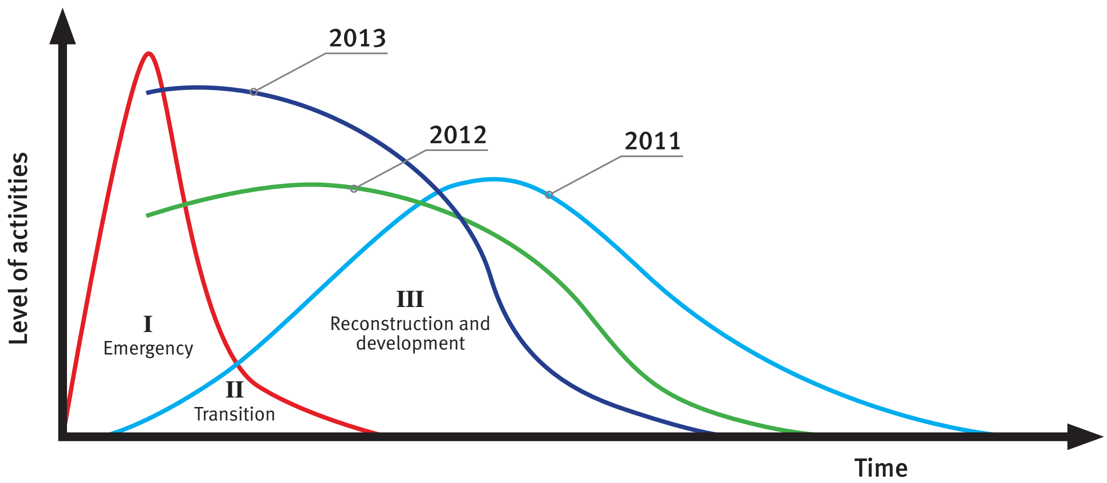


Figure 8: Experience has led to reduced time taken to commence reconstruction phase in Queensland 2011-2013

52. Recommendation 41a of the recently released Report of the National Commission of Audit[12] proposes replacing the NDRRA "with a grant in the case of each major natural disaster, with the Commonwealth contribution based on a designated proportion (between 25 per cent and 33 per cent) of the estimated reconstruction costs". This approach is strongly rejected as an appropriate funding split between the Commonwealth and states and territories.

53. Noting Queensland's revenue base to fund its continuing disaster recovery bill, any reduction to the current funding arrangements would be an abrogation of Commonwealth responsibility to support disaster-affected communities and would hamper the capacity of local communities and economies to recover quickly. Such a reduction in Commonwealth contributions would merely shift these costs to the states and territories, which have significantly less capacity to raise additional funds. In relation to the estimated $14 billion reconstruction program Queensland has dealt with since 2010-11, the proposed reduction in Commonwealth funding would have meant that an additional $6 to 7 billion in recovery costs would have been borne by Queenslanders alone.

12 Commonwealth Commission of Audit, 'Towards Responsible Government', Recommendation 41a, Page lvii

54. Given Queensland's current fiscal position, it is highly likely that any reduction in the Commonwealth's contribution to the state's recovery and reconstruction costs would mean that the overall recovery would have stalled.

55. Not undertaking necessary restoration works through a lack of funding allocation would result in reductions in living standards for members of the Queensland and Australian communities and would have substantial economic impacts.

Section 5: Queensland's investment in resilience

(Refers to Terms of Reference: 1, 2, 3, 4a, 4b, 4c, 4d, 4e and 5)

56. The Queensland Government rejects the assumption that the current NDRRA thresholds for Commonwealth-State contributions act as a disincentive for states and territories to fund mitigation works. In addition to its contribution to NDRRA funding, which over the past six years has been in excess of $3.5 billion, Queensland has provided large amounts of funding for reconstruction, mitigation and resilience works that are outside the scope of the NDRRA.

57. The construction of flood mitigation levees, many of which have been jointly funded by the State and relevant local governments, have already proven to be valuable mitigation mechanisms with readily evident social and economic benefits. For example, in April 1990, the regional town of Charleville sustained a record flood that caused extensive inundation of the town, impacting all services and flooding over 1,000 residences, resulting in the evacuation of almost 3,000 people. Levee construction works were undertaken in Charleville in 2008 to protect the town from the Warrego River at a cost of approximately $14.8 million. After the 2012 floods, analysis was undertaken that estimated the levee reduced the cost of damage by more than $56 million (an approximate 4:1 benefit from the initial investment). This analysis was based on just one flood event, so the lifetime value of these mitigation works is expected to be more significant.

58. Following the 2010-11 floods, the Queensland Government made a substantial investment, in addition to NDRRA contributions, to repair the disaster-impacted sections of its road network. Through the Department of Transport and Main Roads (TMR), the state has invested $349 million in complementary works in conjunction with reconstruction works. TMR has also met other costs in delivering the program to a value of approximately $140 million. Importantly, TMR has had a strong focus on providing value for money and has achieved an estimated $300 million in savings across the NDRRA program through effective contract management and program delivery strategies.

59. In 2013 the Queensland Government initiated the Betterment Fund (refer Section 6) to increase the resilience of Queensland infrastructure to natural disasters, while at the same time reducing future expenditure on asset restoration; reducing incidents, injuries and fatalities during and after natural disasters; and improving asset utility during and after natural disasters. The betterment framework allows local councils to restore or replace damaged essential public assets to a more disaster-resilient standard than their pre-disaster standard.

60. Since the widespread damage of the 2010-11 Queensland Floods and Severe Tropical Cyclone Yasi, Queensland has been at the forefront of building disaster resilience and enhancing mitigation through the delivery of programs and measures including:

- The Queensland Government response to the Queensland Floods Commission of Inquiry (www.premiers.qld.gov.au/publications/categories/reports/response-to-flood-inquiry.aspx) with projects across the implementation areas of planning, building, environment and mines, emergency management and dams, including:
  - enhanced floodplain management and mapping
  - a new planning policy for natural hazards
  - building regulations and improvements to essential services
  - enhanced regulation of mines
  - enhanced emergency management planning and processes
  - dam optimisation studies and review of flood mitigation manuals
  - construction and regulation of flood mitigation levees.
- The Queensland Flood Mapping Project to enhance community, business and government understanding of flood risks (refer to paragraphs 61-62).
- Flood mitigation and disaster resilience funding (Royalties for the Regions; Local Government Floods Response Subsidy; Natural Disaster Resilience Program) for activities such as flood mapping; flood management studies; reports and modelling; infrastructure that mitigates against flood damage and inundation such as levees, detention basins, floodgates, backflow prevention devices and monitoring instruments/systems such as flood, river and rain gauges. Further information of the flagship projects funded through the Royalties for the Regions and the Local Government Floods Response Subsidy is at **Attachment 2**.
- 'All Hazards' funding under the Natural Disaster Resilience Program for projects that provide resilience against a natural disaster event other than a flood, including projects that provide volunteering support or improve community education and preparedness for natural disasters, mapping or risk management studies relating to bushfires, and education and training programs for volunteers or communities.
- Get Ready Queensland program – an integrated, year-round, all hazards campaign to build preparedness and community resilience to disaster events.
- The 2011 and 2013 NDRRA Category C Community Recovery Packages, including community development, community mental health, mental health services, personal support, disability care and financial counselling programs to ensure communities impacted by severe disaster events are able to access long-term support during their recovery and better cope with the impacts of future events.
- GIVIT Trial Program – the Queensland Government has agreed to partner with not-for-profit organisation GIVIT to provide a mechanism to register and match donations with community need following relevant disaster events. The aim of the program is to harness the goodwill and generosity of corporate and other donors wishing to donate goods and services and ensure that these offers are followed up and acted upon in a timely manner.

61. Since 2011, Queensland has also developed and implemented a body of work to provide a better understanding of our floodplains and to better inform and influence land use planning. The Queensland Floodplain Mapping Project has led to a consistent, State-wide interim mapping of floodplains at a sub-basin level. Acknowledging the need to improve the availability and quality of flood mapping across the State, focus was initially applied to large areas of the State where no flood mapping existed. This work has assisted local governments, insurers, homeowners, businesses, asset owners and other key stakeholders to make informed decisions about risk management, development and planning. Completed mapping is publicly available online.

62. The project also included the development of a two-part Guideline, entitled *Planning for stronger, more resilient floodplains:*

   a. Part 1 – Interim measures to support floodplain management in existing planning schemes delivered a toolkit including interim planning scheme measures and supporting mapping for those councils that did not have any floodplain mapping

   b. Part 2 – Measures to support floodplain management in future planning schemes provided more detailed floodplain assessment guidance to councils looking to prepare their new planning schemes. The aim of the guideline was to help introduce consistent and specific planning controls into the land use planning framework.

Figure 9: Mapping publicly available on the FloodCheck website shows imagery and floodline of historic events, state-wide floodplain mapping, downloadable flood information reports, and level 2 flood mapping, reports and simulations for 104 towns.

63. The Queensland Government is focused on building disaster resilience across Queensland's economy, communities and the built and natural environments to minimise the impact of natural disasters. This is evidenced through recent significant investments and the development of the Queensland Strategy for Disaster Resilience (the Strategy).

64. The Strategy defines disaster resilience and provides strategic direction to achieve the Queensland Government's resilience vision to make Queensland the most disaster resilient state in Australia. The Strategy aligns with the intent of the National Strategy for Disaster Resilience, the Queensland Plan and current Queensland Government priorities, ensuring both State and Commonwealth priorities are incorporated into disaster resilience initiatives. The initiatives and projects detailed in the Strategy will help mitigate the impacts of disasters across all community sectors and levels, thereby enhancing the long-term economic and social wellbeing of Queensland.

65. The Government's commitment to building resilience is further evidenced in the expansion of the Ministerial portfolio for Local Government to include Community Recovery and Resilience in February 2013, and the establishment of a Resilience and Recovery team within Government to coordinate recovery and resilience initiatives across government and with local governments. In addition to the development of the Strategy, other key activities undertaken include:

- development and implementation of the 2013 Queensland Flood Recovery Plan to lead recovery after TC Oswald, rebuild stronger infrastructure and leave a permanent legacy of safety and disaster resilience for the future
- consolidation and coordination of all Queensland Government resilience initiatives through the State Resilience Activities Register
- management of the state's local government infrastructure resilience portfolio for projects funded under disaster mitigation and resilience funding
- delivery of the Get Ready Queensland program to enhance community and business preparedness for disasters and promote corporate participation in building disaster resilience across the community
- developing an agreement with the not-for-profit organisation GIVIT to manage offers of goods and services following disaster events, encouraging community resourcefulness and resilience.

66. The Queensland Government is working closely with local governments and other stakeholders to protect communities from future flooding and other natural hazards and to build more resilient communities. Enhanced preparation, improved flood security and better education about responses to natural disasters will ultimately reduce expenditure on natural disaster reconstruction and recovery activities. However, the beneficial effects resulting from these disaster resilience and mitigation initiatives will not be immediate.

67. Commonwealth Government contributions to mitigation works are largely negotiated on a case-by-case basis. The bulk of these costs are borne by state and local governments, with little to no recourse to recoup expenditure from the Commonwealth through existing arrangements.

68. It is evident that the Commonwealth Government could realise overall savings in disaster recovery expenditure as a direct result of mitigation works. Bureau of Transport Economics research in 2002 showed a 3:1 return on mitigation investment through avoided response and recovery costs, and FEMA has estimated an average return of up to 5:1 on flood mitigation investment[13].

69. An analysis of the funding contributions to mitigation and resilience works undertaken under the Local Government Floods Response Subsidy, Royalties for the Regions, the Regional Flood Mitigation Program (Commonwealth) and the Show Societies Resilience Development Fund since the 2010-11 financial year shows limited Commonwealth contributions. Of the $241.84 million approved, the Commonwealth has contributed $17.18 million or 7.1 per cent, in comparison to $118.77 million or 49.11 per cent provided by local governments and $85.92 million or 35.53 per cent provided by the Queensland Government ($19.97 million or 8.26 per cent came from other sources). In comparison, the Commonwealth has provided 50 per cent of the estimated $44 million funding under the Natural Disaster Resilience Program between 2009-10 to 2012-13 to enhance community preparedness and increase resilience across sectors, including mapping and risk management studies.

13 Rose et al, Benefit-Cost Analysis of FEMA Hazard Mitigation Grants, November 2007.

70. In addition to NDRRA funding, Queensland Government agencies and local governments often co-contribute to recovery and reconstruction projects. For example, as part of the Queensland Betterment Program, which involved a 50/50 Commonwealth/State investment of $40 million each, local governments across the state contributed more than $11.5 million in funding to make their infrastructure more resilient.

71. Through the Department of Communities, Child Safety and Disability Services, the Queensland Government has also introduced reforms to human and social recovery that aim to increase community resilience and target assistance to those most in need. The reforms include:

- tightening Immediate Hardship Assistance by restricting it to people who are directly impacted (electricity outage specifically removed as an eligibility criterion) and who are unable to access support from family or friends, and limiting its availability to seven days from activation
- using targeted activation zones for financial assistance based on local and official intelligence of the physical impact of the disaster, rather than activating entire Local Government Areas by default
- implementing a mobile approach to recovery that uses appointment based 'recovery hubs', rather than fixed recovery centres, wherever possible.

72. By delivering resources to targeted human and social recovery needs it is anticipated that these reforms will significantly reduce NDRRA expenditure by encouraging individual and community self-reliance rather than accessing government assistance following disaster events. It is important to note that these human and social recovery reforms already implemented by the Queensland Government are reflected in Recommendation 41b of the Report of the National Commission of Audit for the Commonwealth to "direct contributions being paid to only those individuals severely affected by natural disasters".[14]

73. Through the Office of the Inspector-General of Emergency Management, the Queensland Government is developing the state's Emergency Management Assurance Framework. This framework will ensure that independent assurance and advice about emergency management arrangements in Queensland is provided with the overarching outcome of resilience maximised across all elements of emergency management. It will also ensure that authoritative reporting is used to fulfil disaster recovery and resilience accountabilities and improve outcomes for the community.

14 National Commission of Audit, Towards Responsible Government, Recommendation 41b. www.ncoa.gov.au

Section 6: Betterment – Investing in resilience as part of reconstruction

(Refers to Terms of Reference: 1, 2, 3, 4a, 4b, 4c, 4d, 4e, 5 and 6)

74. Under the current NDRRA, funding is only provided to restore damaged assets to their pre-disaster standard, rather than considering the value for money outcomes of undertaking additional works at the time of repair to increase resilience. This policy is flawed and effectively leads to repeated damage and repairs to vulnerable assets.

75. The betterment approach to reconstruction is predicated on the potential for long-term cost savings[15]. The intent of betterment is to increase the resilience of Australian communities to natural disasters, while at the same time reducing future expenditure on asset restoration, reducing incidents, injuries and fatalities and improving asset utility during and after natural disasters. While betterment arrangements have existed within the NDRRA since 2007, the process has been cumbersome and has not been effective in encouraging increased asset resilience during reconstruction.

76. Following the natural disaster events of January 2013, the Queensland Government sought a contribution of $100 million from the Commonwealth, to be matched by the State, for a $200 million dollar fund to increase Queensland's resilience to natural disasters and provide a streamlined process for local governments to undertake betterment projects.

77. The Commonwealth approved funding of $40 million, which was matched by the State to create the current $80 million Betterment Fund. Queensland developed the Queensland Betterment Framework (**Attachment 3**), which allows local councils to restore or replace essential public assets damaged in 2013 disaster events to a more disaster-resilient standard than their pre-disaster standard.

78. On announcement of the Betterment Fund, 47 local governments submitted 1,434 betterment projects proposals for consideration with an estimated total value of $1.19 billion, indicating a significant unmet demand for this type of resilience funding. Many local governments nominated State roads, due to their significance in providing access and ensuring the resilience of local roads, however, these roads were deemed ineligible by the Commonwealth.

79. The Betterment Framework significantly streamlined the process of eligibility, submission, assessment criteria for funding and distribution of betterment funds, which aligned with the QRA's existing approval processes. Affected local governments were required to prepare a submission in line with the requirements of the Framework. The Authority then assessed the proposal for completeness, eligibility and value for money. A key component of the assessment was a benefit analysis of both the financial and non-financial benefits of the proposal, such as prior damage, loss of utility and its impact on the economic or social wellbeing of the community including risk to health and safety.

80. Integral to the Queensland Betterment Fund was the focus on speed of assessment, approval and release of funds. This fund has allowed local governments to factor betterment works into their reconstruction schedule and begin works as soon as possible, mitigating the impact on their local communities.

81. There are valuable lessons to be learnt from the achievements of the Queensland Betterment Fund, where close to $80 million of funding has been approved in twelve months. Two hundred and twenty projects around the state are receiving funding to make public assets more resilient.

15 Commonwealth Attorney-General's Department et al, Building it back better, May 2012.

Case study – Gaydndah Water Intake Plant

Reconstructed to its pre-disaster state following the 2010-11 Queensland Floods at a cost of $1.22 million in NDRRA funding, only to be extensively damaged again in 2013 as a result of flooding caused by TC Oswald. Given the importance of the infrastructure to the local community and its recent repeated inability to withstand flood events, there was an imperative to reinstate the water plant with improved flood immunity. The estimated cost of completing the project, which includes building a new submersible style pumping station and intake upstream at Claude Wharton Weir and new raw water rising main to the Gayndah Water Treatment Plant, is $3.8 million, comprising $2.6 million in reconstruction costs and $1.2 million in Betterment funding. Council is contributing $50,000 to the project.

Gayndah Water Intake Plant damaged in 2011 – $1.2 million in restoration funds were required to replace the plant to pre-disaster condition.

Gayndah Water Intake Plant destroyed again in 2013.

82. An extension of the Betterment Fund to State road assets and the development of a process to identify high-risk, high cost assets subject to ongoing damage from NDRRA events would enable a program to be established to fund these assets and upgrade important economic and social connection routes, thus reducing ongoing recovery requirements.

83. The Queensland Government, through TMR, maintains and operates a 33,339 km network of state-controlled roads to current engineering standards. TMR has invested $349 million in complementary works when constructing NDDRA projects. These complementary works improve resilience through improving flood immunity, preventing water ingress and strengthening pavements. Where the department has funding, and the project provides value for money, it undertakes betterment works. It is estimated that more than 80 per cent of NDRRA funds in Queensland are spent on roads, which makes these complementary works of substantial benefit.

84. New investments in the state-controlled road network take into consideration the current engineering standards and have included betterment into built infrastructure (within available funding) that will raise the level of resilience. An example is the replacement of bridges with a higher flood immunity level such as the Grigor Bridge in Conondale, a key piece of road infrastructure for the Mary Valley that has been damaged over multiple disaster events. In some instances, it would not require significantly more funding to build a more resilient asset, compared to paying for repairs year-after-year. For some assets, investing more in the short-term would reduce risks and cost less over the longer term. However, accessing increased funds upfront remains a challenge during periods of fiscal constraint.

85. In 2012, TMR made a submission to the Commonwealth Government under the betterment provisions of the NDRRA for funding to make two national highways and five State controlled roads more resilient, at a total project value of $85 million. To date, no advice has been received regarding the outcome of this submission.

Section 7: Achieving value for money in reconstruction

(Refers to Terms of Reference: 1, 3, 4a, 4b, 4c, 4d, 4e and 5)

86. To manage the scale of the NDRRA program following the 2010-11 floods, the Queensland Government developed a Value for Money Strategy (VfM) (**Attachment 4**), which balanced a timely response to the reconstruction effort with continuous improvement, building confidence that value for money for the State and Commonwealth Governments is being achieved.

87. This approach has been used in the assessment of more than 3,500 NDRRA submissions, resulting in avoided costs to the Commonwealth and State Governments through submissions deemed ineligible or returned to the value of $4.3 billion, outlined in Figure 10.

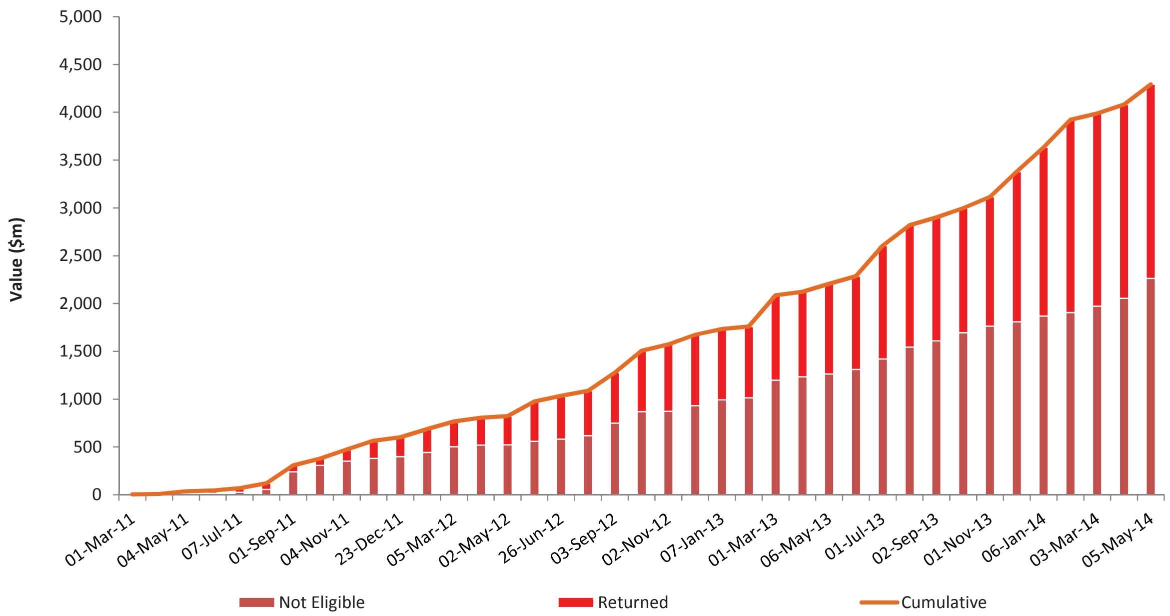


Figure 10: Costs avoided for Queensland and Commonwealth governments through Queensland's Value for Money assessment approach

88. Queensland's experience demonstrates that the reconstruction phase is much more expensive than the initial emergency response. Of the current NDRRA program being managed by the QRA in Queensland, approximately 10 per cent of the costs relate to government expenditure on emergent and counter disaster operations, with the remaining 90 per cent on reconstruction. The effective management of all recovery and reconstruction activities to ensure value for public expenditure has obvious benefits.

89. The Queensland Government's management and prioritisation of reconstruction works for events between 2010 and 2013 through TMR has also driven cost-effective solutions. This has included:

- capping budgets to drive the most cost-effective solutions
- developing the Transport Network Reconstruction Program Design Guidelines to set the appropriate standard of reconstruction
- applying a strict submission process to ensure works are eligible and to an appropriate standard.

90. Other areas where Queensland has continuously improved systems and processes to provide positive reconstruction outcomes include:

- **Damage Assessment and Reconstruction Monitoring system (DARMsys™):** By developing DARMsys™ in conjunction with the then Queensland Fire and Rescue Service, rapid damage assessment data and subsequent monitoring of property reconstruction helps to ensure that resources are directed to where they are needed most. Following the disaster events of 2013, enhancements have allowed spatial data and supporting photographic evidence to be captured accurately and provide evidence of damage to local government roads and infrastructure, streamlining the NDRRA application process.
- **Queensland Submission Guideline:** By developing a Queensland Submission Guideline, there is now universal acceptance from local government authorities and state government agencies in Queensland regarding NDRRA submission information and assessment requirements.
- **Funding Agreements and Memoranda of Understanding:** By executing funding agreements with local government authorities and state government agencies, reconstruction works were able to commence prior to lodging a specific application for NDRRA funding, provided the agency was confident that works would meet the necessary eligibility criteria and value for money assurance requirements to enable reimbursement from QRA.
- **NDRRA Policy Framework:** By contracting qualified engineering specialists, the required level of technical expertise has been brought to Queensland's natural disaster reconstruction program. Having technical experts embedded in QRA has facilitated high levels of interaction with delivery agents and helped to determine suitable reconstruction responses for damaged infrastructure.
- **Continuous Assessment Process:** By applying a continuous NDRRA submission assessment process, costs in excess of $1.7 billion[16] to the State and Commonwealth Governments have been avoided to date.
- **Day Labour Value for Money Pricing Model:** By demonstrating the value for money outcomes of delivery agents using their internal workforce for natural disaster reconstruction works, an estimated program saving of approximately $126 million under the current value for money pricing model trial is forecasted (refer to paragraphs 93-96).
- **Reporting:** By producing information on a regular basis and meeting regularly with all interested parties, QRA is accountable and the NDRRA program is transparent.
- **Benchmarking:** By developing and improving its benchmarking approach, identification of inconsistencies at the lowest activity level of a submission through to a higher program level can be made. As an ongoing monitoring tool, comparative benchmarking triggers further scrutiny of submissions that incorporate estimates outside the normal range.

91. The QRA was established in January 2011 to efficiently undertake a significant program of works caused by unprecedented disasters. The lessons learnt in establishing, delivering and administering NDRRA through the QRA will be used in Queensland's future management of NDRRA.

16 Australian National Audit Office Report into the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland. www.anao.gov.au/Publications/Audit-Reports/2013-2014/Value-for-Money-Reviews-of-Flood-Reconstruction-Projects-in-Queensland/Audit-summary.

92. While Queensland has received the bulk of NDRRA assistance in recent years, it should be recognised that no other jurisdiction in Australia has the same level of systems, strategies, procedures and organisational capacity for NDRRA administration. Queensland's best practices have led to efficient and targeted investment of NDRRA assistance and the saving of millions of dollars for both the State and the Commonwealth.

Maximising value for money through use of internal (day) labour

93. Through the QRA, with the agreement of the Commonwealth Government, Queensland has been trialling a model that allows for the reimbursement of internal council day labour for disaster reconstruction under NDRRA, where program savings could be demonstrated as assessed by the QRA. This was approved in 2012 as a trial specific to Queensland following the natural disasters in 2010-11, with the intent of delivering time and cost savings across the reconstruction program.

94. Based on an initial assessment of the VfM Pricing Model trial (**Attachment 5**), the use of day labour has enabled Queensland local government authorities to deliver projects at a cost below comparable market values. At February 2014, assessment of the applications received from 30 councils indicated an estimated program saving of $126 million may be achieved under the model.

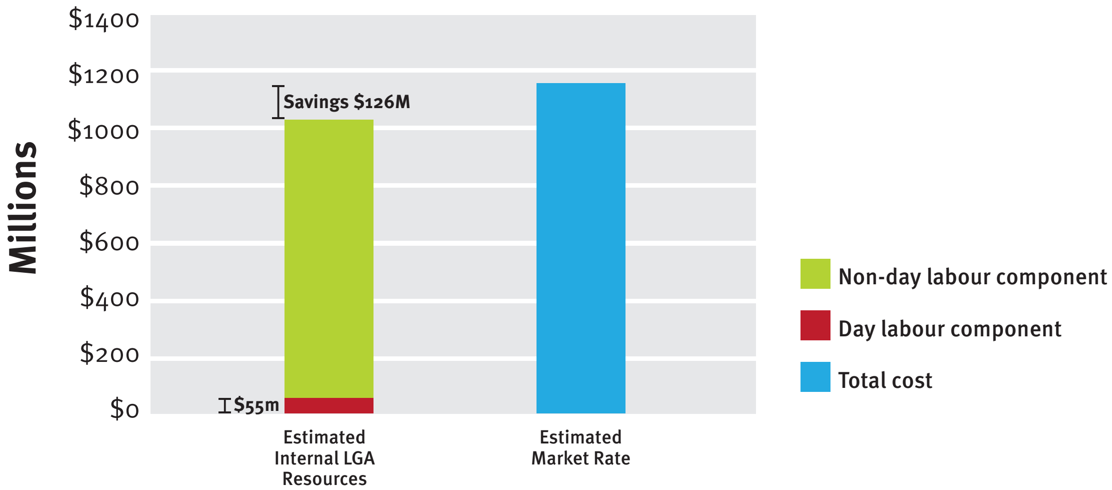


Figure 11: Estimated savings for Queensland and Commonwealth governments through use of internal day labour

95. Feedback from councils indicates that the use of day labour enables delivery of savings by leveraging lower labour, material and equipment costs; utilising local knowledge in design and construction techniques; and mobilising more quickly on the ground, avoiding the time lags common when sourcing contractors. Lack of reimbursement of internal labour under NDRRA in effect forces delivery agents to use delivery strategies that may not provide the most cost-effective outcome.

96. The NDRRA also limits the State's ability to use a state-owned agency (e.g. RoadTek) where it provides the best value for money. RoadTek has been utilised due to the benefits of being able to quickly activate and mobilise in the event of a natural disaster, however, correspondence from the Commonwealth Government in March and September 2013 has now identified that profit margin costs should not be claimed, although they are required to be charged under competition policy. If the State was to use an external contractor at a higher cost in this instance the costs, including profit, would be fully claimable.

Achieving value for money and resilience by rebuilding to current engineering standards

97. Greater efficiencies could also be driven if clarity was provided in relation to rebuilding to 'current engineering standards' to enable the state to certify that any reconstruction works were built to current standards, thereby reducing administration.

98. The Queensland Government did substantial work cooperatively with Engineers Australia, QUT and the Institute of Public Works Engineering to develop an industry relevant definition of current engineering standards (**Attachment 6**). The framework developed identifies 'Current engineering standard' as

> ***"the application of the most recent sound engineering based on the currently available civil engineering body of knowledge as defined by current Australian Legislation, Standards, Codes and Guidelines and as applied through established mechanisms such as in place planning schemes, design and construction manuals and guidelines."***

99. Current engineering standards seek to incorporate the principles of Value for Money by applying fitness for purpose, safety in design, and whole of life costings. Their application in any specific situation will vary to suit the environment, existing service levels tempered by sound engineering judgement. The framework was submitted to the Commonwealth for consideration in 2013, but has not yet been adopted.

Section 8: Reducing duplication and red tape

(Refers to Terms of Reference: 1, 3, 4b, 4c and 4d)

100. Although the NDRRA Determination was last reviewed in 2012, the Productivity Commission Inquiry into natural disaster funding arrangements provides an ideal opportunity for the Arrangements to be re-examined and amended as required. Queensland's extensive experience in the management of natural disaster funding confirms the need for further review of processes to reduce the red tape that has become part of the NDRRA.

101. The National Commission of Audit Report acknowledges the need to simplify and reduce the administrative burden of arrangements such as the NDRRA. Recommendation 11 identifies that "Steps need to be taken to simplify the large number of existing Commonwealth State agreements and associated reporting arrangements". The Report also recommends that the administrative burden between the Commonwealth and State governments be substantially reduced by rationalising the number of National Partnership Agreements (NPAs) and streamlining and reducing reporting requirements. Queensland's natural disaster recovery, reconstruction and resilience program currently operates under the following governance arrangements:

    a. Natural Disaster Relief and Recovery Arrangements Determination 2012 (incorporating ten supporting guidelines)
    b. NPA for Natural Disaster Reconstruction and Recovery
    c. NPA for Natural Disaster Resilience.

102. NDRRA is a broad-based national policy that looks to reconstruct damaged eligible essential public assets to pre-disaster standard. The NDRRA Determination establishes the basis for the policy, including the cost sharing arrangements. Eligibility is ultimately determined by the NDRRA policy owner, Emergency Management Australia (EMA). Past precedent and current building and engineering standards inform the scope of eligible works.

103. In the aftermath of the 2011 floods (and the issues surrounding management of the *Building Education Revolution and Home Insulation Rebate* programs), the former Australian Government established the Australian Government Reconstruction Inspectorate, imposing a complex oversight structure on the reconstruction effort. The basis of the Inspectorate's operation is in a separate NPA. In February 2013 (after ex-TC Oswald), this NPA was expanded to include disaster events from 2011-2013. The Inspectorate (and the associated Reconstruction Taskforce) is a sub-element working through the Department of Infrastructure and Regional Development.

104. While the need for accountability in the payment of NDRRA funds is acknowledged, the administration of NDRRA recoupment in Queensland's experience has been subjected to extremely high levels of red tape. Eligibility requirements are not identified by the Commonwealth when funding is agreed, definitions are not clear, policy decisions are made retrospectively and the states often operate under the burden of conflicting or changing requirements under multiple NPAs, guidelines and rulings. Any reform of natural disaster funding arrangements should reduce duplication of governance arrangements ensuring accountability, clarifying requirements and streamlining the process for state and local governments.

105. It would be beneficial for the State and Commonwealth to agree processes and methodologies that ensure accountability, rather than continuing to commit resources to investigate amounts of recoupment on a project-by-project basis.

106. For long-term business viability, and the economic recovery of the community, it is important for small businesses to be back in operation quickly. However, existing NDRRA mechanisms to assist small business, such as concessional loans for re-establishing viable operations and clean-up and recovery grants for severely impacted communities, have proven to be complex and at times difficult to obtain; thereby inhibiting early targeted support to those enterprises most in need.

107. While a business or primary producer has insurance for a particular item of property they are unable to apply for assistance under Tier 2 of the Category C clean-up and recovery grants for the repair and restoration of that item of property. Noting the high likelihood that Category C will be activated in response to a significant natural disaster and the rising cost of insurance, there is a risk that small businesses and primary producers may consider these grants an opportunity to reduce the need to obtain insurance. However, the risk of this occurring is small as there are a wide range of events that would not normally be eligible for NDRRA that insurance would cover, and it would be logical to have insurance to cover these risks.

108. Implementing clear guidelines and protocols for making claims, reducing red tape and increasing efficiency in assessing these claims would restore confidence in the community. Immediately after a disaster it is important that a quick adjudication on claims occurs, with decisions that will allow formal contracts and on-ground works to commence in a timely manner.

109. The Queensland Government is committed to reducing the regulatory and administrative burden in all areas within its jurisdiction and to removing any duplication of processes between jurisdictions that hinder timely decision-making and action. This has been demonstrated through the progress Queensland has made in accelerating the disbursement of NDRRA funds to assist affected communities while responding to the complex Commonwealth Government oversight structure. This oversight has burdened the reconstruction task through unnecessary red-tape without due consideration for the practicalities of delivering projects quickly and efficiently, especially in remote and regional areas.

Section 9: Other considerations – Community and environmental assets

(Refers to Terms of Reference: 1, 4a and 4c)

110. Under changes made to the NDRRA Determination in 2012, the definition of an 'essential public asset' was restricted to infrastructure associated with health, education, transport, justice or welfare. Under Guideline 6 of the NDRRA the Commonwealth specified that sporting, recreational or community facilities are not considered to be essential public assets.

111. It is the Queensland Government's view that this change in definition excludes vital infrastructure essential to the normal functioning of communities.

112. The exclusion of community infrastructure such as parks, recreational facilities and infrastructure in national parks does not adequately recognise the role these assets play in both the community and economic recovery. The loss of these facilities would significantly impact on the broader community because often key community activities would not be able to be delivered elsewhere.

113. Sporting and recreational infrastructure provides extensive health and social benefits to communities, including providing opportunities for participation in physical activity for good health and as a connection for vulnerable groups in society to the wider community. Sport and recreational activities often play an important role in connecting and building communities, particularly by providing social benefits important to potentially isolated groups, including people of Aboriginal and Torres Strait Islander backgrounds, people of non-English speaking backgrounds, people with disabilities and people experiencing high levels of disadvantage.

114. Restoration of recreational assets can be an important mechanism for restoring health and wellbeing as well as restoring and reconnecting already disadvantaged communities affected by natural disasters.

115. Some recreational infrastructure venues, such as council-owned sports facilities, are also highly utilised by the general community and community groups as a venue for meetings and other community events/activities and services. This includes the multicultural community using venues for social and support activities, and the elderly community using venues to meet and connect with the community. Many facilities are multi-purposed and can be used during disasters to support response and early recovery activities.

116. Additionally, there are benefits in allowing natural/environmental assets to be eligible for funding under NDRRA. Restoring and maintaining water courses by removing excess debris and rehabilitating riparian zones assists in the protection, proper functioning and resilience of floodplains and infrastructure such as dams, town water supplies and levees and water quality. These works in turn support agricultural productivity, potentially minimise costs of infrastructure repair and maintenance, promote community safety, and preserve amenity supporting tourism values.

117. Restoration of waterways also provides protection for communities at risk of contamination after severe flooding. Restoration and replenishment of coastal waterways and beaches can have positive impacts on tourism, reinvigorating this important aspect of the Queensland economy after a natural disaster and helping local businesses bounce back.

118. River improvement trusts, landcare and catchment bodies, and similar organisations have the knowledge and capacity to perform preventative works in rivers and creeks to mitigate against loss and damage to productive land from extreme events.

119. The current scope of the NDRRA and NPA precludes reinstating of the functionality of watercourses and riparian environs after extreme flood events. The current arrangements, which prohibit access to funding to remove debris and restore watercourses, do not effectively recognise the worth and role of these natural assets to economic and community recovery following a disaster.

120. The present scope of the NDRRA through the limits mentioned above also promotes ad hoc environmental disaster relief arrangements, resulting in complex and potentially inefficient protocols, approval and governance arrangements. Eligibility of restoration of natural assets under the NDRRA would promote a more orderly and timely disaster response for those severely impacted areas.

Section 10: **Risk management and insurance**

(Refers to Terms of Reference: 2, 4a, 4b, 4c, 4d and 5)

121. Issues relating to insurance were examined in detail in the 2011 Natural Disaster Insurance Review. While the purchase of insurance by individuals and asset owners is strongly endorsed and promoted by the Queensland Government as a risk management measure, the ability to insure some public assets in Queensland, particularly roads, is difficult, if not impossible as the risk profile for this infrastructure is problematic and difficult to determine.

122. Consequently, it should be noted that many road assets are uninsurable, and alternative ways to provide better protection and resilience for those assets should be examined. It should also be noted that the Department of Transport and Main Roads (TMR) insures reconstruction works while they are under construction against damage caused by further disaster events.

123. The Queensland State-controlled road network alone consists of over 33,337 km of road, representing over 25 per cent of all roads in Australia, and as of June 2013 was valued at $55 billion. Inclusion of public transport infrastructure brings this total to well over $60 billion. Under the current arrangements, the road asset is uninsured where TMR has complete responsibility for the asset over the longer term, namely when not under construction or maintenance. These arrangements reflect:

- Market investigations and cost/benefit analyses demonstrating limited value for money in reducing funding for core delivery of “network reliability and resilience” to fund significant ongoing premium payments
- Inefficient duplications between insurance payments for asset restitution and the Queensland Transport Road Implementation Program, where the roads at highest risk are also the roads most highly prioritised for replacement or restitution.

124. Insurance for particular assets or projects where responsibility for the asset does not rest solely with TMR, or where TMR’s responsibilities are impacted by contractual obligations or complex liability considerations is considered case-by-case. There are currently three such exceptions to this default position where significant assets are insured:

- Tugun Bypass
- both Gateway Bridges
- all bridge structures along the Logan Motorway.

125. For high risk construction, the road asset is insured (during construction) under the Principal Arranged Insurance (PAI) Program. A number of major project insurance programs, including the Transport Network Reconstruction Program also include professional indemnity policies covering losses for up to 10 years, potentially including flood damage to the asset where it resulted from professional error.

126. As part of the State review of the causes and responses to the 2010-11 disaster events and changes to NDRRA requirements (now including investigation into asset insurance as a prerequisite), the Queensland Government Insurance Fund undertook a review of the insurance arrangements of the road asset on behalf of Queensland Treasury. This review included comprehensive discussions with the commercial insurance market, and concluded that it was not a commercially viable proposition to insure the whole state-controlled road network.

127. With respect to the State's road network, no reinsurer was willing to provide quotations for traditional asset-based cover. The value and geographic spread of Queensland's road assets combined with its greater and more frequent exposure to the perils of flood and cyclone; as well as its long history of significant expenditure on roads restoration from natural disasters, were major considerations for reinsurers. Roads in Australia are only subject to reinsurance arrangements in Victoria and the ACT where they represent a small part of their overall program and bear no comparison to the size of the road network in Queensland (some 33,000km) or the risk exposures of our State. The Commonwealth conceded in its report of 19 September 2012 that traditional commercial insurance for road networks is not readily available in the marketplace, is heavily dependent on an area's risk profile, and that alternative risk transfer options for road infrastructure are limited and may not be a viable solution for all jurisdictions in Australia. It is estimated that more than 80 per cent of NDRRA funds in Queensland are spent on roads.

128. The State self-insures its assets and liabilities with funds set aside to cover losses, such as those resulting from a fire to a government building for example, or from liability claims brought against the State by third parties. The State has reinsurance cover for losses above a predetermined retention level in order to minimise the financial impact associated with large catastrophic events affecting multiple locations. QGIF within Queensland Treasury and Trade administers the State's self-insurance and reinsurance arrangements. Claims arising from natural disasters are submitted to QGIF in the first instance.

129. Changes introduced to the NDRRA in March 2011 now require all states and territories (including local governments) to have adequate and cost-effective insurance arrangements in place for their property (non-road) assets or potentially risk receiving reduced levels of funding support from the Commonwealth Government in the event of future natural disasters. All states and territories (including local governments) are required to submit independent assessments of their insurance arrangements to the Commonwealth for review. These assessments must be provided at intervals of no greater than three years apart and following any significant change in the state's insurance arrangements or following a major disaster.

130. The first independent assessment of Queensland's insurance arrangements, conducted by Queensland's Auditor-General, was provided to the Commonwealth as mandated on 30 September 2011 and included details of the extensive reinsurance pricing exercise undertaken by QGIF to identify reinsurance options for the State. Following subsequent placement by the State of a property and terrorism reinsurance program from 1 November 2011, QTT engaged Finity Consulting Pty Ltd to undertake an independent assessment of the State's insurance arrangements. Finity's report (**Attachment 7** refers) was provided to the Commonwealth on 2 March 2012 as a supplement to the initial report from Queensland's Auditor-General.

131. The Commonwealth's Department of Finance and Deregulation undertook an initial review of the independent assessments submitted by the States, releasing its Phase 1 Report on 8 March 2012. The Phase 1 Report drew substantially on the findings of KPMG who were engaged to review the States' submissions to the Australian Government. With the exception of the Australian Capital Territory, the Department was unable to form a view on the appropriateness of each State's insurance arrangements. Importantly, the Phase 1 Report did not take into account the supplementary report by Finity Consulting regarding Queensland's reinsurance program.

132. A further consolidated report (including assessment of local government asset details and insurance arrangements) was released by the Commonwealth's Department of Finance on 19 September 2012. In assessing the adequacy of the State's insurance arrangements, the Commonwealth found Queensland's insurance arrangements for its property assets (non-roads) were appropriate, cost-effective for both the State and the Commonwealth, and meet NDRRA requirements to minimise the financial exposure of taxpayers at both levels of government.

133. Due to the inherently high level of risk and Queensland's highly variable climate, it is difficult for primary producers to obtain affordable insurance for production activities such as insurance against crop failure due to drought or flooding. A review conducted by the National Rural Advisory Council (NRAC) indicated that while insurance and other risk products exist and there is the potential for further development of this market, insurance products like multi-peril crop insurance would only be viable by being substantially underwritten by government. Accordingly, there is currently little scope for the widespread uptake of insurance products for primary producers for production activities as an alternative to disaster assistance; NDRRA assistance to primary producers, small business and community organisations, whether in the form of grants or loans, does not provide compensation (unlike insurance). NDRRA assistance under Categories B, C and D does not replace insurance for farm or small business infrastructure, which must be utilised before assistance will be provided.

134. The NRAC report (www.daff.gov.au/agriculture-food/drought/nrac/work-program/agricultural-insurance-feasibility) notes that "governments also have a role in supporting data collection and management. This can increase access to user–friendly climate data that can assist farmers to make better risk management decisions." For example, improvements in climate data collection, enhancements to weather forecasting models that increase the reliability of weather forecasts and making this information available to farmers, thereby enabling farmers to better determine the risks of severe weather events and implement appropriate disaster resilience actions. These mitigation actions may subsequently reduce the need for post disaster assistance. Improvements in data availability and forecast reliability may also support the development of insurance products in the industry as insurers could be more willing to offer risk management products if they are better able to identify the potential cost of providing coverage against a risk.

135. As a consequence of several consecutive natural disasters, many Queensland property owners and businesses are experiencing substantial increases in insurance premiums as insurance companies seek to mitigate their risk, especially in perceived high-risk locations. The Chamber of Commerce and Industry Queensland (CCIQ) has expressed concern that some businesses may now be inadequately protecting their assets. The most recent CCIQ Westpac Group Pulse Survey of Business Conditions, (the Survey for the December Quarter 2013, released in March 2014) found that rising insurance premiums were considered by business to be the third biggest constraint on Queensland business growth and should be recognised in any future policy development. However, it should be noted that the CCIQ is currently conducting a survey of member businesses to gauge the impact of rising insurance premiums on Queensland businesses; when available, this survey information should be considered as part of the Inquiry.

136. Mitigation works undertaken by the Queensland Government, for example in Roma, have made advances in the insurability of properties in flood-affected areas.

7 May 2012: Suncorp will not offer new policies to Queensland towns Emerald and Roma as fallout from 2011 floods continues
Suncorp chief executive Mark Milliner said he now felt the insurer had little choice but to exclude Roma and Emerald "unless clear decisions are made to build or implement improved mitigation to protect the residents of these towns" – The Courier-Mail[17]

24 September 2013: Suncorp starts writing new business as Roma levee kicks off – Estimated premium reductions of up to 80% upon completion
"To coincide with the start of construction of a levee to protect Roma from flooding, Suncorp will immediately recommence writing new home and contents insurance policies in the town after a 16 month embargo ….
initial estimates for a typical $300k home inside the new levee indicate that Roma residents may see an average reduction in their premium of about 30% once the levee is completed, but could be as high as 80% in some of the most floodprone areas." – Suncorp Insurance media release[18]

137. Queensland's high exposure to natural disasters, particularly flooding and cyclonic events, means that the impacts of rising insurance premiums on small business must be considered when evaluating:

- the sustainability and effectiveness of current arrangements for funding natural disaster mitigation and recovery
- risk management measures available to and being taken by asset owners
- options to achieve an effective and sustainable balance for natural disaster recovery and mitigation.

138. In the area of primary industries, the Queensland Government has undertaken some research and development to investigate mitigation initiatives and inform prioritisation of these activities. For example, dwarf plant varieties and trellising techniques have been developed to minimise wind damage from cyclones. The banana industry has also implemented measures such as topping/pruning plants prior to cyclones as a means of minimising damage and to stage and accelerate recovery.

17 Elsworth S, 'Suncorp will not offer new policies to Queensland towns Emerald and Roma as fallout from 2011 floods continues', The Courier-Mail, 7 May 2012 www.couriermail.com.au/news/queensland/suncorp-will-not-offer-new-policies-to-queensland-towns-emerald-and-roma-as-fallout-from-2011-floods-continues/story-e6freoof-1226348164193

18 Suncorp Insurance media release, 24 September 2013. www.suncorpgroup.com.au

Conclusion

139. The NDRRA have been an effective and equitable internationally recognised method of ensuring Australian communities recovery quickly and effectively from natural disasters that are outside their control.

140. Any changes that would see a reduction in Commonwealth NDRRA funding such as those proposed in the Report of the National Commission of Audit recommendations would have a catastrophic fiscal impact for the State, its local governments and residents.

141. Queensland's geography and the spatial distribution of its economic centres and infrastructure, together with its location within the tropics and sub-tropics, dictates that the state will never be disaster-proof or be able to completely mitigate against all impacts from natural disasters on infrastructure. There will always be an ongoing need for measures within the NDRRA to restore essential infrastructure.

142. The contrast between mitigation and resilience investments, and relief and recovery costs is the government's ability to determine the timing, scale and location of its investment. The diagram below demonstrates this contrast, and outlines the resulting actions the Queensland Government believes are essential to reform natural disaster funding.

Natural Disaster Funding Arrangements

	Mitigation	Resilience	Relief	Recovery
Purpose	Prepare/Reduce Impact	Prevent/Reduce Impact	Preseve and Protect Life	Rapid Economic and Community Return
Choice of investment timing	Yes	Yes	No	No
Choice of investment scale	Yes	Yes	No	No
Recommended Actions	• Increase investment to reduce future recovery and relief needs • Opportunistic investment as part of recovery (ie Betterment) • Invest in research to quantify risk for assets to enable higher levels of insurance	• Increased investment to reduce future recovery and relief needs • Opportunistic investment as part of recovery (ie Betterment)	• Preserve current levels of protection (ie 75/25 per cent share) • Clarify eligibility	• Preserve current levels of protection (ie 75/25 per cent share) • Reduce red tape in processes • Reduce number of National Partnership Agreements • Clarify eligibility criteria • Adopt value for money assessment model • Adopt program cost-saving measures (including day labour)

143. Queensland proposes that an increase to the Commonwealth investment in mitigation and resilience, and especially an increased investment in opportunistic resilience through the Betterment program, will effectively reduce future recovery and relief costs.

144. The Queensland Government does not believe there is a demonstrated need to change the current levels of funding protection to aid recovery from rapid onset disasters, and in fact believes that a change would have negative impacts on the Queensland and Australian community. However, there is scope to reform the NDRRA to provide a more effective and efficient system that provides value for money.