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INSTITUTE

# The Regional Australia Institute's response to the Productivity Commission's Draft Report on Natural Disaster Funding Arrangements

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**FOR THE GOOD OF AUSTRALIA**

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The Regional Australia Institute (RAI) welcomes the opportunity to respond to the Productivity Commission's *Natural Disaster Funding Arrangements* (draft report) and its recommendations and findings.

Overall the RAI supports the reform proposals outlined in the draft report. The greater emphasis on mitigation, sharper incentives to promote preparedness and increasing flexibility for state and local governments in navigating the recovery process are crucial, creating a more effective national approach to disaster management.

### Mitigation Reform Proposals

Natural disasters pose an ongoing and serious threat to Australia, particularly to highly exposed regional areas. While risk exposure will never be eradicated, utilising mitigation to respond to unacceptable levels of risk is vital to saving lives and reducing future costs to the nation.

Draft recommendation 3.2 outlines the Productivity Commission's approach to mitigation:

*If the Australian Government reduces the relief and recovery funding it provides to state and territory governments, it should increase annual mitigation expenditure gradually to \$200 million, distributed to the states and territories on a per capita basis. The amount of mitigation spending could be adjusted over time to reflect the imputed 'savings' from reduced relief and recovery funding.*

*Increased mitigation funding should be conditional on matched funding contributions from the states and territories and best-practice institutional and governance arrangements for identifying and selecting mitigation projects. These would include:*

- *Project proposals that are supported by robust and transparent evaluations (including cost–benefit analysis and assessment of non-quantifiable impacts), consistent with National Emergency Risk Assessment Guidelines risk assessments and long-term asset management plans, and subject to public consultation and public disclosure of analysis and decisions.*
- *Considering all alternative or complementary mitigation options (including both structural and non-structural measures).*
- *Using private funding sources where it is feasible and efficient to do so (including charging beneficiaries).*
- *Partnering with insurers to encourage take-up of adequate private insurance and private mitigation through measures such as improved information sharing and reduced premiums.*

The RAI is supportive of increasing the emphasis on mitigation. The current disaster arrangements which favour response and recovery are inefficient at reducing Australia's risk exposure and are incurring increasing costs.

We do however recommend that the Productivity Commission articulates how it arrived at the proposed figure of \$200 million for annual mitigation expenditure. There is likely to be ongoing debate about this amount and providing a clear rationale for this recommendation will be important. If

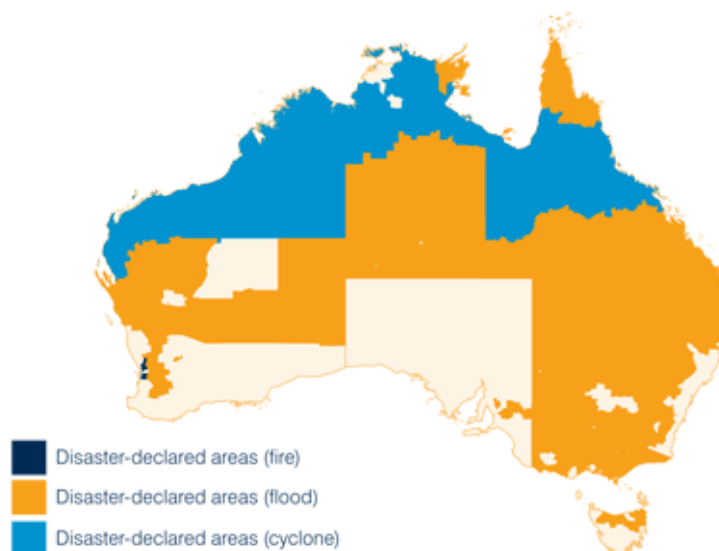
possible, it would also be advantageous if the Productivity Commission could provide an overview of what it would see as grounds for increasing or decreasing this figure over time.

We would also encourage the Productivity Commission to provide a more detailed policy design recommendation for the Australian Government to follow in implementing future mitigation spending. Designing and implementing these programs will be challenging and any guidance will be helpful. The types of outcomes sought is one area when the draft report is silent.

The RAI would also encourage the Productivity Commission to provide greater detail about how mitigation projects would be proposed and selected. The Australian Government has less experience in designing and delivering these types of programs compared with managing recovery expenditure.

The RAI has reservations about the distribution of mitigation funding on a per capita basis. This approach fails to consider the varying levels of risk people are exposed to across the country. For example, Figure 1 shows disaster declared areas between November 2010 and February 2011. Although this does not show the level of risk different areas are exposed to, it clearly demonstrates the varying levels of exposure in different geographical areas. Mitigation expenditure should be distributed to where it is most needed. Equitable division to the states as a way of easing intergovernmental tension is unlikely to achieve optimal outcomes.

*Figure 1: Map of Disaster declared LGAs November 2010-February 2011*



Source: Budget Overview, May 2011

The distribution of funding at a per capita basis risks limiting the pool of resources available to different mitigation projects. The Productivity Commission should consider whether this approach will provide a foundation for larger scale mitigation projects in areas exposed to the highest levels of risk, where higher levels of relative benefit can be demonstrated.

A centrally-located single pool of funding distributed based on the relative risk exposure of different communities should be considered. This model would be more likely to direct funding towards areas where it will have the greatest benefits of protecting Australians and reducing costs over time.

### Relief and Recovery Reform Proposals

The Productivity Commission's proposed changes to the Natural Disaster Relief and Recovery Arrangements are outlined in draft recommendation 3.1:

*The Australian Government should:*

- *Reduce its marginal cost sharing contribution rate to disaster recovery outlays to 50 percent under the natural Disaster Relief and Recovery Arrangements.*
- *Increase the triggers for Australian Government assistance (small disaster criterion and annual expenditure threshold).*

*In conjunction with this reduction in funding assistance, the Australian Government should provide state and territory governments with increased autonomy to manage relief and recovery expenditure in a way that reflects the preferences and characteristics of their communities.*

As outlined in the RAI's initial submission on *Natural Disaster Funding Arrangements*, decreasing Australia's risk exposure requires a rebalancing of expenditure and effort towards mitigation. This, to some extent, will be at the expense of recovery. Therefore the RAI views the reduction in the Australian Government's current 75 per cent contribution to natural disaster recovery as a necessary step to provide for an increase in mitigation spending.

Reduced spending is also a vital incentive for both state and local governments to increase their emphasis on mitigation. Sharper incentives such as this increase the likelihood that proactive steps will be taken at the state and local level.

That said, the inclusion of a more detailed policy rationale about how the Productivity Commission settled on the 50 per cent contribution, as recommended in the draft report, would be beneficial to the inevitable criticisms and eventual negotiation that will arise from this proposed change. The alignment with health and education proportions is not a strong case given these expenditures are more predictable.

All three of the Productivity Commission's proposed funding reform options encouraged greater autonomy for state and local governments in managing relief and recovery efforts. This approach reflects the RAI's research which emphasises the unique nature of each recovery. A prescriptive national approach has meant that activities are encouraged to align to the funding guidelines rather than the genuine needs of people on the ground.

More flexible funding will also allow for a critical evaluation of what needs to be rebuilt, where and to what standard to ensure the future success of the community. This should lead to a more efficient use of

resources. It is also an important step towards encouraging disaster affected areas to start focusing on a 'new normal' and genuine engagement in betterment.

One of the challenges with the recommended approach is the need for government to accurately estimate reconstruction costs. This is particularly the case for regional Australia where prices may vary significantly depending on location. Monitoring and evaluation of outcomes in regional Australia would present an effective way of ensuring that the Australian Government's estimates are reasonably accurate as well as providing transparency about performance of state and local government in applying recovery resources in practice.

It is important to note that due to the nature of population settlements in regional Australia, the draft recommendations made by the Productivity Commission will have varying impacts for different areas. The RAI notes that:

- Lifting the thresholds that determine when the Australian Government will provide financial assistance will mean that some smaller, but locally serious regional disasters will no longer qualify for Australian Government support.
- The emphasis on local flexibility to manage recovery is likely to be particularly challenging for smaller local governments in regional Australia that have limited capacity to prepare and respond.
- Existing low socio-economic communities have limited capacity to increase their asset protection, for example insurance will be more unaffordable in high risk areas. As mentioned in the draft report, governments may need to consider structural mitigation measures (such as flood levees) or other mitigation options, such as relocation. This should be provided for in the mitigation program design.
- Small or low socio-economic regional communities will likely be more exposed to the impacts of inadequate natural disaster funding as a result of inaccuracies in estimating assessed damages and the expected costs of reconstruction soon after a disaster has occurred. In severe disasters this may lead to pressure to retreat from some parts of the proposed reform.
- Limiting financial assistance to businesses due to its inefficient results is largely appropriate. However in instances where a whole communities' economy is significantly impacted by a natural disaster, as can happen in regional areas, government assistance can be vital for long-term recovery. Research undertaken by the RAI clearly demonstrates that the health of the local economy is key for community recovery.

Many of these challenges are likely to be the exception rather than the rule. Therefore, while they may not impact the overall policy design, they should remain critical considerations to ensure that reform does not unfairly disadvantage regional communities. Once again, monitoring and evaluating outcomes in regional Australia will provide a better understanding of the broad scale of outcomes and provide for sensible adjustments over time.

### Conclusion

The RAI is supportive of the direction taken by the Productivity Commission in regards to natural disaster funding arrangements. The final report will benefit from the inclusion of greater detail about how the recommendations should be implemented, including a deeper consideration of the different levels of risk exposure in different areas of Australia.

The Productivity Commission should also ensure that all its findings and recommendations are presented not only as efficiency measures but also as progress towards better achieving the core function of natural disaster policy – safeguarding Australia’s population from unacceptable levels of exposure to natural disasters. Our collective goal should always be to protect Australian lives and livelihoods. This could be more clearly enunciated in the report and serve as a foundational argument for the urgency of bringing these reforms to fruition.

## Contacts and Further Information

The Regional Australia Institute (RAI) welcomes the opportunity to engage further with the Productivity Commission on its draft report on Natural Disaster Funding Arrangements and any of the issues raised in this response.

To discuss further please contact:

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## About the Regional Australia Institute

Independent and informed by both research and ongoing dialogue with the community, the RAI develops evidence-based policy and advocates for change to build a stronger economy and better quality of life in regional Australia – for the benefit of all Australians.

The RAI was specifically formed to help bridge the gap between knowledge, debate and decision-making for the potential and future pathways of regional Australia. It exists to ensure local, state and Federal policy makers, researcher, business and members of the community have access to the information they need to make informed choices about the future of regional Australia.

## Definition of Regional Australia

The RAI defines regional Australia as the non-metropolitan areas of the nation that lie beyond Australia's major capital cities and their immediate surrounding suburbs.