The Hon Stuart Ayres MP

Minister for Police and Emergency Services
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DOC015010

Commissioners Coppel and Chester
Natural Disaster Funding Arrangements
Productivity Commission
Locked Bag 2, Collins Street East
MELBOURNE VICTORIA 8003

Dear Commissioners

NSW Government Response to the Productivity Commission Draft Report into Natural Disaster Funding Arrangements

Thank you for the opportunity to respond to the Draft Report. The policy issues associated with natural disaster mitigation and recovery have significant implications for the NSW Government and its extensive service delivery obligations. Whilst the NSW Government appreciates the opportunity to provide input into the Commission's review, it must be noted that the short timeframe for response to the draft report significantly reduces the Government's ability to provide detailed and considered feedback.

The Draft Report presents a substantial and wide-ranging analysis of disaster funding arrangements in Australia, and I commend the Productivity Commission's work to date in this area.

However, the NSW Government has significant concerns regarding six of the findings and recommendations in the Draft Report. These concerns are outlined in the attached table. At the present time, the NSW Government will not be providing any comments about the other findings and recommendations in the Draft Report.

In relation to the information requests that were made in the Draft Report, I am pleased to advise that a number of NSW Government agencies have prepared responses to relevant items, and the Ministry for Police and Emergency Services will provide these to the Productivity Commission at officer level, via a separate letter.

In addition to the six finds and recommendations of significant concern that are discussed in the attached table, I would note some general concerns about the Draft Report. These relate to the assumptions about mitigation funding and the underlying rationale for the three reform options.

The NSW Government notes with concern the financial implications of Options 1 and 3 that are proposed in the Draft Report. These Options will significantly increase the disaster recovery cost burden on the NSW Government and, by extension, on Local

Governments. Similarly, the recommendation to reduce the Commonwealth's marginal reimbursement threshold from 75% to 50% appears to be made without a clearly articulated rationale.

It is important to note that the NSW Government invests heavily in asset management, risk management and disaster mitigation through a range of business-as-usual activities. Whilst this investment may not be named 'disaster mitigation' per se, it has a direct and tangible effect on the resilience of communities to natural disasters. This should receive greater acknowledgement for its role in mitigating the impact of disasters. Nonetheless, the NSW Government supports the recommendations regarding greater investment in mitigation.

The Draft Report's recommendations and findings about the impost of compliance obligations and the rigidity of current arrangements are timely. NSW supports efforts to reduce compliance burdens and simultaneously implement arrangements that are flexible and enable the most effective delivery of value-for-money recovery activities to the community.

The Draft Report speaks of "earned" autonomy as a funding concept. While autonomy is supported, the NSW Government has concerns regarding potentially prescriptive requirements regarding 'earning' autonomy.

As a closing observation, it is noted that an increased investment in mitigation may not correlate directly to reduce recovery costs due to the unpredictable nature of catastrophic disaster events. Further, should the recommended measures be adopted, there are lag issues between when the anticipated reduction in cost of recovery would be seen from the increased mitigation spend, and the immediate reduction in Commonwealth and State expenditure in recovery.

Thank you again for the opportunity to respond to the Draft Report. Should you have any questions, or wish to discuss NSW's submission in more detail, please contact Ms Rachel Nibbs, Director Response and Recovery

Yours sincerely

Stuart Ayres MP
Minister for Police and Emergency Services
Minister for Sport and Recreation
Minister Assisting the Premier on Western Sydney

Productivity Commission Inquiry into Natural Disaster Funding
Table of items of significant concern to NSW

Request, Finding or Recommendation	NSW Government Position
DRAFT Finding 2.2 *Some cost sharing between the Australian and state and territory governments in the form of a fiscal 'safety net' to assist with the cost of natural disasters is inevitable because of vertical fiscal imbalance.* *The current funding arrangements exceed the requirements for such a safety net.* • *The current thresholds for funding under the Natural Disaster Relief and Recovery Arrangements (NDRRA) do not constitute a major fiscal burden that exceeds state and territory governments' funding capacity.* • *The NDRRA 'small disaster criterion' is too low. It captures small, routine events that are unlikely to constitute natural disasters.* • *A marginal reimbursement rate of 75 per cent is excessive and is not consistent with other cost-sharing arrangements in the Federation.* • *The scope of eligible expenditures under the NDRRA is unclear in some cases, and includes activities that are the core responsibilities of state and territory governments. Ministerial discretion for 'exceptional circumstances' assistance adds more uncertainty around eligible expenditure.*	The NSW Government strongly agrees with the finding that some cost sharing between the Australian and state and territory governments in the form of a fiscal 'safety net' to assist with the cost of natural disasters is inevitable because of vertical fiscal imbalance. However, the NSW Government is concerned about the finding that current arrangements exceed the requirements for a 'safety net'. Whilst this finding relies heavily on the concept of a 'safety net', more detailed analysis and discussion is needed about the meaning of this concept, and the principles by which it should operate. Without a clear and thorough agreed definition of the 'safety net' concept, and principles for its operation, it is difficult for the NSW Government to agree that current funding arrangements are excessive.

DRAFT Recommendation 3.1 *The Australian Government should:* • *reduce its marginal cost sharing contribution rate to disaster recovery outlays to 50 per cent under the Natural Disaster Relief and Recovery Arrangements* • *increase the triggers for Australian Government assistance (small disaster criterion and annual expenditure threshold).* *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.*	The NSW Government does not currently support the recommendations to reduce the marginal cost sharing contribution rate and increase the triggers for Australian Government Assistance. This is due to the fact that these recommendations are based on Finding 2.2 of the draft report, which requires more detailed analysis and discussion around the 'safety net' concept, and the principles by which it should operate. The NSW Government supports the recommendation to provide state and territory governments with increased autonomy to manage relief and recovery expenditure. This is consistent with best practice.
DRAFT Recommendation 3.2 *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)*	The NSW Government supports an increase in annual mitigation expenditure. However, this increase should not be dependent on a reduction in relief and recovery funding to state and territory governments, and the provision of funding should not be time-bound. Increasing mitigation funding is unlikely to result in significant reduced relief and recovery spending in the short term. Significant mitigation works (infrastructure) are complex, costly and will take some time before completed and the benefits are realised. If relief and recovery funding is decreased at the same time that mitigation funding is increased, this will increase the financial burden on states in the short term. Relief and recovery payments should not be reduced until the benefits of increased mitigation activities start to be realised. To account for varying fiscal positions at any point in time, the Commonwealth's contribution to mitigation expenditure should not be time-bound. A State's share of the enhanced pool of mitigation funds should be made available when States are able to raise the matching funds and undertake the underlying works.

• *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.*	
DRAFT Finding 2.6 *The Australian Government Disaster Recovery Payment (AGDRP) is significantly higher than the Crisis Payment that is provided to assist income support recipients with the impacts of traumatic events. As such, the AGDRP may be higher than necessary to meet the emergency needs of people affected by natural disasters.* *Eligibility criteria for the AGDRP tend to be adjusted following a major natural disaster and have progressively become broader in their scope. Ministerial discretion over the eligibility criteria has led to inconsistent and inequitable treatment of people in comparable circumstances and has contributed to increased program costs.* *There is overlap and duplication between the AGDRP and state and territory government emergency assistance to individuals. The Australian Government is better placed than the states and territories to provide emergency assistance to individuals in an efficient and timely manner.*	The NSW Government does not agree with the finding that the Australian Government is better placed than the states and territories to provide emergency assistance in an efficient and timely manner. The NSW Government deploys personnel immediately to impacted communities which ensures a timely, empathic response and the provision of Immediate Assistance to affected households as appropriate. NSW has had a very tightly targeted program of Immediate Assistance in place for decades, with minimal direct cash provided, as most assistance is provided in-kind and delivered by volunteers. Immediate Assistance is provided at NSW Government managed evacuation centres on a 24/7 basis, or via home visit. Service can be provided even if electricity is down, and is thus a very flexible channel for delivering assistance at the point of crisis. Where financial support is offered, officers of the NSW Government make an assessment of individual household needs, which contains costs. Comments by Red Cross are inaccurate with regard to NSW Government processes around Immediate Assistance. In NSW, the Personal Hardship and Distress (PHD) grants have a different objective from the AGDRP and are available as a standard measure, subject to eligibility criteria. Any perceived duplication is due to the introduction of AGDRP into the established PHD grants context. The NSW PHD grants assist in replacement of contents or structural repairs and have strict eligibility criteria, including an income and assets test. With a detailed assessment in the areas of financial capacity, employment, ownership / tenancy and insurance, along with sighting the damaged contents / dwelling, Officers are able to ensure that only those most in need qualify, and receive very modest grant amounts. There is no disincentive to insurance, nor a “moral hazard”, as claimed.

DRAFT Finding 2.7 *The case for government assistance to businesses and primary producers after a natural disaster is weak.* *If governments do provide assistance to businesses and primary producers, untied grants are a more efficient, effective and equitable instrument than loans and subsidies.*	The NSW Government does not agree with the finding that the case for government assistance to businesses and primary producers after a natural disaster is weak. In the same way that a 'safety net' is provided by the Commonwealth Government to States and Territories, a similar 'safety net' should also be maintained for small businesses and primary producers that are severely impacted by natural disasters. In Box 2.13 on page 108 of the Commission's own draft report, a number of quotes from various organisations (including Australian Red Cross and Local Government NSW) are shown which support the case for assistance to businesses and primary producers. These views are generally consistent with the views of small business and primary sector stakeholders across NSW. The NSW Government continues to work with the Commonwealth government to better target disaster assistance to those most in need, and to improve the efficiency and effectiveness of these measures.
DRAFT Recommendation 3.5 *The Australian Government should:* • *cease reimbursement to state and territory governments under the Natural Disaster Relief and Recovery Arrangements for relief payments for emergency food, clothing or temporary accommodation and assistance to businesses and primary producers (including concessional loans, subsidies, grants and clean-up and recovery grants)* • *reduce the amount provided under the Australian Government Disaster Recovery Payment (AGDRP). The Australian Government Crisis Payment may provide a reasonable benchmark in this regard* • *legislate the eligibility criteria for the AGDRP and the Disaster Recovery Allowance and make these not subject to Ministerial discretion.*	The NSW Government does not support the recommendation to cease reimbursement to state and territory governments for relief payments for emergency food, clothing or temporary accommodation, and for assistance to businesses and primary producers. These forms of assistance are critical to the relief and recovery of communities impacted by natural disasters and the Australian Government makes a very important contribution to these forms of assistance through the NDRRA. Further to the points made at Draft Finding 2.6, the NSW Government maintains that NSW assistance is not inefficient, ineffective, excessive or misdirected. The Personal Hardship and Distress provisions in NSW are tightly targeted to those most vulnerable to poor recovery outcomes and have a different objective to the AGDRP. Additionally, the NSW Government believes the Disaster Recovery Allowance is not an appropriate alternative payment to state government relief payments, as it only provides for loss of income from

	a disaster, and does not meet immediate basic needs, nor assist affected persons already in receipt of Centrelink benefits. It is suggested that further analysis, discussion and justification for this recommendation be provided in the Productivity Commission’s final report, if the recommendation is to be retained.