



19 November 2013

**National Commission of Audit**

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The [Australian Business Roundtable for Disaster Resilience and Safer Communities](#) welcomes the opportunity to make a submission to the National Commission of Audit.

This submission addresses the *Terms of Reference* relating to the efficiency and effectiveness of government expenditure, as well as, the State of the Commonwealth's finances and medium-term risks to the integrity of the budget position.

The [Australian Business Roundtable for Disaster Resilience and Safer Communities](#) was formed by the Chief Executive Officers of: Australian Red Cross, Insurance Australia Group, Investa Property Group, Munich Re, Optus and Westpac Group. Chief Executive Officers Mr Robert Tickner, Mr Mike Wilkins, Mr Scott MacDonald, Mr Heinrich Eder, Mr Kevin Russell and Mrs Gail Kelly. The CEO's created the Roundtable as all believe having resilient communities that can adapt to extreme weather events is of national importance.

This is the first time such a broad spectrum of organisations have come together to champion this issue and follows an unprecedented number of floods, storms and bushfires that have devastated life and property across Australia in recent years.

The Roundtable commissioned independent research by Deloitte Access Economics - *Building our Nation's Resilience to Natural Disasters* - to forecast the cost of natural disasters to Australia by 2050 if investment in mitigation efforts remains unchanged, along with the cost benefit of greater investment in mitigation measures.

*Building our Nation's Resilience to Natural Disasters* demonstrates that the opportunity exists for Australia to design a more sustainable and comprehensive national approach to making communities safer and more resilient.

**The efficiency and effectiveness of government expenditure and the Commonwealth's finances and medium term risks to the integrity of the budget position**

At present, the total economic costs of natural disasters in Australia are estimated to average around \$6.3 billion per year. In real terms, this total is forecast to grow by 3.5% annually. This is primarily due to the likely impact of further population growth, concentrated infrastructure density, and the effect of internal migration to particularly vulnerable regions. With this growth rate, the annual total economic cost of natural disasters in Australia is expected to double by 2030 and reach \$23 billion in real terms by 2050.

Each year an estimated \$560 million is spent on post disaster relief and recovery by the Australian Government compared with an estimated consistent annual expenditure of \$50 million on pre-disaster resilience: a ratio of more than \$10 post-disaster for every \$1 spent pre-disaster.

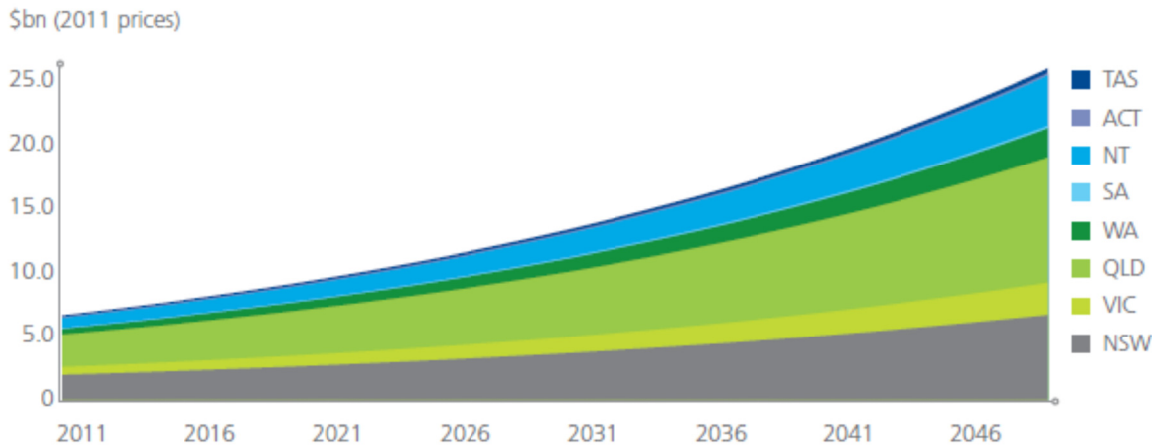
Historical data indicates that the Australian and state governments collectively face around 11% of the total economic costs of natural disasters. It is estimated that 80% of this government expenditure is outlaid by the Australian Government.



Considering the increase in natural disaster costs forecast over the period to 2050, it is anticipated that governments will eventually face an annual cost of around \$2.3 billion in real terms.

The expected future costs of natural disasters highlight the need for governments to invest further in resilience measures. As the government does not currently account for future disaster costs in the forward estimates, it is difficult to recognise the true cost advantages of building resilience.

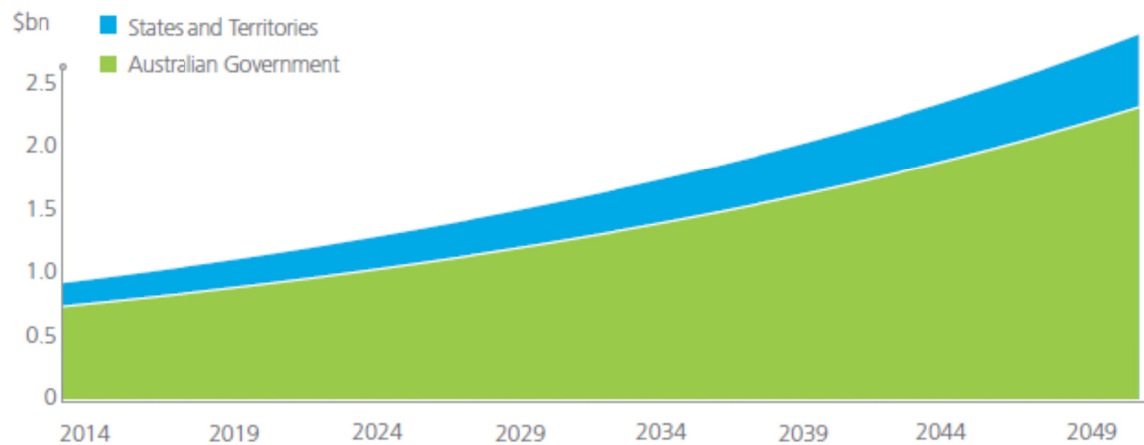
**Forecast total economic cost of natural disasters 2011-2050**



Source: Deloitte Access Economics (2013)

Source: Deloitte Access Economics - Building our Nation's Resilience to Natural Disasters (June 2013)

**Forecast annual cost to government of natural disasters 2011-2050**



Source: Deloitte Access Economics (2013)

Source: Deloitte Access Economics - Building our Nation's Resilience to Natural Disasters (June 2013)

*Building our Nation's Resilience to Natural Disasters* shows that the budgetary impact of responding to and recovering from natural disasters could potentially be significantly reduced through carefully considered and directed investment in pre-disaster resilience.





A simple cost-benefit analysis demonstrates how government funds would be saved in the long run by bringing forward expenditure on natural disaster recovery and placing a greater level of investment in pre-disaster resilience measures.

Assume, for example, that carefully targeted programs of resilience expenditure in the order of \$250 million per annum achieved an overall Benefit-Cost Ratio (BCR) of around 1.25. This implies that this program of expenditure would incur costs in the order of \$5.3 billion over the period to 2050 (present value terms) but would generate budget savings in the order of \$12.2 billion for all levels of government (or \$9.8 billion when looking at the Australian Government budget only). If successfully implemented, this intervention could see Australian and state government expenditure on natural disaster response, fall by more than 50% by 2050.

While different resilience measures show a wide range of benefit-cost ratios (BCRs) investments that target high-risk locations using appropriate combinations of infrastructure, policy and procedure carry the highest BCRs.

*Building our Nation's Resilience to Natural Disasters* offers three key recommendations:

### **Improve co-ordination of pre-disaster resilience by appointing a National Resilience Advisor and establishing a Business and Community Advisory Group**

Developing resilient communities should be elevated to the centre of government decision-making (within the Department of Prime Minister & Cabinet) to deliver effective and efficient coordination of activities across all levels of government, business, communities and individuals. This should be directly supported by a Business and Community Advisory Group to help facilitate a more co-ordinated response and to ensure that business and the not-for-profit sector are represented at the highest levels of policy development and decision-making.

### **Commit to long term annual consolidated funding for pre-disaster resilience**

All levels of government - led by the National Resilience Advisor - should commit to consolidating current outlays on mitigation and to funding a long-term program which significantly boosts investment in mitigation infrastructure and activity, and community education that is focussed upon behaviour change. Critical to this success will be support for the consolidation of existing information and commissioning of additional data where needed. This will assist in the development and implementation of effective local responses by governments, businesses and the community.

### **Identify and prioritise pre-disaster investment activities that deliver a positive net impact on future budget outlays**

A program of mitigation activity should be developed based on cost-benefit analysis that demonstrates a clear positive outcome from investing in pre-disaster resilience measures. Prioritisation of these activities should be informed by analysis of research, information and data sets allowing key investment decisions to be taken at all levels, including government incentives and price signals from the private sector.

### **Conclusion**

The submission outlines a new approach for effective and prioritised pre-disaster investments across the country and highlights the importance of integrated information and activity across government, business and community. By pursuing the *Building our Nation's Resilience to Natural Disasters* key recommendations, economic costs can be materially reduced, as well as relieving long term pressures on government budgets.

More importantly, a safer Australia can be created through building resilience against the trauma and loss of life that all too frequently confronts many of our communities when a natural disaster strikes.



Should you require further information please do not hesitate to contact Mr Michael Wilkins, Managing Director and CEO, Insurance Australia Group on (02) 9292 9291 or [michael.wilkins@iag.com.au](mailto:michael.wilkins@iag.com.au)

The paper '*Building our Nation's Resilience to Natural Disasters*' is attached for your information.

Yours sincerely,

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