Submission to the Independent Review of Commonwealth Disaster Funding

Response ID: IRCDF_1371_119

Consent option: Publish with name

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Q1. What experience have you had with Commonwealth disaster funding support?

We've gained our knowledge and understanding about Commonwealth disaster funding support through our research projects assessing the impacts of disasters on Australian individuals and businesses and how disasters support programs can help affected the communities in the recovery process.

Our project "Optimising Post-Disaster Recovery Interventions in Australia" (funded by the Bushfire and Natural Hazards CRC) estimated the impact of four disasters in recent Australian history on income of individuals residing in disaster-hit areas. We focused on the following case studies: The 2009 Victorian Black Saturday bushfires, the 2009 Toodyay bushfires, the 2013 Tropical Cyclone Oswald, and the 2010-11 Queensland floods. Through real-life case studies, our research helped illustrate how disasters - of different types, localities, and scales - impacted and rippled through communities and the broader economy over time. Our primary dataset was the Australian Longitudinal Census Dataset of 2006, 2011 and 2016 of the Australian Bureau of Statistics (ABS), which included 5% representative sample of the Australian population and provided data on a range of our economic, demographic, and sectoral variables.

Our research has found that the extent of the economic impact of disasters on individuals' income depends on the type, intensity, and location of the disasters. This finding departs from most policy assumptions, which tend to put all the disasters into the same basket when designing relief and recovery programs. However, there are also common vulnerable groups across different disasters. We found that certain sectors, such as agriculture and accommodation and food services (of which tourism is part) tend to be the most adversely affected sectors across all types, locality and severity of disasters. In addition, low-income individuals, part-time workers, and small businesses tend to be more adversely affected by disasters, and their recovery takes longer time. Thus, 'economic smallness' is a key vulnerability point in the case of disasters.

In another project that we are currently working on "Efficacy of disaster support programs and the economic resilience and recovery of business firms in the aftermath of natural disasters in Australia", we examine businesses' recovery post disasters and how disaster support programs assist businesses in the Australian context. We employ a rich administrative dataset, the Business Longitudinal Analysis Data Environment (BLADE) of the ABS, which includes information from quarter and annual Business Activity Statement (BAS) and annual Business Income Tax (BIT) records for more than two million Australian business firms, with the longest available period being from 2001/02 to 2020/21. Our preliminary analysis using Queensland floods 2010/11 as a case study shows that businesses overall experience a large reduction in almost all outcomes including turnover, Good and Service Tax, total and taxable income, employees, wage expenditure and wage rate following floods. The effects appear to be persistent and do not fade away till 2016, five years after the floods. However, those businesses that are subject to tax relief and support provisions of the Australian Taxation Office Office (i.e., those below $1M turnover/year or employing below 20 FTE) recover their total assets rather quickly, and therefore, tend to recover their operations faster.

Q2. How could Commonwealth funding support communities to reduce their disaster risk?

The Commonwealth government, working in partnership with state and local governments, community organizations, and stakeholders provides various funding programs to assist communities in reducing their disaster risks. Here we focus on providing recommendations on how the support programs could better help the economically vulnerable groups in their recovery from disasters. Findings from project "Post-Disaster Recovery Interventions in Australia" provide clear insights that 'economic smallness' is a point of vulnerability. In particular, low-income earners, small-business owners, and part-time workers are more likely to lose income following a disaster. Middle and high-income earners, full-time workers and owners of larger businesses are far less likely to lose income; indeed, they might even earn more. Part of the reason why the 'economically smaller' demographic groups are vulnerable to disasters is that they are employed in disaster-sensitive sectors. Thus, the sectoral vulnerability is translated into demographic vulnerability. In addition, economic theory says that lower capital (both physical capital and human capital) and lower working hours hinder the opportunities for economic growth. This proposition seems to translate into individual income losses in the wake of disasters.

We also found that time frame for recovery matters. For example, following the 2009 Victorian Black Saturday bushfires, low-income individuals and the female workforce experienced lower income levels that persisted until 2016. This contrasts with high-income earners, who despite having lost income in the short term, were able to bounce back to their original income trajectory by 2016.

Overall, our research has revealed disaster costs that would not normally be identified by the direct damage estimates. For example, the direct total (tangible and intangible) damages of the 2009 Victorian Black Saturday bushfires were $7 billion (Deloitte Access Economics 2016). However, we found that, following the Black Saturday bushfires, agricultural employees who lived in the fire-ravaged areas lost an average of A$8,000 in annual income for the following two years. Employees in the accommodation and food services industries lost an average of A$5,000 per annum. The indirect loss estimates are typically bypassed in the wake of disasters, as the policy community typically focuses on the direct damage estimates when assessing the economic costs of disasters. Importantly, the indirect loss and potentially long-term effects incurs by the 'economic smallness' who are already disadvantaged even without disasters. This would worsen the income inequality and the poor has a risk of lagging behind further.

In summary, Commonwealth funding support can further reduce disaster risks in several respects. First, the funding rules can acknowledge that the type, locality and scale of the disasters matter for economic outcomes. Second, funding allocations can be made more optimal and efficient by acknowledging that certain economic groups are vulnerable to disaster risks. Indeed, our research clarifies who the "needy" individuals are in the case of disasters. Third, vulnerable groups could be provided with support over a longer period of time, such as 1-2 years. Finally, the provision of tax relief and support can be extended to cover businesses by instituting higher thresholds than $1M turnover/year or 20 FTEs.

Q3. Please describe your understanding of Commonwealth disaster funding processes.

The Commonwealth provides both financial and non-financial assistance for relief and recovery from disasters for affected communities. For Financial assistance, the Disaster Recovery Funding Arrangements (DRFA applies from 1 November 2018 and the Natural Disaster Relief and Recovery Arrangements (NDRRA) for the period up to 31 October 2018) is the principal mechanism for Commonwealth financial assistance to state and territory governments; whereas the Social Security Act 1991 (Cth) is also relevant to assistance to individuals.

Funding may be provided:

* under Federal Financial Relations payments for specific purposes, as arranged from time to time (such as the National Disaster Resilience Program or the National Partnership on disaster risk reduction)
* in the form of grants payments to local government and non-government organisations that provide community services (for example, Financial Assistance Grants accessible to local government councils allow for those bodies to direct the untied grant funding to local priorities, including disaster-affected assets) or
* via tax concessions or exemptions (such as those attached to grants for primary producers affected in early 2019 by the north and far north Queensland monsoon trough).

The categories of assistance measures attract different levels of financial assistance; and disbursement can be through grants or packages relating to recovery from specific disasters or emergencies.

The DRFA categories are:

* Category A – Emergency assistance for individuals.
* Category B – Emergency assistance for the repair of essential public assets and to support primary producers and small businesses recover from a disaster event.
* Category C – A community recovery package that is intended to support a holistic approach to the recovery of regions, communities or sectors severely affected by an eligible disaster.
* Category D – Covers 'exceptional circumstances', in the opinion of the Commonwealth, to alleviate distress or damage.

The DRFA allows for advance payment from the Commonwealth where the cost of responding to a severe disaster 'is likely to be greater than the state can manage in the short-term'. State and territory governments can reinvest DRFA funding towards to 'natural hazard mitigation activities' where efficiencies are realised from reconstruction projects.

The assistance measures and funding available under the DRFA do not bind or limit state and territory government expenditure where Commonwealth financial assistance is not called upon for mitigation or recovery efforts.

Commonwealth support for Individuals includes Disaster Recovery Payment and Disaster Recovery Allowance (through the Department of Social Services).

* the Disaster Recovery Payment - a one-off payment to eligible Australian residents who are adversely affected by a major disaster and
* the Disaster Recovery Allowance - a fortnightly payment for up to 13 weeks for eligible individuals whose income has been affected by a major disaster.

These individual assistance payments are both contingent on the responsible minister making a determination that an event is a major disaster.

Q4. Are the funding roles of the Commonwealth, states and territories, and local government, during disaster events clear?

The funding roles of the Commonwealth, states and territories, and local governments, during disaster events are clear. Each state and territory have established legislations for emergency management and disaster response within their respective boundaries. According to these legislations, authorized officials, such as the Premier, Chief Minister, or State Emergency Coordinator, have the authority to declare a 'state of emergency' or disaster. The responsibility for coordinating and planning the response to any emergency or disaster within a jurisdiction lies with the state or territory government. As a result, the primary financial responsibility for disaster recovery and relief rests with the state and territory governments initially. Nevertheless, according to DRFA arrangements, the Commonwealth offers both financial and non-financial assistance. Up to 75% of disaster support can be reimbursed from Commonwealth with the rest being borne by state and territory governments. The Commonwealth contribution is delivered through a number of assistance measures and may include:

* personal hardship and distress assistance, including the engagement of a Community Recovery Officer to work with individuals and families experiencing personal hardship and distress
* counter disaster operations
* concessional loans or interest subsidies for small businesses and primary producers
* transport freight subsidies for primary producers
* loans and grants to voluntary non-profit organisations and needy individuals
* the reconstruction of essential public assets
* community recovery funds.

Q5. Is there any further information you would like to provide?

The findings from our BNHCRC-funded project "Optimising Post-Disaster Recovery Interventions in Australia" suggest that the economic burden of disasters is borne unequally in Australia. First, low-income earners, small-business owners, and part-time workers are more likely to lose income following a disaster. Middle and high-income earners, full-time workers and owners of larger businesses are far less likely to lose income; indeed, they might even earn more. Thus, disasters may contribute to widening the income gap in Australia. Second, the recovery of the economically vulnerable groups from disasters takes more time. Third, the type, locality and scale of the disasters matter for the ongoing economic effects of disasters.

Our research highlights some important considerations about the recovery funding model in the aftermath of the disasters. Businesses receive tax deferrals, special disaster assistance grants, back-to-business workshop grants, clean-up operation grants, exceptional disaster assistance and other forms of subsidies. For example, in the six months following the Queensland floods, for example, just 10% of the recovery spending went to income and wage assistance. At least 80% went to businesses.

Consistent with the findings above, our analysis in our other project "Efficacy of disaster support programs and the economic resilience and recovery of business firms in the aftermath of natural disasters in Australia" shows that businesses that are provided with tax relief and support were able to recover their operations faster after the 2010-2011 Queensland Floods, because they were able to replace their damaged assets relatively quickly. While this also means that businesses not subject to tax relief and recovery provisions tended to be more adversely affected for a longer period, our finding nevertheless suggests that those businesses that effectively benefit from government tax relief and support returned their course earlier. The latter is crucial for the economy, as businesses employ thousands of individuals.

Taken together, our research from these two projects offers some recommendations for reconsideration of the support programs toward a more efficient recovery funding model in Australia:

* A more balanced budget between income/wage assistance and business support. If the local business demand doesn't recover fast enough, then the recovery of businesses, especially small businesses, is hindered. A stronger income/wage assistance program would support the local demand, along with reducing the provision of widening income gaps after disasters.
* More targeted and ongoing support to households in the form of immediate and follow-up support for vulnerable groups, including part-time, casual, or female workforce, especially those that are affected by catastrophic events or that reside in disasters-prone areas.
* Acknowledge the susceptibility of different employment sectors. While the Natural Disaster Relief and Recovery Arrangements scheme provides some benefits to the farming sector, other sectors, such as accommodation and food services, can also be hit hard.
* Extend the provision of tax relief and support to cover additional businesses by instituting higher thresholds than $1M turnover/year or 20 FTEs. Businesses are arteries of the economy, so it is crucial to assist them.

Dr Lan Tong (Deakin University) has contributed extensively to this submission.