



13 May 2022

Select Committee on the response to major flooding across NSW in 2022
NSW Parliament House
6 Macquarie Street
Sydney NSW 2000

Submitted on via <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/lodge-a-submission.aspx?pk=2866>

Dear Committee Members,

IAG¹ welcomes the opportunity to make a submission to the Inquiry into the response to major flooding across New South Wales in 2022.

Our purpose is to make your world a safer place, and we recognise that our role extends beyond transferring risk and paying claims. Our purpose drives our business to work collaboratively with the community, Government, industry bodies and other organisations to understand, reduce and remove risk, as well as to build resilience and preparedness. This results in better outcomes for the community and means fewer claims and lower premiums for our customers.

The recent major flooding in New South Wales was devastating to many Australians. We see this devastation firsthand as we help our customers rebuild and recover. We also see the devastation when high-risk communities with low take up of insurance are impacted by flooding and have limited options to return to the life they were living prior to the flood.

Our current focus is on supporting our customers rebuild their homes, lives, and communities. We have received more than 27,895 claims from around NSW since March 2022. We have a dedicated team managing these claims and have finalised 2,843 of these flood claims to date. Our partner builders are on the ground helping our customers with repairs to rebuild their lives, homes, and businesses. Our teams are on the ground following the flooding event to support customers with their claims and organise financial assistance and temporary accommodation at recovery centers in Lismore, Murwillumbah & Ballina as well as our Help Response Van which was deployed to Lismore NSW. NRMA insurance, a leading IAG brand also announced a \$1 million help package for QLD and NSW communities impacted by the flooding boosting our ongoing resilience partnerships with GIVIT, Australian Red Cross and Lifeline.

¹ IAG is the parent company of a general insurance group with controlled operations in Australia and New Zealand. Our businesses underwrite almost \$12 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC and WFI (in Australia); and NZI, State, AMI, and Lumley Insurance (in New Zealand). With more than 8.5 million customers and information on the majority of domestic residences in our markets, we use our leadership position to understand and provide world-leading customer experiences, making communities safer and more resilient for the future

In addition to supporting our customers and communities after an event, we have a keen interest in preventing this level of loss and distress from occurring again. IAG has long advocated that flood management and mitigation is essential for communities to manage the risk to life, property and prosperity posed by floods. It is critical that we all use the lessons from this event to strengthen our communities for future disasters and put in place key measures to protect and build resilience in communities into the future.

For more than twenty years, IAG has invested in a specialist in-house natural perils team, which has unique expertise in measuring natural disaster risk and understanding options to address high hazard characteristics of buildings and property. Our recent research publications have focused on quantifying the impacts of extreme weather and climate change on risk to property and include *Severe Weather in a Changing Climate 2nd edition*² (in partnership with the US National Center for Atmospheric Research) and *Regional Sensitivity of Australian Flood Risk to Climate Drivers*³. IAG has been a member of Floodplain Management Australia since 2012 and is a founding member of the Australian Business Roundtable for Disaster Resilience & Safer Communities⁴.

In addition, NRMA Insurance, a leading IAG brand, has a long term partnership with the NSW SES. Together we are working on building awareness and increasing preparedness behaviour in high risk flood locations and have run campaigns in Georges River, Northern Rivers, and the Hunter/Central Coast. These are based off the successful 'Risk is Real' campaign that was run by Infrastructure NSW for the Hawkesbury Nepean area.

We support this inquiry into the response to major flooding across New South Wales in 2022 and acknowledge the terms of reference for this review. As we consider preparedness activities to include understanding natural peril risk and mitigating that risk our comments mainly fit into terms 1(a), (e), (f) and (g). We provide the following comments for the Select Committee's consideration.

1. To be prepared communities need to understand the risk they face

1.1 Create a national hazard database

IAG has long advocated for access to higher quality, consistent data that can be shared across industries to help communities understand risk and make quality decisions. In July 2014, post the 2011 Queensland Floods, the Australian Business Roundtable for Disaster Resilience and Safer Communities released, 'Building an Open Platform for Natural Disaster Resilience Decisions' the mechanisms for making this information available and the economic benefits of doing so.

Ideally a national natural hazard database would be created in Australia, where flood risk information and models are aligned across States and Industries and where flood risk data can be included by individual councils. This would enable one 'source of truth' on flood risk allowing all risk managers to use it to make efficient and aligned decisions about flood risk across the country. There would also need to be oversight and coordination of this data to ensure it remains relevant, up to date and makes clear to those using it when there is missing information. For example, the ePlanning Spatial Viewer's flood planning layers do not have state-wide coverage. When there is missing information, it shows as no risk rather than flag that the risk is unknown. No risk and unknown risk are vitally different and a misunderstanding of this in the data could lead to a planning decision that puts people's lives or property at risk.

We acknowledge that the NSW Government may not have the jurisdiction or ability to create a national database. We suggest the NSW Government consider advocating for, creating, or working with Federal Government agencies to create a minimum benchmark of data (risk mapping and modelling) that could be

² Available at <https://www.iag.com.au/severe-weather-changing-climate>

³ Available at https://www.floods.org.au/client_images/2128563.pdf

⁴ <http://australianbusinessroundtable.com.au/>

reproduced in each state. This is in line with the Royal Commission into National Natural Disasters recommendation 4.16⁵.

We acknowledge the NSW Flood Data Portal fulfils some elements of this need, however as end users we have struggled with poor accessibility, incomplete and out-of-date data, disjointed capabilities, and data availability between the two systems, and lack of support from Council data custodians for access requests to data held on the Open Data Portal.

1.2 Flood risk data must be available and accessible

Accurate, current, and accessible flood data is critical to understanding flood risk and informing state and local land use planning. We believe it is important to improve the collection, co-ordination, and access of flood data across Australia. Not just planning control data but also the underlying mapping and modelling data held by all levels of government.

We recommend that the roles and responsibilities around data sharing in each level of government are clear. For example, if secure storage and sharing of flood data is seen as a state responsibility, this must be clearly articulated or there is a risk it will not be prioritised or funded by the department. The split between council and state responsibilities must be especially clear so progress can be shared and reported on by both parties.

1.3 Risk information needs to be available to the public

IAG believes accurate flood data should be open and readily accessible to all, including households and businesses. This would allow everyone in the community to understand the flood risks they face. Public information on flood risk tends to be limited to land planning controls, rather than the actual underlying hazard data. This can lead to underestimation of risk as the risk outside of these controls can be significant⁶. In addition, IAG believes flood data should include the full spectrum of frequent to extremely rare flood events. Decision makers need to know what is possible and probable to make informed decisions on how best to use the land.

Flood risk information should be freely available to the public, rather than on an s10.7 planning certificate which incurs a fee to produce. Brisbane City Council's FloodWise Property Reports are an excellent example of freely accessible, detailed, actionable flood risk information, and represent best practice flood risk disclosure, a stark contrast to the information provided on s10.7 certificates in NSW.

There is significant economic value in understanding individual or business natural hazard risk, allowing members of the community to mitigate their risk and insurers to underwrite the risks with maximum certainty.

We strongly support previous recommendations from the ACCC 2020 Northern Australia Insurance Inquiry Final Report and the 2020 Royal Commission into National Natural Disasters Final Report which both highlight the need for improved availability of risk information. The ACCC noting:

“As a first step, we consider states and territories should implement measures to improve the information provided to potential homebuyers by prompting consumers to consider likely insurance costs before purchasing real estate. A requirement to include a statement advising potential homebuyers to obtain an insurance estimate as part of their due diligence will help ensure consumers are more aware of the potential cost of insurance prior to purchasing a property and can help reduce the instances of new homeowners experiencing insurance payment difficulties.”⁷

⁵ <https://naturaldisaster.royalcommission.gov.au/publications/royal-commission-national-natural-disaster-arrangements-report>

⁶ <https://www.dpc.nsw.gov.au/assets/dpc-nsw-gov-au/publications/NSW-Bushfire-Inquiry-1630/Final-Report-of-the-NSW-Bushfire-Inquiry.pdf>

⁷ <https://www.accc.gov.au/publications/northern-australia-insurance-inquiry-final-report>

The Royal Commission into National Natural Disasters noting:

“Clear risk information can help people make better-informed decisions about, for example, where to buy and live, how to design and build homes, and how to manage land. Governments should develop ways in which natural hazard risk information can be better communicated to the public – particularly to people who are making decisions that will affect their exposure to those risks. For example, those selling a home might be required to disclose this type of information to prospective purchasers.”⁸

2. Land use planning and building codes need reform to reduce the impact of natural disasters

*“Land use planning and building regulation are mechanisms for managing **exposure** and **vulnerability** to natural disaster risk. Land use planning governs **where** built assets, and the people that live in and use them, can be located. Land use planning is an important influence on **exposure** of communities to natural hazards. Building regulations determine **how** built assets can be constructed and so affects the **vulnerability** of communities to natural disasters”⁹*

Land use planning, development controls and building standards are the most effective tools we have to reduce the impact of natural disasters on the community. The decisions that govern how flood prone land is developed now will continue to impact the resilience of our communities for generations to come. IAG has often highlighted that land use planning needs to move away from measuring risk using the traditional 1% Annual Exceedance Probability (AEP) threshold mandated under previous generations of planning guidelines, and towards more appropriate risk measures which consider the economic and life safety consequences of the full range of possible flood events. Our research¹⁰ indicates that overreliance on the 1% AEP flood standard has resulted in disproportionate sensitivity to climate induced changes in flood risk in areas immediately adjacent to flood planning areas. We believe the first step in helping communities be more resilient to flood is to have a requirement for land planning and building codes to consider natural disaster resilience and natural disaster risk now and into the future.

We acknowledge there is a construction standard issued by the Australian Building Code Board (ABCB, 2012 and revised 2019) for new construction in flood prone areas. However, the standard is less stringent on building siting, design, construction, and mitigation than the standard for construction of buildings in bushfire prone areas. Bushfire construction requires the builder or landowner to undergo a BAL (Bushfire Attack Level) Assessment, which instructs what materials can be used, what orientation and siting and what construction methodology are required to comply to the BAL assessed levels. We believe flood prone areas should have a similar assessment or requirement incorporated into the building code.

2.1 Engagement with the insurance sector

IAG has long advocated that the insurance industry should be consulted in land use planning manuals and building codes and regulations as we have key information on risk. Insurers are experts in natural hazard risk modelling and assessment and have specific knowledge on the financial risks and impacts of natural hazards. We recommend that NSW Government Departments tasked with flood risk management engage with insurers or the insurance industry body (the Insurance Council of Australia).

Insurance pricing reflects the financial risk people are exposed to and therefore, the broader financial impact of disasters needs to be considered when looking to model risk, mitigate or adapt to it. Engaging with the insurance sector adds to the picture of acceptable risk. It allows flood risk managers to factor in all impacts of

⁸ <https://naturaldisaster.royalcommission.gov.au/publications/html-report>

⁹ Natural Disasters Royal Commission <https://naturaldisaster.royalcommission.gov.au/system/files/2020-07/opening-statement-land-use-planning-and-the-built-environment-8-July-2020.docx>

¹⁰ Regional Sensitivity of Australian Flood Risk to Climate Drivers, 2019 (available at https://www.floods.org.au/client_images/2128563.pdf)

risk, including the financial impact of planning decisions and allows both to align how we rate and review risk, recognise and reward resilience.

2.2 Current housing stock must also be addressed

Flood risk is considered in new developments or new changes to flood prone land. However, there is also a strong need to address the risk present in existing housing stock. The greatest impact of resilience measures but arguably the biggest coordination challenge, lies with existing residential buildings¹¹. We recommend the Select Committee consider the following:

- a) **The ethical issue of limiting land use due to risk** where there are existing housing/buildings in that area. If land or a zone is determined to be too high risk for future development, what happens to the people who already live there? Who has the obligation to inform current residents of their level of risk? What carefully considered options do they have? Should those owners be allowed to renovate, knock down rebuild or make substantive changes to their existing property?
- b) **Local governments and planners should consider allocating or putting aside areas of land for relocation** programs in the future. As the climate changes and more risk information comes to light, land planners need to consider allocating an area of the town for when the time comes for managed retreat/ relocation of those in existing building that are high risk.
- c) **Planners must consider cumulative impact of new development on flood risk to existing housing stock.** Flood risk controls are typically set at a property- or precinct-scale to minimise the flooding impact to the subject property and immediately neighbouring land. The strategic land use planning process must evolve to consider the cumulative impact of new development at catchment-scale, particularly with respect to impacts on the flood risk to existing housing stock.

3. Need for mitigation projects prioritisation

IAG commends both the Federal and NSW Governments allocation of funding for building community resilience in NSW. We specifically commend the Governments funding announcement for the Northern Rivers Resilience Initiative to fast track recovery and resilience efforts in the northern river's region. We have been advocating for an increase in mitigation funding for over a decade since the release of the first Australian Business Roundtable for Disaster Resilience & Safer Communities White Paper in 2013¹².

However, we understand that once funding is available the next challenge is where and how it is best spent. To assist with decision making in this area, IAG commissioned Rhelm to develop a set of National Flood Hazard Mitigation Priorities. The method for setting priorities involves identifying areas with high flood risk where there are potential flood mitigation measures that could be implemented to reduce this risk and then ranking the practicality and cost benefit of each area.

We have attached the report to this submission. We welcome the opportunity to provide a further brief on this report and its findings to the Select Committee. This report is a technical report that accompanies a series of flood summaries or "snapshots" that have been prepared for each of the short-listed areas identified to be affected by high flood risk.

There are two key components of the attached report:

¹¹<http://australianbusinessroundtable.com.au/assets/documents/White%20Paper%20Sections/DAE%20Roundtable%20Paper%20June%202013.pdf>
¹² <http://australianbusinessroundtable.com.au/assets/Natural%20Disaster%20Roundtable%20Paper%20Web%20version%20January%202014.pdf>

- The identification of potential structural flood mitigation measures (also known as flood modification measures in some jurisdictions) in short-listed floodplains across the country, and an economic assessment of these measures.
- A review of potential property level mitigation measures.

Two out of the seven short listed options in this report are in the NSW towns Narrabri and South Tweed.

4. Community preparedness is also considering what, how and if we choose to build in high-risk locations.

IAG believes *what* we build in a floodplain, *how* we build it and *if* we should build there at all urgently needs reexamination in today's changing climate. The Royal Commission into Natural Disaster Arrangements report advises that in general “*Australians have a high capacity for disaster resilience across south eastern areas of Australia and around metropolitan and major regional centres.*” However as “*the disaster risk increases the capacity of communities and systems to be resilient is diminished.*”¹³

IAG has long advocated that reducing natural disaster risk is the best way to prevent communities experiencing an endless cycle of flood disaster, recovery and rebuild. There is a point at which the natural disaster risk is so great that communities have limited ability to prepare for or recover from the impact of the disaster.

We believe insurance affordability is one key indicator of whether the risk for communities is acceptable or not. Communities, Councils, State and Federal Governments must now work together with the private sector to understand where and what types of buildings are at a risk level that exceeds the community's capacity to prepare for and mitigate against the flood risk.

Flooding and flood risk is not contained within state borders. We urge the NSW Government to plan and coordinate with both the Federal and Queensland Governments to manage the flood risk in the NSW/Queensland border region.

5. Managed retreat must be considered before an event.

We commend the NSW Government for establishing the Northern Rivers Reconstruction corporation. Rebuilding in Lismore and the Northern Rivers region will require coordinated planning, building and construction work across multiple government agencies. We also recognise the NSW Governments long history of supporting voluntary purchase schemes in partnership with local governments. However, we believe key to the success of rebuilding in the Northern Rivers region is to significantly increase Federal and State Government funding to expand and refocus voluntary purchase schemes and to initiate a land swap scheme.

Managed retreat in extreme flood areas can be a divisive issue for communities. We acknowledge that the decision to consider managed retreat as an option needs to be place based and community led, each community must assess the economic and social costs of relocation for both the relocated people and the remaining community.

Given recent NSW flooding events, it is clear that the existing level of flood risks in some areas are not economically sustainable for communities. Our concern is the risk in these communities will only worsen with further impacts from climate change¹⁴. We believe now is the right time for the NSW Government to look at communities with extreme flood risk and consider where managed retreat may need to occur. For communities

¹³ <https://naturaldisaster.royalcommission.gov.au/publications/html-report/chapter-02>
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that have extreme flood risk we believe the recent NSW flooding should prompt them to assess their flood management plans with a new focus on including managed retreat in the future.

Our view is managed retreat could be either market-based or mandated. There are benefits and drawbacks to either approach. Market-based solutions would involve the use of voluntary buybacks to remove residents from homes that are most at risk before an event. An extreme alternative would be to use compulsory acquisition laws to mandate the purchase of homes in highest-risk areas. Although, compulsory acquisition has been used in the past in cases such as Sydney Airport where residents were provided with a sliding scale of noise reduction improvements depending on their distance from the flight path. Another example is Christchurch in New Zealand where, following the 2011 earthquake, certain areas have been designated 'red zone' prohibiting rebuilding of homes, with residents offered relocation to new subdivisions under their insurance

Payment in these cases would need to be apportioned between the parties involved with costs balanced between the government and the residents being relocated. This could take the form of housing subsidies or structured as an incentive to encourage residents to relocate¹⁴. Managed retreat is particularly economically effective if undertaken immediately following flood events and is practiced successfully in other countries with similar risk levels¹⁵

The NSW Government has an opportunity to fund and normalise managed retreat as an option for high-risk communities. We recommend the NSW Government watches the Queensland Government's relocation program closely and uses it as a benchmark for a similar NSW program that would fund and encourage relocations including infrastructure and planning provisions for land swaps. We also suggest community flood planners seek to explore this option before a natural disaster occurs and ensure each flood prone community understands when and under what conditions they would explore a managed retreat scenario.

6. Additional IAG research.

In addition to the Rhelm report, we have attached two further research papers commissioned by IAG that further investigate the impact of natural disasters on our economy and communities for your review.

The Menzies Research Centre Report - *Strengthening Resilience: Managing Natural Disasters*

IAG commissioned the report to be part of our submission to the 2020 Royal Commission into National Natural Disaster Arrangements. We commissioned this paper to synthesise the existing information on how Australia can prevent and respond to bushfires and other natural perils. It summarises what has been learnt and what can be changed in the future. IAG supports the recommendations of this paper. The five key recommendations are:

1. Government funding should further prioritise risk reduction which will reduce the need to spend on disaster recovery.
2. Introduction of a National Bushfire Risk Rating (NBRR) system for all bushfire-prone communities, properties, and structures.
3. Introduction of a national approach to land use and building codes.
4. Creation of an open access information platform comprising all data required for natural hazard management.
5. Tax reform to improve the affordability and increase uptake of insurance.

¹⁴ <http://australianbusinessroundtable.com.au/assets/Natural%20Disaster%20Roundtable%20Paper%20Web%20version%20January%202014.pdf>

¹⁵ https://www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public/frm_canada_web.pdf

SGS Economics & Planning Report - The *backbone of regional and rural economies: small business and community resilience*

IAG commissioned the report to explore the impact of natural disasters on small businesses, regional communities and the role insurance plays in economic recovery. The key findings from this report are:

1. For households and businesses to acquire an adequate level of insurance, they need to have a comprehensive understanding of the risks they face under their individual circumstances. For small businesses this is especially important as they often do not have the means to withstand periods of reduced customers or staff unavailability.
2. Small businesses are often un- or under-insured, and are not always aware of their risk exposure, particularly that the costs of business interruption may be as high or even higher than the direct damages.
3. There is a pressing need to increase investment in risk mitigation for small regional businesses to prevent damages and interruption, which has a flow on effect to the economic prosperity of regional and rural towns.
4. For the two case studies explored (Townsville floods and Black Summer bushfires) on average, between 65% and 72% of total economic impact from the floods and bushfires is attributed to small businesses.
5. Without insurance, it is possible that economies, and especially those in regional and remote areas, may never fully recover from a natural disaster, as damage leads in some cases to a permanently impaired productive capacity in the long term.
6. With a changing climate and growing population, more Australian communities are being exposed to more intense and more frequent extreme events. Insurance plays a vital role but investing in preparedness will be essential.

IAG welcomes the opportunity to provide a submission to the Select Committees inquiry into the response to major flooding across NSW in 2022. We would be delighted to discuss the issues raised in this submission in more detail. Please contact Naomi Graham, Principal Public Policy, and Industry Affairs at naomi.graham@iag.com.au.

Sincerely



Julie Batch
Group Executive
Direct Insurance Australia
IAG



National Flood Hazard Mitigation Priorities

Technical Report



Executive Summary

Australia has an extensive network of floodplains; these range from those associated with small local urban drainage systems through to the vast expanse of floodplain associated with the Murray Darling River. While there is often a good understanding of flood risk at a local government or state level scale, there are only limited studies that have evaluated the flood hazard mitigation projects across Australia and then ranked them in order of priority.

IAG has long been an advocate for a stronger focus on prevention and mitigation of floodplains to minimise the impact of floods on Australian communities. It is acknowledge that there is finite funding available to put towards mitigation projects and the difficult question is where and how is mitigation funding best spent. As a result, IAG commissioned Rhelm to develop a set of National Flood Hazard Mitigation Priorities. The method for setting priorities involves identifying areas with high flood risk, where there are potential flood mitigation measures that could be implemented to reduce this risk and then ranking the practicality and cost benefit of each area.

This report is a technical report that accompanies a series of flood summaries or “snapshots” that have been prepared for each of the short-listed areas identified to be affected by high flood risk.

There are two key components of this report:

- Identification of potential structural flood mitigation measures (also known as flood modification measures in some jurisdictions) in short-listed floodplains across the country, and an economic assessment of these measures;
- A review of potential property level mitigation measures, such as flood resilience and house raising, and an economic assessment of these measures.

While this report focuses on these two elements of flood risk mitigation, they should ideally be considered in the wider context of flood risk mitigation. This would include consideration of additional mitigation measures such as emergency response and appropriate planning controls, within an appropriate flood risk mitigation process similar to that identified in Section 1.4.

Flood Mitigation Measures in Short-Listed Floodplains

Strategic level flood mitigation measures have been identified across nine short-listed floodplains in Australia. The broad process for this assessment is summarised in Figure i.

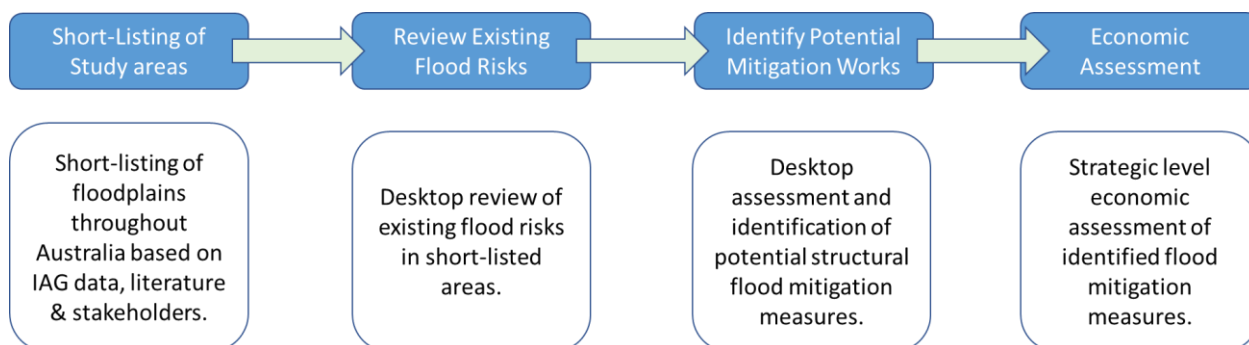


Figure i. Assessment Process

The short-listing process considered not only the potential flood damages, but also the potential feasibility of mitigation measures and the socio-economic context of the various areas. The details of the long-list and subsequent short-list areas are discussed in further detail in Section 3.

The short-listed floodplains are identified in Figure ii.

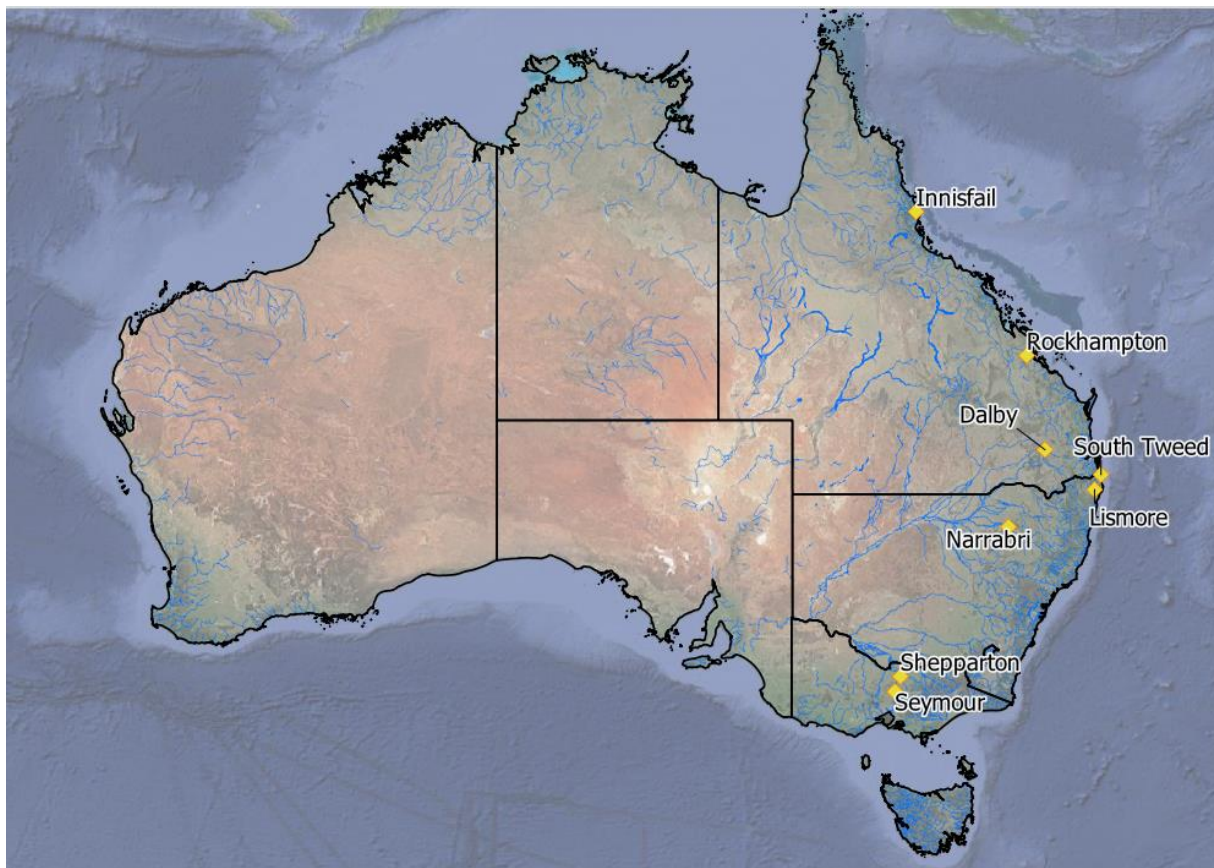


Figure ii. Short-Listed Floodplains

A desktop review of these floodplains was undertaken, and potential structural modification measures were identified. A summary of all the floodplains and identified measures are provided in Table ii.

A review of the relative effectiveness of the mitigation measures in reducing flood affected properties is provided in Figure iii, while the economic analysis results are provided in Figure iv and Figure v.

Benefit cost ratio (BCR) values in excess of 1 are where the present value of the benefits exceed the costs, and therefore the option would be considered economically viable. All mitigation works identified in this report have a BCR greater than 1.

2022 Flood Events

The analysis undertaken in this report was finalised in August 2021, prior to the flooding in Queensland and NSW in early 2022. We acknowledge that there is an evolving attitude to flood risk and mitigation in Queensland and NSW, including in some of the communities identified in this report. There is also ongoing work in some communities which may influence mitigation measures that are identified.

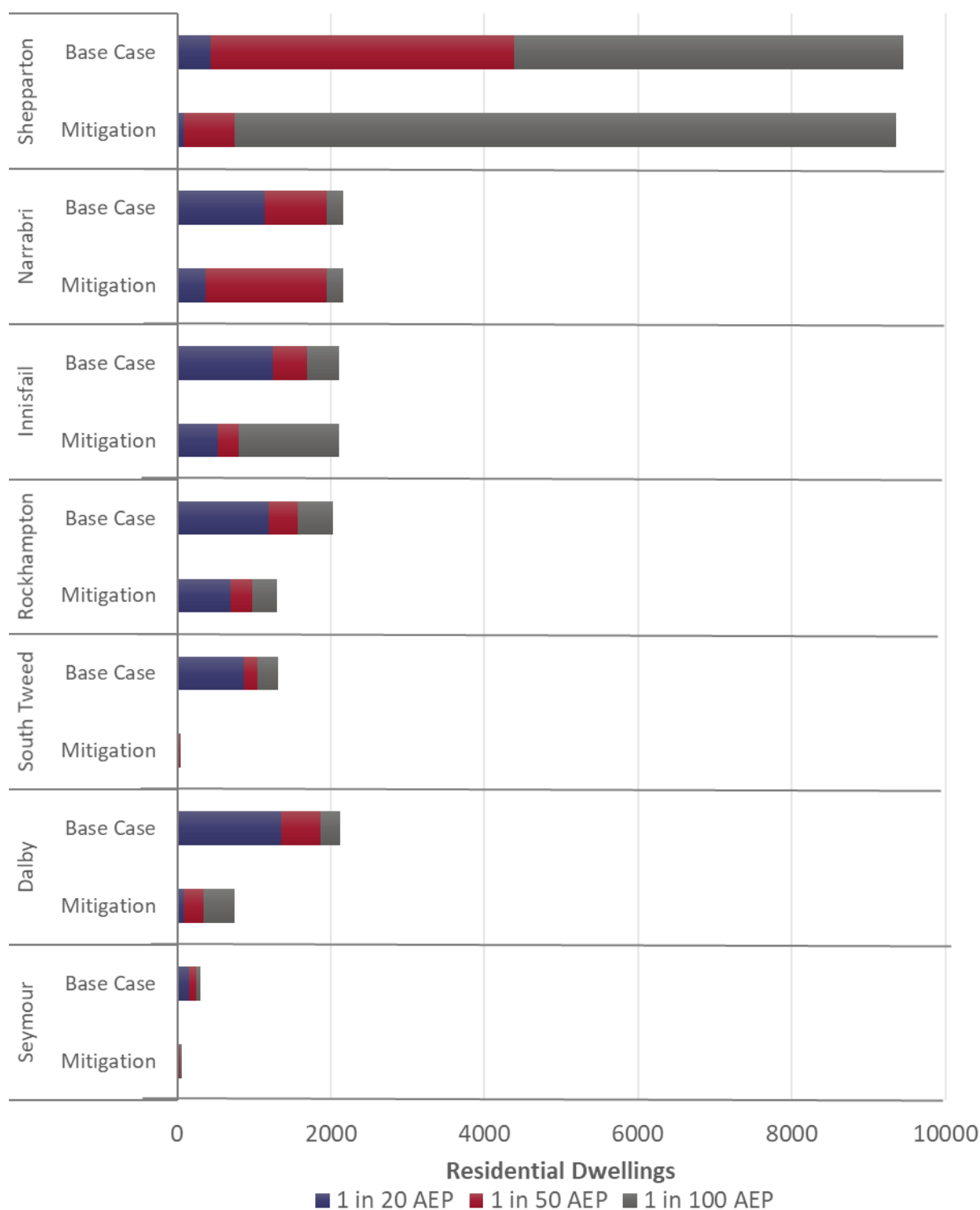


Figure iii. Number of Residential Dwellings Affected by Flooding and Protected by Identified Potential Mitigation

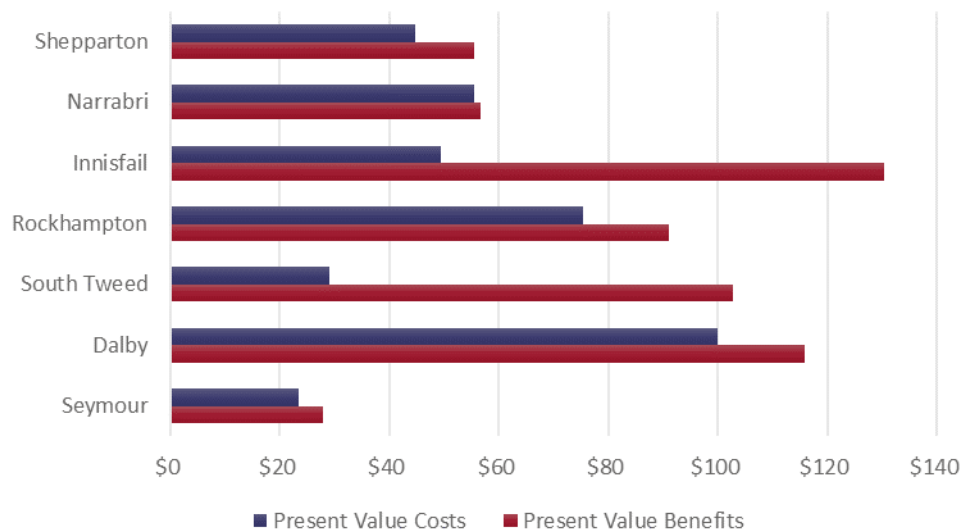


Figure iv. Comparison of Benefits and Costs for Identified Mitigation Measures

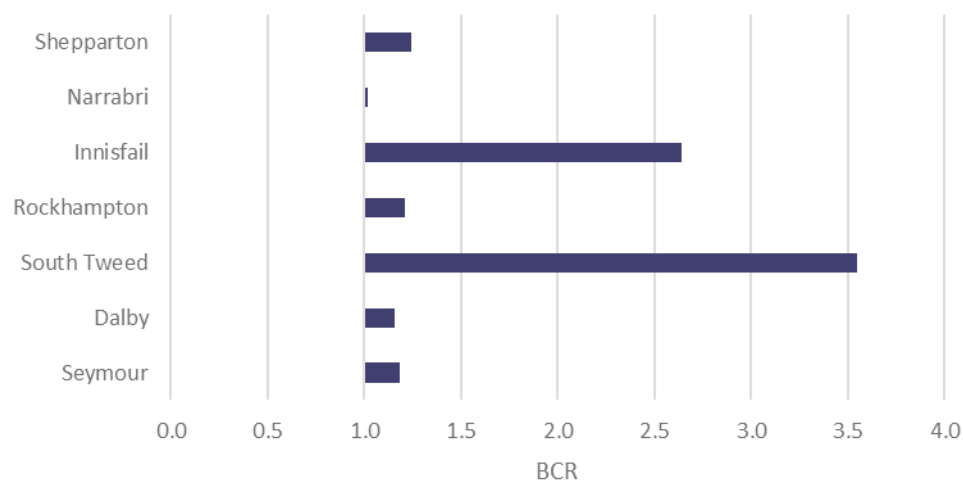


Figure v. Benefit Cost Ratio for Identified Mitigation Measures

Property Level Mitigation

Flood risk management includes the consideration of not just structural flood mitigation/modification options, but also wider consideration of property level mitigation and emergency management. As part of this overall project, a review was undertaken on a sub-set of property level mitigation alternatives, namely:

- Flood Resilience;
- House Raising;
- Land Swap.

The focus of the assessment for flood resilience and house raising is on existing dwellings, rather than new development.

To support the analysis, six representative areas were chosen to undertake testing of the various alternatives. These areas were high ranked locations from the short-listing process in Section 3, and include:

- Coraki;
- Woodburn;
- Smithtown;
- Noosaville;
- Narrabeen; and,
- Wollongong.

Each of these locations have a range of different types of flood behaviour and types of development. Coraki, Woodburn and Smithtown are all small townships on large river systems and have relatively frequent and deep flooding. The Narrabeen suburb is primarily influenced by flooding from Narrabeen Lagoon, which tends to be relatively long duration inundation. Wollongong, by comparison, is more flash flooding generated by the Illawarra Escarpment.

The above analysis has largely demonstrated that flood resilience and house raising are largely viable where property floor levels are at or below the 1 in 10 AEP. This may be further improved if a large scale program were adopted that could achieve cost efficiencies. However, both property level options only deal with a portion of the overall flood damages, as well as the risks associated with the property being located in the floodplain. A high level comparison of the flood risk components that the options address is presented in Table i.

Land swap provides the most “comprehensive” reduction in flood damages and flood risks, but has a lower economic performance if it is undertaken as a pre-emptive measure. However, as noted, there are additional considerations that have not been included in this analysis, including:

- The reduction in risk to life for the household, as well as the evacuation considerations and demands on emergency services;
- The potential improvement in flood conveyance as a result of the removal of the property, and the associated benefits to other properties as a result;
- For very hazardous flood flows, the potential risk of partial or full structural failure of the dwelling;
- Where the house can be relocated at relatively low cost, rather than the need to construct a new house;
- Following a flood event, where the existing dwelling has suffered significant structural damage.

Under these types of conditions, land swap may be a viable alternative to be considered.

A sensitivity analysis was undertaken on the scenario where a property experience significant structural damages and requires replacement following a flood event. If the land swap were to occur at that point in time, then the analysis suggests that it would be viable for a floor level less than 1 in 10 AEP, and potential marginal for a 1 in 10 to 1 in 20 AEP. As per the discussion above, other considerations (such as the risk to life and flood conveyance improvements) may result in an improved outcome.

Table i. Property Mitigation Comparison

Mitigation Type	Direct Damage		Indirect Damages		Intangibles	
	Building Damages	Contents Damage	Cleanup Costs	Relocation	Risk to Life	Other
Flood Resilient Building (Retrofit)						
House Raising						
Land Swap						
Low/ No Reduction						
Partial Reduction						
Large Reduction						

Table ii. Summary of Mitigation Measures

Floodplain	Item	Description
Shepparton	Level of Design	Strategic. While the mitigation was assessed in 2002 (with a higher protection), no update to this assessment has been undertaken.
	Flood Mitigation Performance	Targeting a 1 in 50 AEP protection for those areas protected by the levees. May be required to lower this protection if negative flood impacts.
	Cost Estimate	\$47.7M (\$40M - \$50M) Strategic only.
	AAD Reduction due to Mitigation	\$5M
	BCR	1.2
	Constraints	<ul style="list-style-type: none"> Potential environmental constraints, particularly for the floodway Uncertain on community acceptance of the scheme.
	Further Work Required	A flood risk management study (as per Section 1.4), to undertake appropriate optioneering and community engagement.
Narrabri	Level of Design	Strategic. No formal modelling or investigation of mitigation options undertaken.
	Flood Mitigation Performance	Targeting a 1 in 10 to 1 in 20 AEP protection for a number of areas in Narrabri. Potential for flood impacts on adjacent properties – modelling required to refine scheme.
	Cost Estimate	\$59.1M (\$55M-\$65M)
	AAD Reduction due to Mitigation	\$5M
	BCR	1.0
	Constraints	<ul style="list-style-type: none"> Potential flood afflux Several road crossings and interfaces with private properties Environmental considerations are uncertain.

Floodplain	Item	Description
Innisfail	Further Work Required	Floodplain risk management study and plan to be completed (currently in progress), including appropriate optioneering and community engagement.
	Level of Design	Strategic. While the mitigation was assessed in 2014 (with a higher protection), no update to this assessment has been undertaken.
	Flood Mitigation Performance	Targeting a 1 in 50 AEP protection for those areas protected by the levees. May be required to lower this protection if negative flood impacts are identified.
	Cost Estimate	\$52.7M (\$50M-\$60M)
	AAD Reduction due to Mitigation	\$12M
	BCR	2.6
	Constraints	<ul style="list-style-type: none"> • Potential environmental constraints, particularly for the dredging • Challenges with some levees crossing creeks and roads. Flood gates required • Uncertain on community acceptance of the scheme • Potential flood afflux of the scheme, further investigation required.
	Further Work Required	A flood risk management study (as per Section 1.4), to undertake appropriate optioneering and community engagement.
Rockhampton	Level of Design	Detailed design, ready for tender (pending funding).
	Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levees.
	Cost Estimate	\$80.4M (based on detailed estimates)
	AAD Reduction due to Mitigation	\$8M
	BCR	1.2
	Constraints	<ul style="list-style-type: none"> • Relatively low, given EAR undertaken.
	Further Work Required	Minimal, ready to be tendered.
South Tweed	Level of Design	Strategic.
	Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levee.
	Cost Estimate	\$30.9M (\$25M-\$35M)
	AAD Reduction due to Mitigation	\$9M
	BCR	3.5
	Constraints	<ul style="list-style-type: none"> • Potential environmental constraints, particularly for Phillip Parade extension • There may be further engineering constraints, particularly for the Phillip Parade extension.
	Further Work Required	A flood risk management study (as per Section 1.4) has been undertaken. Further investigation and optioneering required on the levee options.
Dalby	Level of Design	Strategic. Further analysis required to understand relative benefits of proposed options

Floodplain	Item	Description
	Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levee, uncertain for the flowpath.
	Cost Estimate	\$107M (\$100M-\$110M)
	AAD Reduction due to Mitigation	\$11M
	BCR	1.2
	Constraints	<ul style="list-style-type: none"> • Potential environmental constraints, particularly for the excavation • Land acquisition issues along the flowpath. • Uncertain on community acceptance of the scheme • Potential flood afflux of the scheme, further investigation required.
	Further Work Required	A flood risk management study (as per Section 1.4), to undertake appropriate optioneering and community engagement.
	Level of Design	Detailed
Seymour	Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levee.
	Cost Estimate	\$25M Detailed
	AAD Reduction due to Mitigation	\$2M
	BCR	1.2
	Constraints	Potential community objection, although it is understood that this primarily was associated with the funding rather than the levee itself.
	Further Work Required	Finalise detailed design

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Appendices

Appendix A – Short-Listed Areas

Appendix B - Economic Methodology

Appendix C – Cost Estimates

Acronyms

AAD	Annual Average Damage
ABS	Australian Bureau of Statistics
AEP	Annual Exceedance Probability
BCR	Benefit Cost Ratio
FPRMS	Floodplain Risk Management Study
FPRMSP	Floodplain Risk Management Study and Plan
GIS	Geographic Information System
IAG	Insurance Australia Group
ICA	Insurance Council of Australia
MCA	Multi-Criteria Analysis
SA	Statistical Areas

1 Introduction

1.1 Overview

While there is often a good understanding of flood risk at a local government or state level scale, there are only limited studies that have looked into the general flood hazard mitigation priorities across Australia. The Insurance Council of Australia (ICA, 2019) undertook an analysis of ICA damage databases and identified a number of priority areas. However, the potential mitigation measures were relatively high level or were options that focused on data collection (such as property-based databases).

IAG has long been an advocate for a stronger focus on prevention and mitigation to minimise the impact of floods on Australian communities. It is also acknowledge that there is finite funding available to put towards mitigation projects and the difficult question is where and how is mitigation funding best spent. As a result, IAG commissioned Rhelm to develop a set of National Flood Hazard Mitigation Priorities.

In addition to wider floodplain-based mitigation, there are a number of potential measures that can be adopted to mitigate the impacts of flooding at the individual property scale. IAG commissioned Rhelm to further understand the potential economic viability of these property level mitigation measures.

This report is a technical report that accompanies flood summaries or “snapshots” that have been prepared for each of the short-listed areas.

There are two key components of this report:

- Identification of potential structural flood mitigation measures (also known as flood modification measures in some jurisdictions) in short-listed floodplains across the country, and an economic assessment of these measures;
- A review of potential property level mitigation measures, such as flood resilience and house raising, and an economic assessment of these measures.

1.2 Key Objectives

The key objectives of the project are:

- To identify high risk flood areas within Australia;
- To identify and evaluate high level strategic structural mitigation measures at a number of high-risk flood areas in Australia to mitigate flooding. These measures will:
 - result in a substantive reduction in the flood risk for an area;
 - be projects of a scale that can generally not be undertaken by local government/ local agency alone, but exclude catchments where effective flood mitigation would likely be in excess of \$150M and would require significant timeframes for planning;
 - provide wider scale economic benefits (beyond property damages);
 - be viable projects (e.g. viable from an engineering, environmental and social perspective etc);
 - Rely on existing studies and options were possible, to ensure the identified measures are evidence based and broadly supported by local and state governments.
- To undertake economic analysis on the identified mitigation measures to understand their potential viability.

In addition to these objectives, the potential viability of property level mitigation measures (as a retrofit to existing properties) was investigated.

1.3 Assessment Process

The study undertook the prioritisation and investigation process in four key stages. These are summarised in Figure 1. The short-listing process was based on a combination of the flood risk and potential mitigation viability in flood affected areas across the country.

These short-listed areas should not be considered an exclusive list. There are numerous flood-affected areas throughout the country. Different short-listing processes or criteria may result in a different outcome, together with different objectives (such as the inclusion of socio-economic factors in this process).

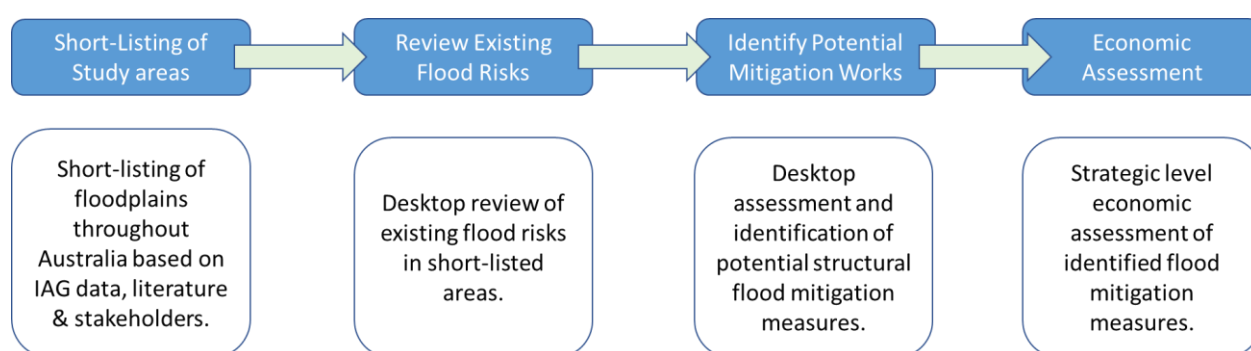


Figure 1. Overview of Assessment Process - Prioritisation and Mitigation Measures

1.4 Flood Risk Management

Flood risk management deals with existing, future and residual flood risk within a community. This can be undertaken through a range of risk mitigation measures, such as structural flood mitigation, emergency management and property-based mitigation (such as planning controls and property based mitigation). This should be done in a collaborative manner with the community and key stakeholders, and with due consideration to environmental and heritage values. An overview of the National flood risk management framework, as per Handbook 7, is provided in Figure 2.

While this report focuses on potential structural mitigation for identified study areas, and some property-based mitigation, these should be considered as a part of any wider flood risk management strategy. While some of the study areas have progressed further along the risk management process, others are still early within this process. The general progress and level of investigation within each of the study areas has been identified in Section 4.

1.5 2022 Flood Events

The analysis undertaken in this report was finalised in August 2021, prior to the flooding in Queensland and NSW in early 2022. We acknowledge that there is an evolving attitude to flood risk and mitigation in Queensland and NSW, including in some of the communities identified in this report. There is also ongoing work in some communities which may influence mitigation measures that are identified.

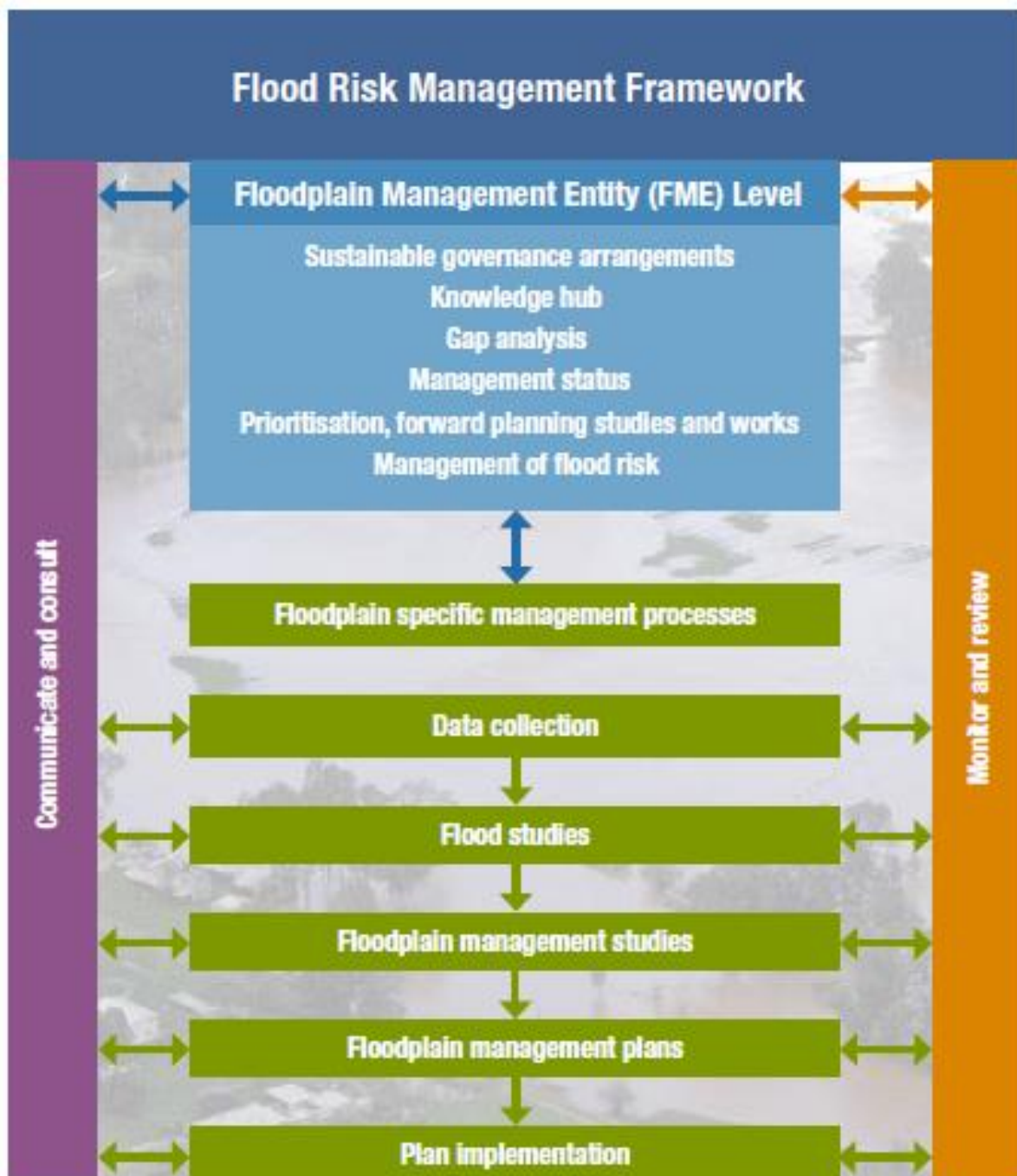


Figure 2. Flood Risk Management Framework (Source : AEMI, 2013)

2 Available Data

2.1 IAG Residential Data

IAG provided key summarised information from their damages databases for the study areas. This information was provided at an Australian Bureau of Statistics (ABS) Statistical Areas (SA) SA4, SA3, SA2, SA1 and Mesh Block scale¹. Key information provided included:

- Annual Average Damage (AAD) for building and contents;
- Number of addresses impacted across a range of AEP events (noting that not all of these were residential), namely:
 - < 1 in 20 AEP;
 - 1 in 20 to 1 in 50 AEP;
 - 1 in 50 to 1 in 100 AEP;
 - 1 in 100 to 1 in 500 AEP;
 - 1 in 500 AEP to 1 in 10,000 AEP;
 - > 1 in 10,000 AEP.
- Number of residential dwellings identified within the mesh block.

This information was provided for three climate change scenarios:

- CC0 – Current climate conditions (approx 1.2 degrees above pre-industrial era);
- CC2 – 2 degree increase in temperatures relative to pre-industrial era;
- CC3 – 3 degree increase in temperatures relative to pre-industrial era.

This data represents a key input to this project. Assumptions on other damages (such as commercial and industrial, as outlined in Appendix B) are tied to the underlying residential damage estimate provided by IAG.

2.2 GIS Data

In addition to the information provided by IAG, the following spatial data sources were collated for the project.

Table 1. Summary of Spatial Data

Data Type	Location	Reference/ Comment
Terrain	Shepparton/Seymour	Vicmap™ Elevation DEM 10m (DELWP, 2020)
	Narrabri	NARRABRI, 2kmx2km 5 metre Resolution Digital Elevation Model (NSW Spatial Services, 2016)
	Other Locations	Digital Elevation Model (DEM) of Australia derived from LiDAR 5 Metre Grid (Geoscience Australia, 2015)
Land-Use Planning	Victorian	Vicmap Planning (Department of Environment, Land, Water and Planning – DELWP, 2021)

¹ Statistical Areas as defined by the ABS : 1270.0.55.001 - Australian Statistical Geography Standard (ASGS): Volume 1 - Main Structure and Greater Capital City Statistical Areas, July 2016

Data Type	Location	Reference/ Comment
	NSW	NSW Environmental Planning Instrument (DPIE, 2008)
	QLD	Land Use in Queensland (Department of Environment and Science, 2019)
	NT	Land Use Mapping Project of the Northern Territory (Department of Environment, Parks and Water Security, 2017)
Microsoft Buildings	Australia wide	Bing Maps country wide building footprints in Australia - Open Street Maps (Microsoft, 2020)

2.3 Literature

There are numerous studies and investigations that have been undertaken across some of the high priority areas. These are referenced and discussed throughout this report. These have been sourced from publicly available sources. A list of references has been provided in Section 8 and in the relevant appendices.

3 Short-Listing Process

3.1 Introduction

The first part of the project was to narrow down the focus of the investigations to short-listed flood affected areas throughout Australia. To do this, several key steps were undertaken. These are described below.

3.2 Spatial Flood Impact Mapping

The first part of the prioritisation process used a spatial flood impact mapping process based on IAG's residential property damage information (refer Section 2.1). This was undertaken using a 'Heatmap' process using spatial data analysis software (QGIS). The SA1 spatial data was adopted for this purpose, as it provides a sufficient resolution to be able to narrow down and identify key areas.

Two key criteria were adopted for the assessment:

- Annual Average Damage (AAD) for residential properties – this provides an understanding of the economic impact of flooding in a particular area for residential properties. While it does not include commercial properties, it provides a generally understanding of the magnitude of potential damages and provides a useful comparative indicator between different locations.
- Number of addresses affected by a 1 in 20 AEP flood event. While AAD does provide a representation of the damages across a number of AEP events, the frequency of flooding is important, both from a risk perspective as well as the ability to potentially mitigate against the damages. Generally, mitigation can be (in some cases) easier to target for more frequent events than rare and infrequent events.

The heatmap process adopted sums up the criteria above within a set radius. In this case, a radius of 0.05 degrees was adopted, which corresponds to approximately 6 kilometres. Under this approach, all SA1 values within a 0.05 degree radius from a particular point are added up. This process creates a spatial representation of the density of AAD as well as the properties affected in the 1 in 20 AEP. Both criteria were normalised to a score out of 100.

The next step in the process was to create a combined spatial score, based on an equal weighting of each criteria. An example of this process on the NSW North Coast is shown on **Figure 3**.

The combined map was used to derive an initial list of priority areas. This list was complemented with additional areas, as described in **Section 3.3**. The final long list of priority areas is presented in **Section 3.4**.

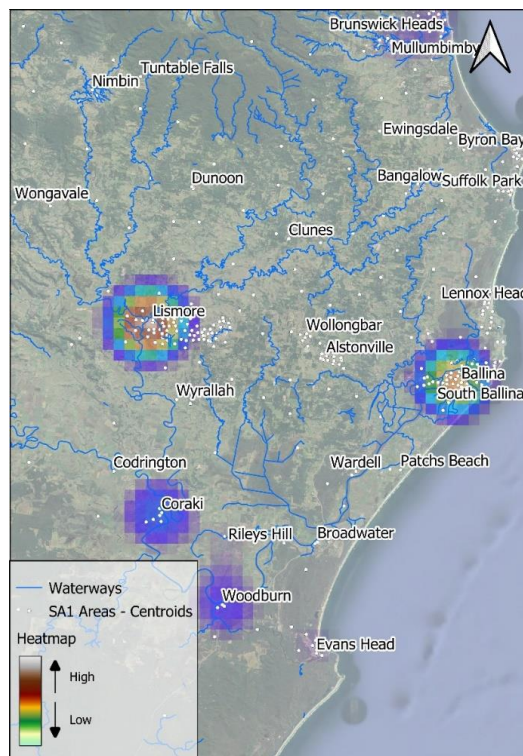
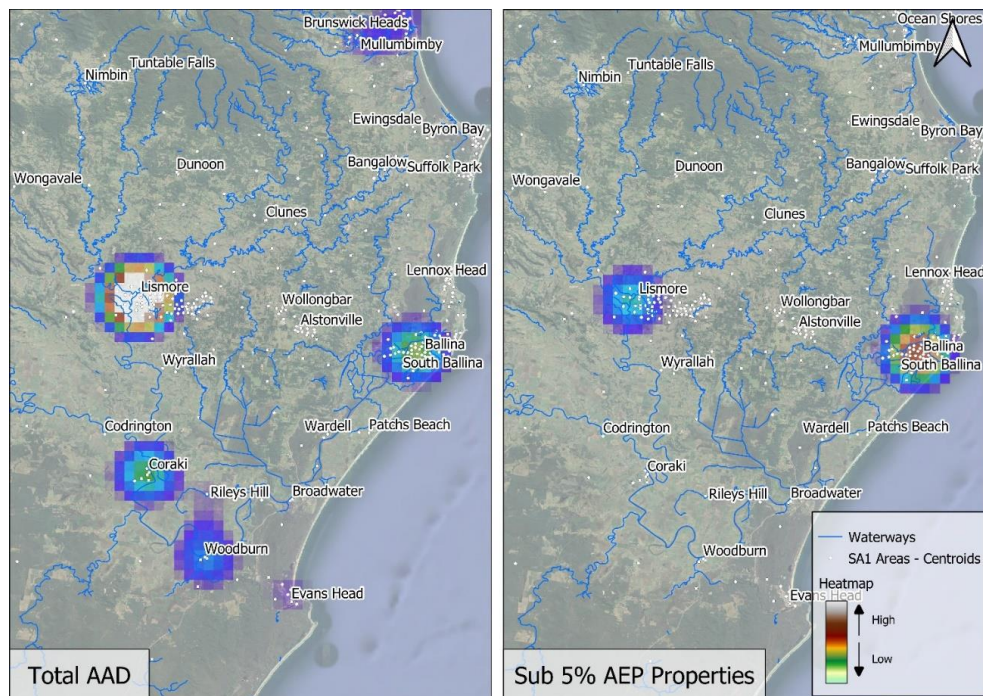


Figure 3. Combined Heatmap – NSW North Coast Example

3.3 Additional Areas Identified

The above process identified an initial list of priority areas. Further investigations were undertaken on the basis of the following:

- The large-scale nature of the prioritisation process may overlook specific, high localised damage areas across the country;
- In many locations, authoritative government-sourced hazard data either does not exist or has not been made available to insurers. This may lead to gaps or errors in IAG's view of flood risk which could lead to some flood affected areas being overlooked.

Two key cross checks were therefore undertaken to identify additional areas.

3.3.1 Areas with concentrated high damage values

As the heatmap analysis considers AAD within a radius around 6km, locations that had a high concentration of damage in a smaller area, may be overlooked. Therefore, a further cross check was undertaken by identifying SA1 areas with very high AAD.

3.3.2 Locations identified in the Mitigation and Policy-in-Force (ICA, 2019) Report

The Insurance Council Australia (ICA) has recently undertaken an analysis of national Policy-in-Force² Insurance data with the purpose of identifying locations and drivers of higher insurance premiums and recommending interventions. The outcomes of this analysis are presented in the Mitigation and Policy-in-Force (ICA, 2019) Report.

This report outlines a series of key locations with relatively high insurance premiums that could highly benefit from the implementation of targeted flood mitigation measures.

As the ICA report used a different source database for their assessment. Therefore, the initial priority areas list derived using the heatmap approach was compared against the locations identified in the ICA report. Even though there was significant overlap between the two lists, there were key locations mentioned in the ICA report that had not been contemplated in the initial heatmap list. These locations were reviewed and included where appropriate.

3.4 Long List

Based on the analysis described in **Section 3.2 and 3.3**, a long list of 49 areas were identified. These locations are identified in Table 2.

² Policy-in-Force (PIF) data is information that describes the actual purchasing of insurance products by policyholders at address level. According to ICA (2019), PIF 2019 comprises 12.9 million geocoded policy records for Australia, representing an estimated 96% of all policies currently in force. Policies include commercial, strata, home, contents, landlords, SME and ISR.

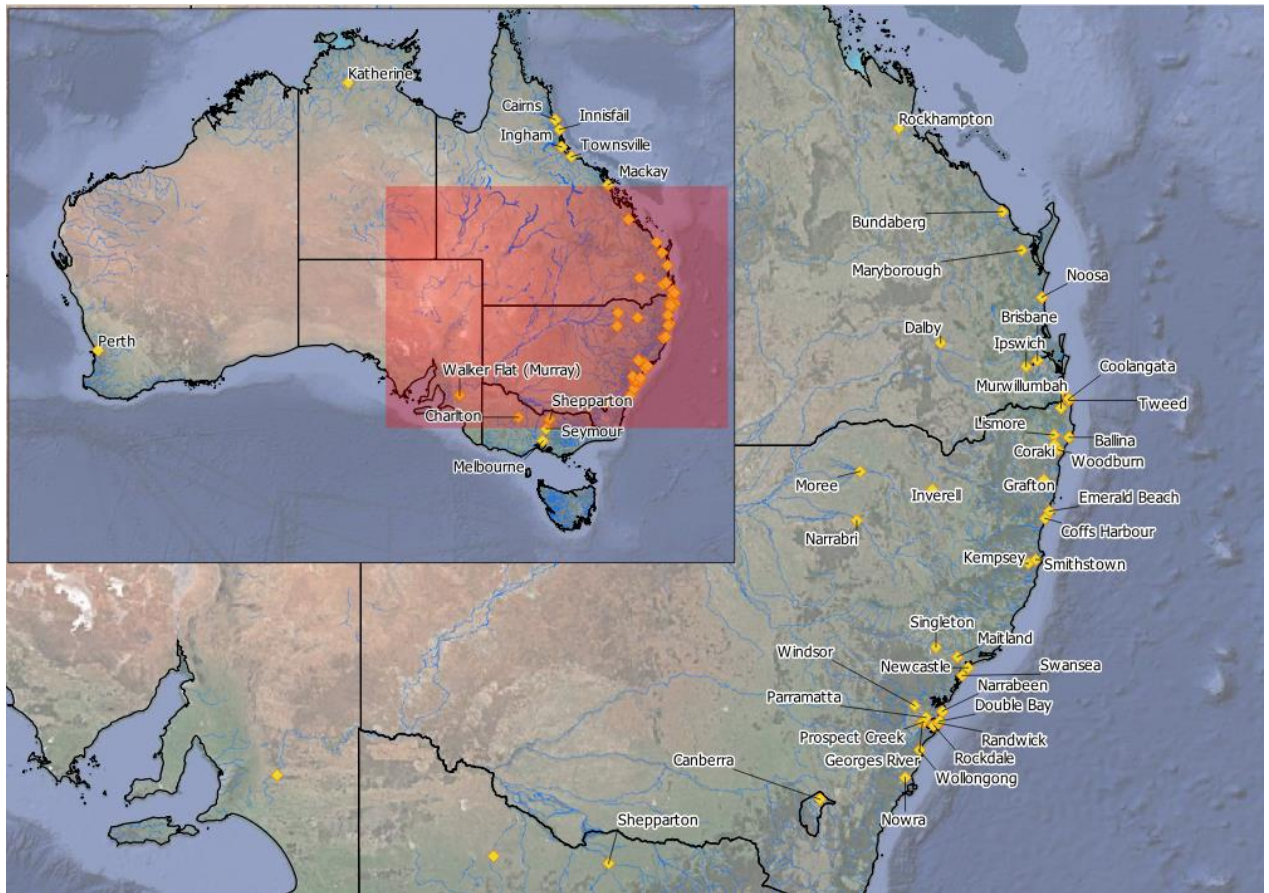


Figure 4. Long-List Locations

Table 2. Long-List Options

Name	State	Name	State	Name	State
Ballina	NSW	Inverell	NSW	Perth (Swan River, generally from Ascot to Caversham)	WA
Brisbane (Brisbane River)	QLD	Ipswich	QLD	Prospect Creek	NSW
Bundaberg	QLD	Katherine	NT	Randwick	NSW
Cairns	QLD	Kempsey	NSW	Rockdale	NSW
Canberra (largely around Sullivans Creek)	NSW	Lismore	NSW	Rockhampton	QLD
Charlton	VIC	Mackay	QLD	Shepparton	NSW
Coffs Harbour	NSW	Maitland	NSW	Singleton	NSW
Coolangatta	QLD	Maryborough	QLD	Smithtown	NSW
Coraki	NSW	Melbourne (largely around Yarra River and Maribyrnong River)	VIC	Swansea	NSW
Dalby	QLD	Moree	NSW	Townsville	QLD

Name	State	Name	State	Name	State
Double Bay	NSW	Murwillumbah	NSW	Tweed	NSW
Emerald Beach	NSW	Narrabeen	NSW	Walker Flat (Murray)	SA
Georges River (Near Warwick Farm)	NSW	Narrabri	NSW	Windsor	NSW
Gold Coast	QLD	Newcastle	NSW	Wollongong (various catchments)	NSW
Grafton	NSW	Noosa	QLD	Woodburn	NSW
Ingham	QLD	Nowra	NSW		
Innisfail	QLD	Parramatta	NSW		

3.5 Multi-Criteria Analysis

A multi-criteria analysis (MCA) was adopted to assist in narrowing the long list and focusing the assessment on a few select areas. Three key categories were adopted:

- Flood Impact Assessment – a measure of the total flood impact for a particular area;
- Mitigation Feasibility – criteria intended to provide a broad indication of the potential viability of mitigation within a study area, based on a high level review by the project team;
- Socio-economic Criteria – a measure of the general socio-economic level within an area.

Following discussions with IAG, the socio-economic criteria was included to ensure that lower socio-economic areas would be included in the analysis. These are areas that may have lower affordability for mitigation measures, or where the community may have less ability to afford adequate insurance cover or a lesser ability to recover following a significant flood event.

The scores for each criteria were on a 1 (low) to 3 (high) basis. A summary of the criteria is provided in Table 3.

Table 3. Criteria used in the Assessment

Category (Weighting as a %)	Criteria	Description
Flood Impact Score (40%)	AAD	Total annual average damage identified within each of the long list locations.
	Population at Risk	Calculated on a weighted average annual number of addresses identified at risk of flooding.
Mitigation Feasibility Score (40%)	Scale of Works	A qualitative score, based on a review by the project team, on the general scale of the works required to achieve mitigation in the areas.
	Concentration of Damages	A qualitative score - represents the concentration of damages within areas of the priority area. Higher concentrations of damages can be easier to mitigate against, as the mitigation measure can focus on a more localised area.

Category (Weighting as a %)	Criteria	Description
	Constraints	A qualitative score representing the likely constraints to potential mitigation as assessed by the project team. This may include density of development (limiting potential mitigation) or the overall flood depths and scale of flooding etc.
Socio-economic criteria (20%)	Gross Regional Product (GRP)	A score based on the GRP for the Local Government Area (LGA). Higher GRP results in a lower score.
	SEIFA	ABS criteria which is a measure of socio-economic welfare.

3.6 Short-Listed Areas

Following the MCA (Section 3.5), the higher ranked areas were reviewed in conjunction with the project team and IAG stakeholders. The short-listed study areas were then selected on the basis of the MCA and the following additional criteria:

- Ensuring an appropriate geographical spread of study areas, with a range of flood behaviours and conditions. For example, if two study areas were adjacent to each other, then only one would be adopted;
- Ongoing works or funding applications. For example, Bundaberg is understood to be well progressed towards undertaking works and investigations at present and has therefore not been short-listed for further investigation
- Excluded catchments where effective flood mitigation would likely require in excess of \$150M of investment and would require a significant timeframe for planning (these include Brisbane River, Melbourne, Perth, Parramatta and Windsor (in the Hawkesbury-Nepean floodplain)).

Of the selected study areas, Woodburn, Coraki and Smithtown are relatively small townships with a number of constraints. These areas were identified for testing of potential property level mitigation measures (Section 5). To provide a range of case study areas, Narrabeen, Wollongong and Noosaville (in Noosa) were also adopted for the property level mitigation.

Dalby was also included. The IAG database in this area is not well represented. However, a literature review of the locations identified significant flooding issues and was therefore included.

Following this short list process, an additional study area was included – Seymour in Victoria. While Seymour is relatively small, it had undertaken investigations into a potential flood levee in recent years, but this did not proceed due to funding issues. Seymour was included in this project as a test case for smaller study areas.

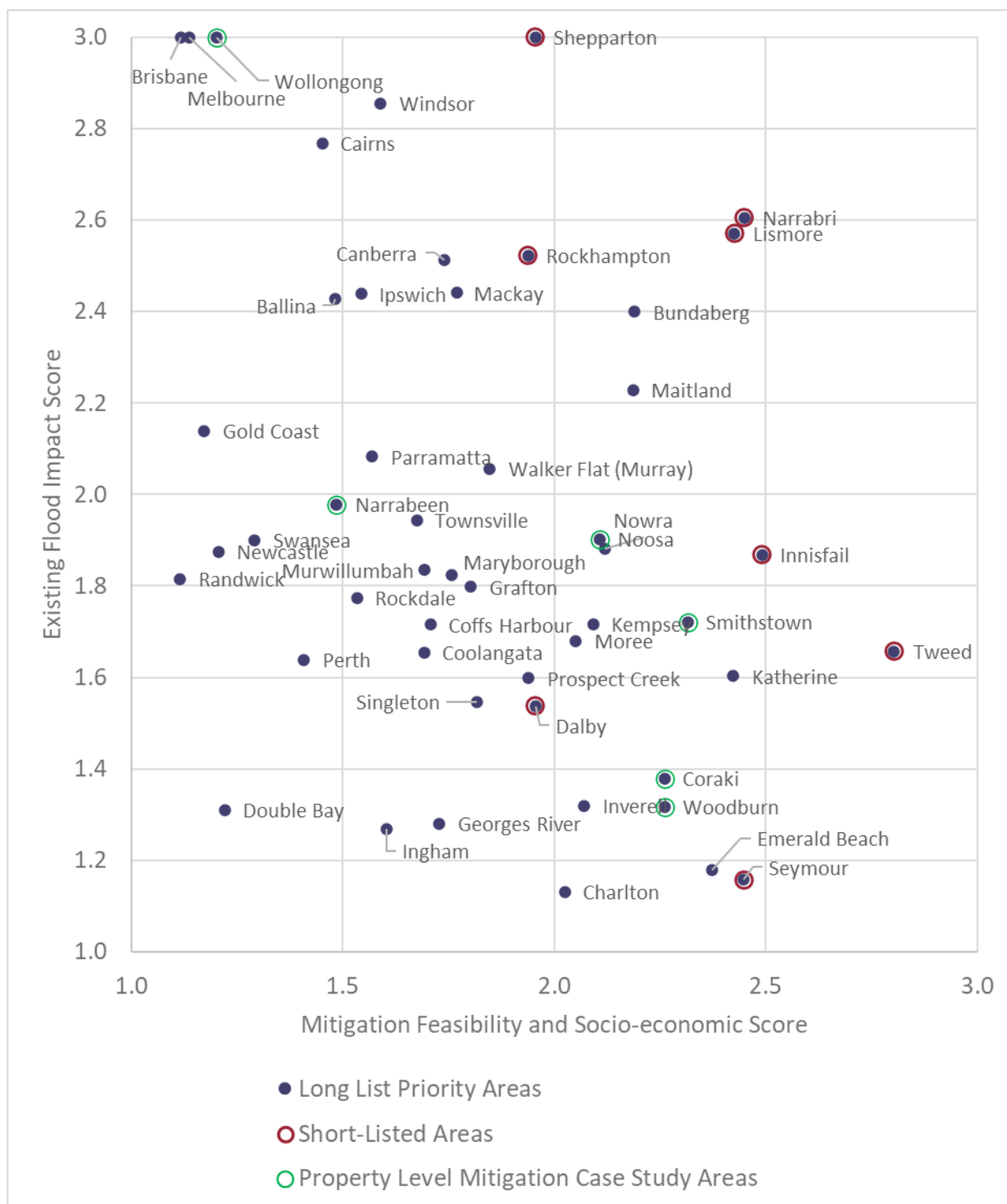


Figure 5. MCA Summary

4 Short-Listed Areas

A strategic level review was undertaken of the short-listed areas (Figure 6). The intention of this review was to:

- Provide an understanding of the existing flood risks, based on available literature and information for the area;
- Identify potential structural flood mitigation measures that may be possible for the area;
- Undertake a strategic level economic viability assessment on these mitigation measures. The economic assessment has been undertaken based on the key assumptions and methodology identified in Appendix A.

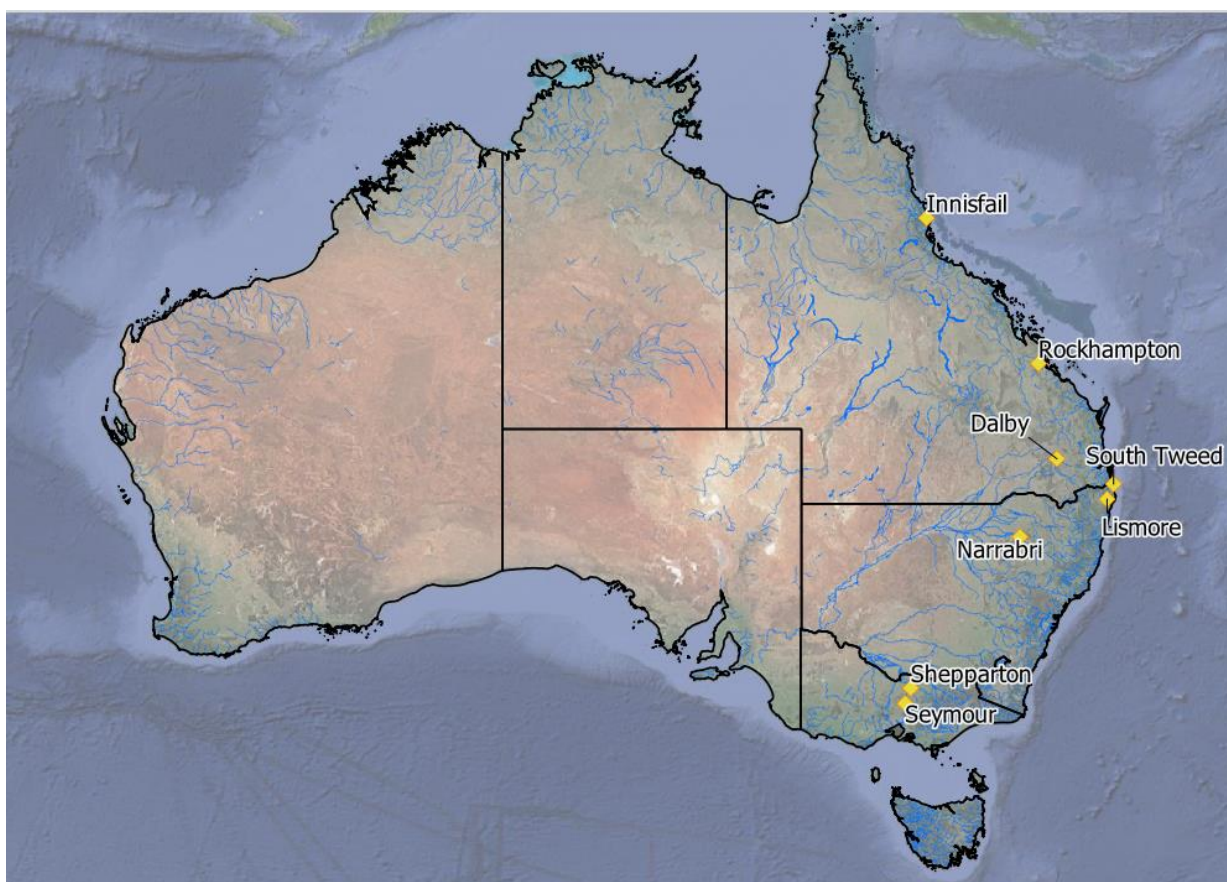


Figure 6. Short-Listed Locations

Potential mitigation measures have been based on available reports within each of the short-listed areas, together with a review of the flood behaviour and key constraints. Some cross checking of flood behaviour and identified options has also been undertaken with a selection of stakeholders for some of the short-listed areas.

It is essential to note that unless previous assessment of the options has been undertaken, further analysis and design will be required to understand the mitigation performance and potential impacts that the mitigation may have on flood behaviour and properties. Community acceptance as well as environmental and heritage impacts will also be required to be investigated. Additionally, the cost estimates presented here should be refined based on more detailed information.

Further details on each of the short-listed areas is provided in **Appendix A**.

Table 4 provides a summary of flood mitigation measures identified across all of the short-listed study areas.

Table 4. Summary of Flood Mitigation Measures

Floodplain	Item	Description
Lismore		As noted, the analysis in this report was completed in August 2021, prior to the flooding in the NSW Northern Rivers region in early 2022. We acknowledge that there is ongoing work being undertaken by Lismore City Council, CSIRO, the Northern Rivers Reconstruction Corporation, NSW and Federal Governments and the National Recovery Resilience Agency to mitigate against flood risk and build community resilience in Lismore. Given this ongoing work, analysis on potential mitigation measures has not been undertaken on Lismore.
	Level of Design	Strategic. While the mitigation was assessed in 2002 (with a higher protection), no update to this assessment has been undertaken
Shepparton	Flood Mitigation Performance	Targeting a 1 in 50 AEP protection for those areas protected by the levees. May be required to lower this protection if negative flood impacts.
	Cost Estimate	\$47.7M (\$40M - \$50M) Strategic only.
	Constraints	<ul style="list-style-type: none"> Potential environmental constraints, particularly for the floodway Uncertain on community acceptance of the scheme.
	Further Work Required	A flood risk management study (as per Section 1.4), to undertake appropriate optioneering and community engagement.
Narrabri	Level of Design	Strategic. No formal modelling or investigation of mitigation options undertaken.
	Flood Mitigation Performance	Targeting a 1 in 10 to 1 in 20 AEP protection for a number of areas in Narrabri. Potential for flood impacts on adjacent properties – modelling required to refine scheme.
	Cost Estimate	\$59.1M (\$55M-\$65M)
	Constraints	<ul style="list-style-type: none"> Potential flood afflux Several road crossings and interfaces with private properties Environmental considerations are uncertain
	Further Work Required	Floodplain risk management study and plan to be completed (currently in progress), including appropriate optioneering and community engagement.
Innisfail	Level of Design	Strategic. While the mitigation was assessed in 2014 (with a higher protection), no update to this assessment has been undertaken.
	Flood Mitigation Performance	Targeting a 1 in 50 AEP protection for those areas protected by the levees. May be required to lower this protection if negative flood impacts are identified.
	Cost Estimate	\$52.7M (\$50M-\$60M)
	Constraints	<ul style="list-style-type: none"> Potential environmental constraints, particularly for the dredging

Floodplain	Item	Description
		<ul style="list-style-type: none"> Challenges with some levees crossing creeks and roads. Flood gates required Uncertain on community acceptance of the scheme Potential flood afflux of the scheme, further investigation required.
	Further Work Required	A flood risk management study (as per Section 1.4), to undertake appropriate optioneering and community engagement.
	Level of Design	Detailed design, ready for tender (pending funding).
	Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levees.
	Cost Estimate	\$80.4M (detailed estimate)
Rockhampton	Constraints	<ul style="list-style-type: none"> Relatively low, given EAR undertaken.
	Further Work Required	Minimal, ready to be tendered.
	Level of Design	Strategic.
	Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levee.
	Cost Estimate	\$30.9M (\$25M-\$35M)
South Tweed	Constraints	<ul style="list-style-type: none"> Potential environmental constraints, particularly for Phillip Parade extension May be further engineering constraints, particularly for the Phillip Parade extension.
	Further Work Required	A flood risk management study (as per Section 1.4) has been undertaken. Further investigation and optioneering required on the levee options.
	Level of Design	Strategic. Further analysis required to understand relative benefits of proposed options
	Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levee, uncertain for the flowpath.
	Cost Estimate	\$107M (\$100M-\$110M)
Dalby	Constraints	<ul style="list-style-type: none"> Potential environmental constraints, particularly for the excavation Land acquisition issues along the flowpath. Uncertain on community acceptance of the scheme Potential flood afflux of the scheme, further investigation required.
	Further Work Required	A flood risk management study (as per Section 1.4), to undertake appropriate optioneering and community engagement.
	Level of Design	Detailed
	Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levee.
	Cost Estimate	\$25M Detailed
Seymour	Constraints	Potential community objection, although it is understood that this primarily was associated with the funding rather than the levee itself.
	Further Work Required	Finalise detailed design

5 Economic Assessment

5.1 Overview

A preliminary economic assessment was undertaken on the strategic level mitigation measures that were identified for each of the short-listed areas in Section 4. The economic assessment methodology and key assumptions are discussed in **Appendix B**.

5.2 Scenarios for Assessment

For each of the short-listed areas, two scenarios have been assessed:

- A base or existing case, representative of existing flood behaviour and conditions;
- Flood mitigation scenario, representative of the study areas post-implementation of the different mitigation measures identified in Section 4.

The scenarios incorporate an estimate of the influences of climate change over the economic assessment period, as discussed in **Appendix B**.

5.3 Base Case Damages

A summary of the total base case Annual Average Damages (AAD) is provided in Figure 7, with the relative proportions, or contributions to AAD, shown in Figure 8 for each of the study areas. The base case AAD ranges across the areas considered from approximately \$5 - \$85M. These values are shown in Table 6.

As noted in **Appendix A**, there is a potential range that could be considered for the intangible portion of flood damage costs. While the low range has been adopted for this assessment, Figure 9 and Table 5 provides an understanding of the potential variability in the intangibles depending on the underlying assumptions that are made.

For Dalby, as noted in Section 3, limitations in the IAG flood database required an alternative source of AAD estimates to be adopted. Therefore, the previous study, as identified in **Appendix A**, was used to estimate the flood damages. There may be some differences in the underlying assumptions between that study and the methodology adopted for this report.

The overall damages are derived based on the IAG residential damages that were made available to Rhelm for the purposes of this project. The overall analysis is therefore reliant on the underlying accuracy of this dataset.

Table 5. Existing Intangible Flood Damage Estimate – Ranges (\$M)³

Component	Lismore	Shepparton	Narrabri	Innisfail	Rockhampton	South Tweed	Dalby	Seymour
Low Range	\$6.2	\$10.0	\$3.7	\$3.3	\$3.1	\$1.9	\$2.5	\$0.4
Medium Range	\$11.2	\$20.1	\$7.7	\$5.5	\$4.5	\$6.8	\$5.1	\$0.6
High Range	\$58.0	\$29.9	\$30.1	\$22.0	\$17.7	\$11.3	\$7.1	\$3.1

³ The low range has been adopted for the economic assessment.

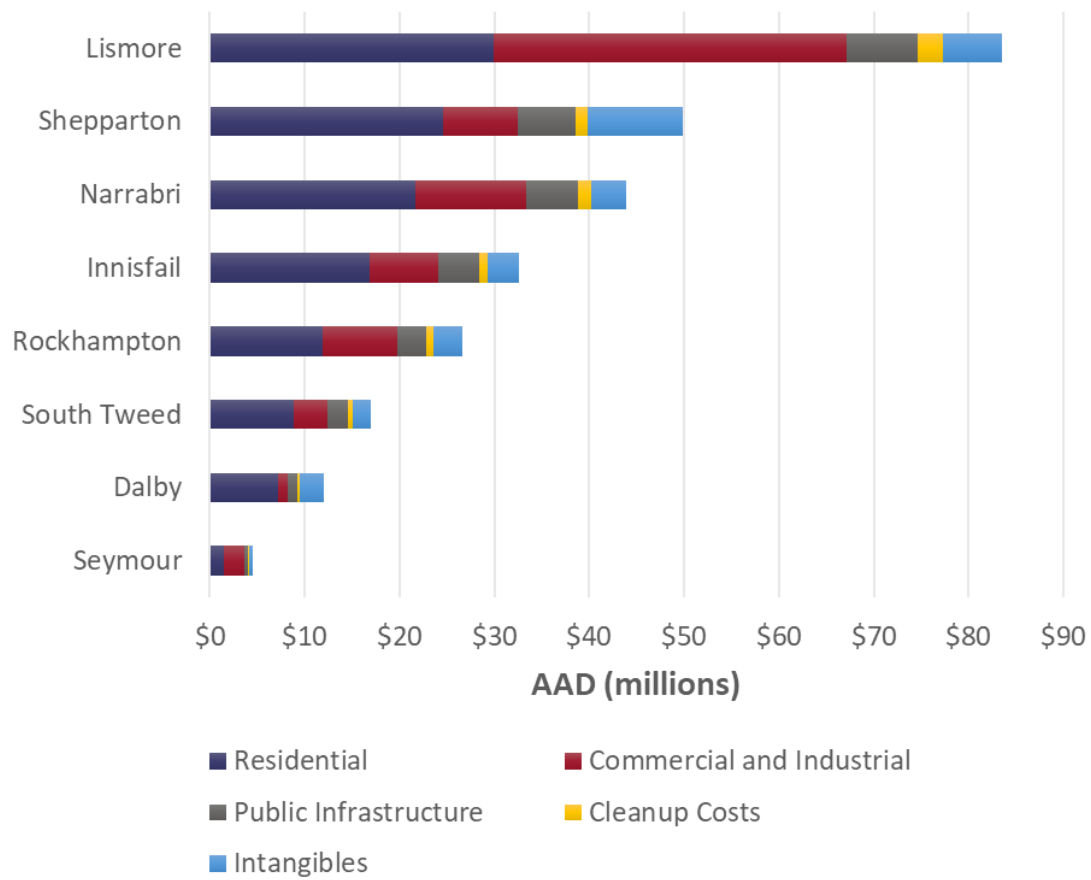


Figure 7. Total Annual Average Damage (AAD) Cost by Flood Affected Area - Base Case Scenario

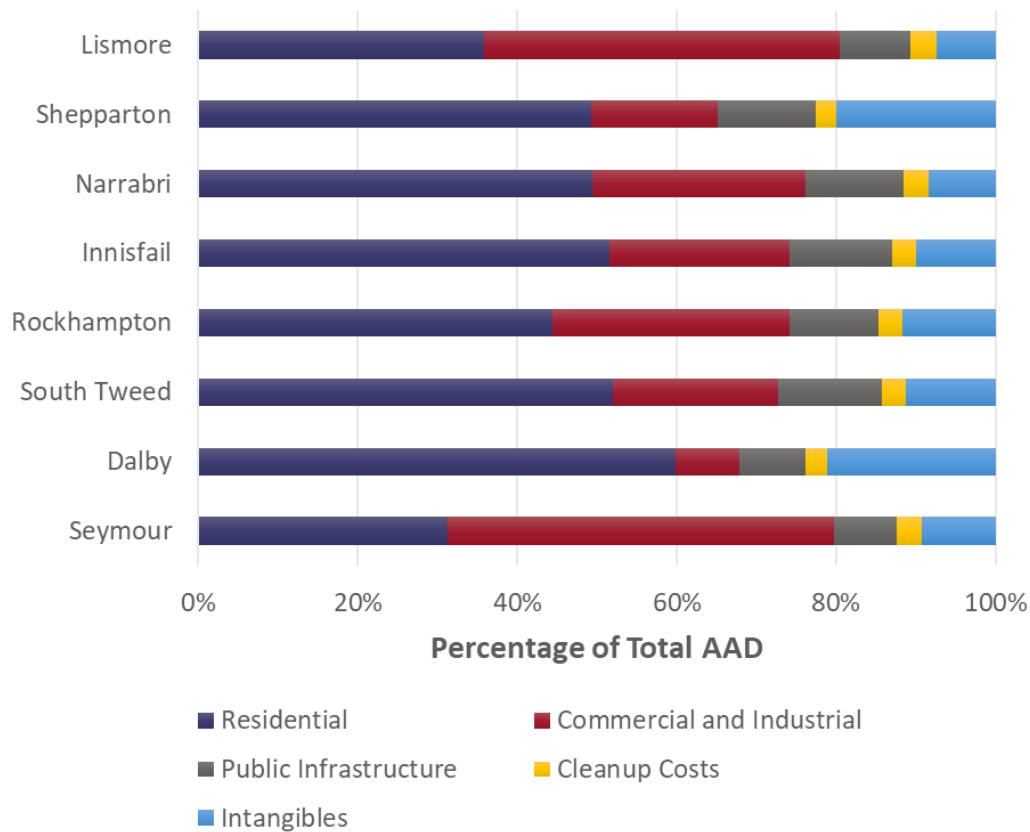


Figure 8. Contribution to Total AAD - Base Case Scenario

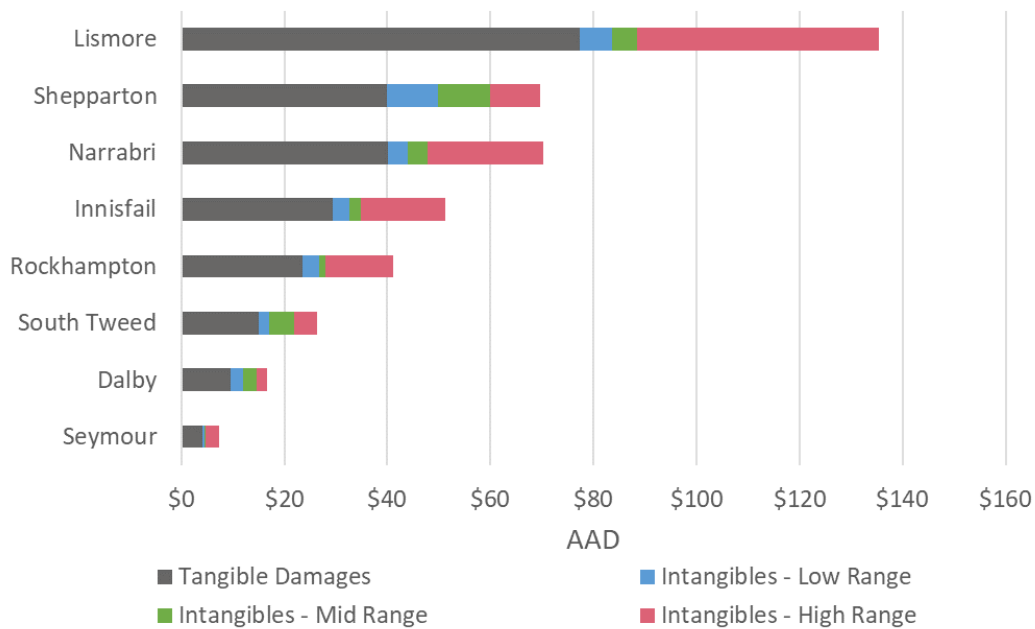


Figure 9. Intangible Flood Damage - Indicative Ranges and Total AAD - Base Case Scenario⁴

⁴ The low range has been adopted for this assessment

5.4 Mitigation – Reduction in Damages

In order to estimate the effectiveness of the different mitigation measures, a preliminary review of the likely protected properties was undertaken. This identified key areas that would likely be protected, and the level of protection that would be provided (e.g. 1 in 20 AEP). This information was provided to IAG, who then recalculated the residential damages data, as per Section 2.1, with the protection in place. The information provided by IAG was for the existing climate scenario (CC0), and it was assumed that the increase in damages would occur on a similar proportion to the base case scenario.

Using this information, the AAD under the mitigation scenario was estimated. A summary of this is provided in Figure 10.

In addition to the reduction in AAD under each of the mitigation options, there are also a number of residential properties which are no longer inundated under different events. A summary of the number of residential properties flooded under the base case and the mitigation scenario are summarised in Figure 11, for a range of design flood events.

For some areas, there is no change to the number of properties affected in the 1 in 100 AEP flood, as the levee only protects up to a smaller AEP flood. However, there is a reasonable decrease in affected residential properties in the 1 in 20 AEP. For other areas, like Rockhampton, there is an overall reduction in properties affected in the 1 in 100 AEP flood, as the mitigation works are designed for this event. However, as the mitigation works only target a part of the floodplain, there are a number of additional properties remaining within the 1 in 100 AEP extent.

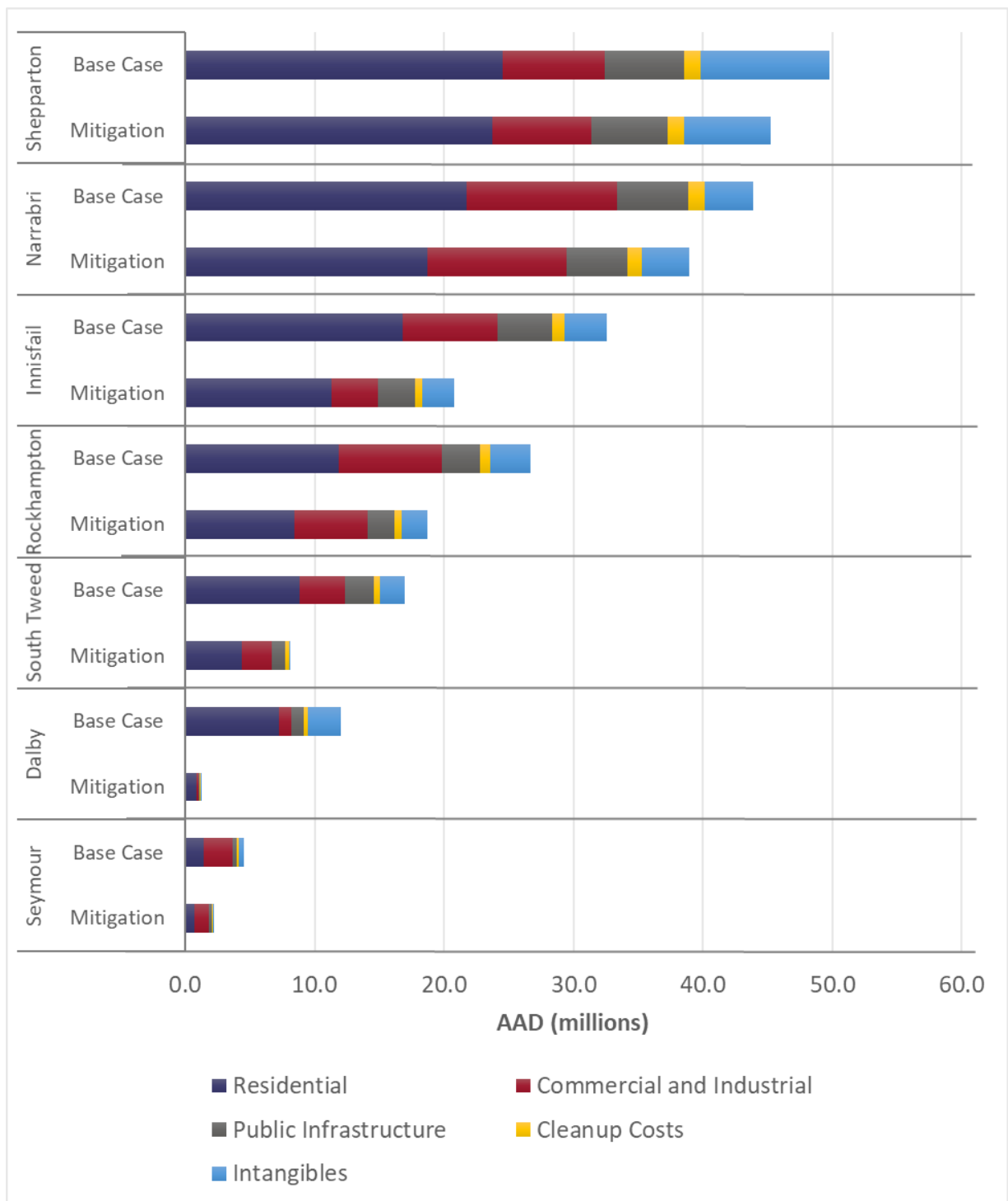


Figure 10. Comparison of Annual Average Damages - Base Case and Mitigation Scenario

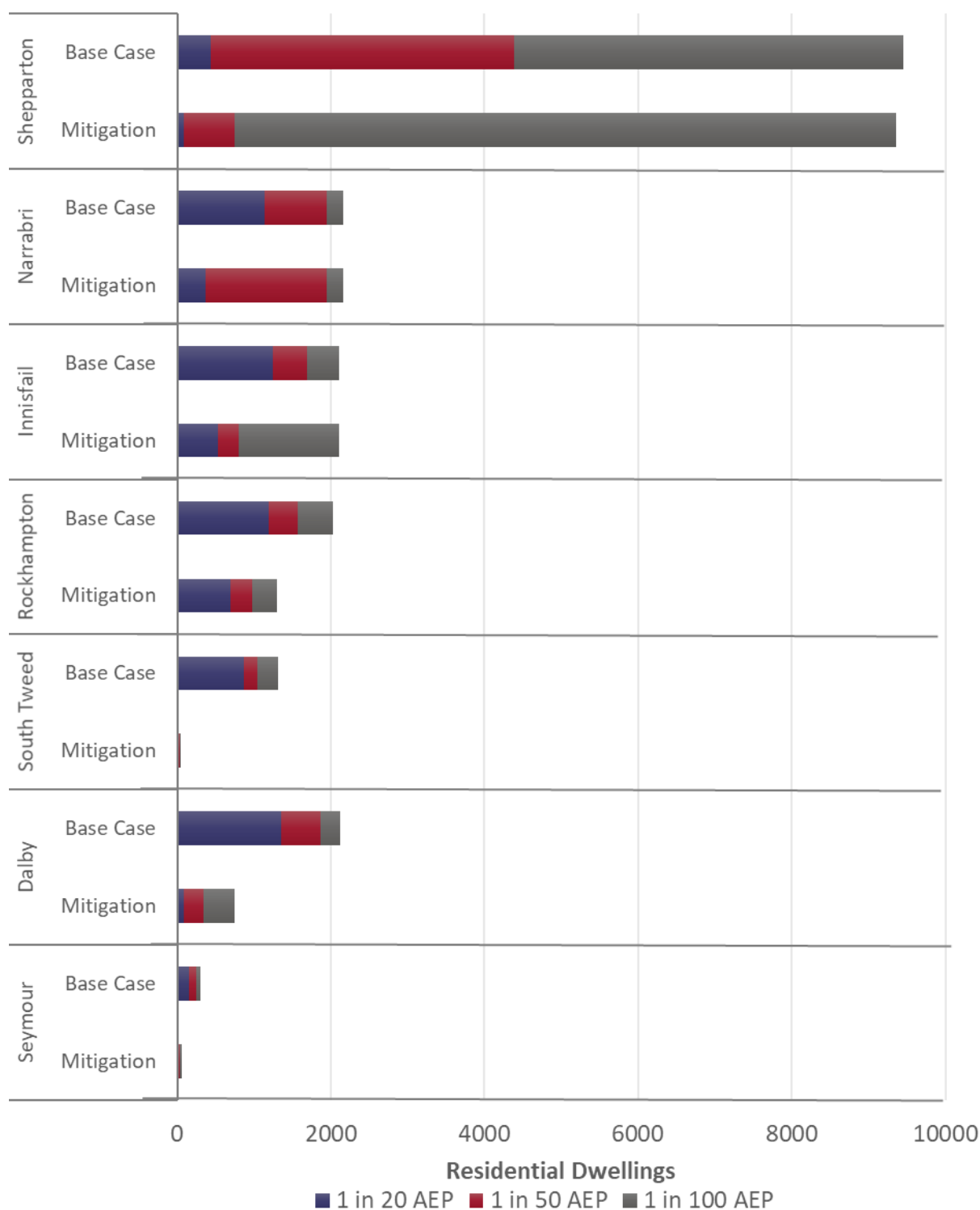


Figure 11. Number of Residential Properties Protected by Mitigation⁵

⁵ Residential dwellings affected are those residential properties where there is overground flooding on the property, not necessarily overfloor flooding.

Table 6. Summary of Annual Average Damages (\$M)

Component	Shepparton		Narrabri		Innisfail		Rockhampton	
	Base Case	Mitigation	Base Case	Mitigation	Base Case	Mitigation	Base Case	Mitigation
Residential	24.6	23.7	21.7	18.7	16.8	11.3	11.9	8.5
Commercial & Industrial	7.9	7.6	11.7	10.8	7.3	3.6	7.9	5.6
Public Infrastructure	6.1	5.9	5.4	4.7	4.2	2.8	3.0	2.1
Cleanup Costs	1.3	1.3	1.3	1.2	1.0	0.6	0.8	0.6
Intangibles	10.0	6.7	3.7	3.7	3.3	2.4	3.1	1.9
Total	49.8	45.2	43.9	39.0	32.6	20.8	26.7	18.7

	South Tweed		Dalby		Seymour	
	Base Case	Mitigation	Base Case	Mitigation	Base Case	Mitigation
Residential	8.8	4.4	7.2	0.9	1.4	0.7
Commercial & Industrial	3.5	2.3	1.0	0.1	2.2	1.2
Public Infrastructure	2.2	1.1	1.0	0.1	0.4	0.2
Cleanup Costs	0.5	0.3	0.3	0.0	0.1	0.1
Intangibles	1.9	0.1	2.5	0.0	0.4	0.1
Total	17.0	8.1	12.0	1.2	4.6	2.2

5.5 Cost Benefit Analysis

The results of the cost benefit analysis are summarised in Figure 12, Figure 13 and Table 7. Benefit cost ratio (BCR) values in excess of 1 are where the present value of the benefits exceed the costs, and therefore the option would be considered economically viable.

The BCR for the mitigation works are in excess of 1 (Figure 13), and therefore would be considered to be economically viable.

For Dalby, there is some uncertainty on the overall cost of the southern floodway option in particular. Given the scale of this project, further work would be required to refine that estimate. There is also a lower cost, smaller scale floodway that may be a consideration (refer **Appendix A**). Finally, the Dalby mitigation also includes a levee. The levee on its own may assist in diverting water way from the township and may be worthwhile investigating as a stand-alone option.

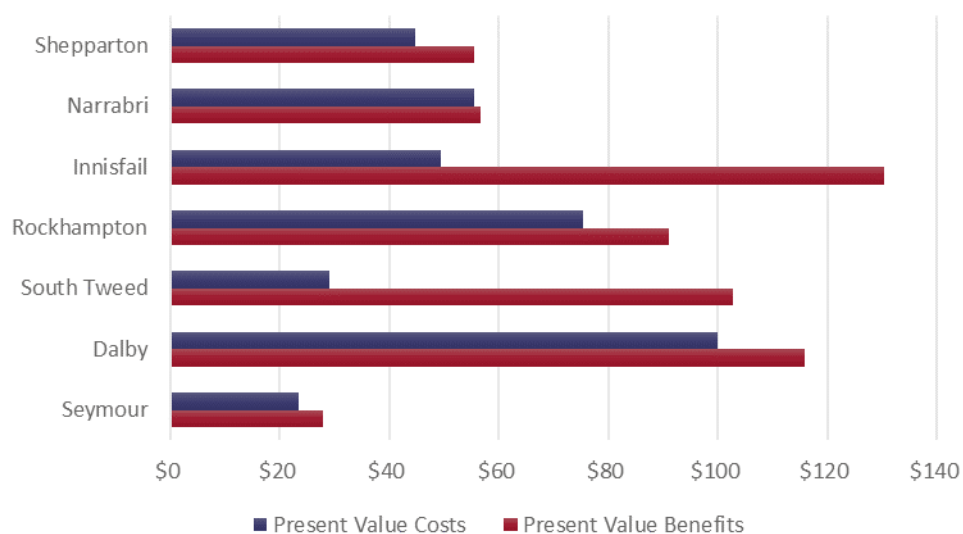


Figure 12. Comparison of Costs and Benefits

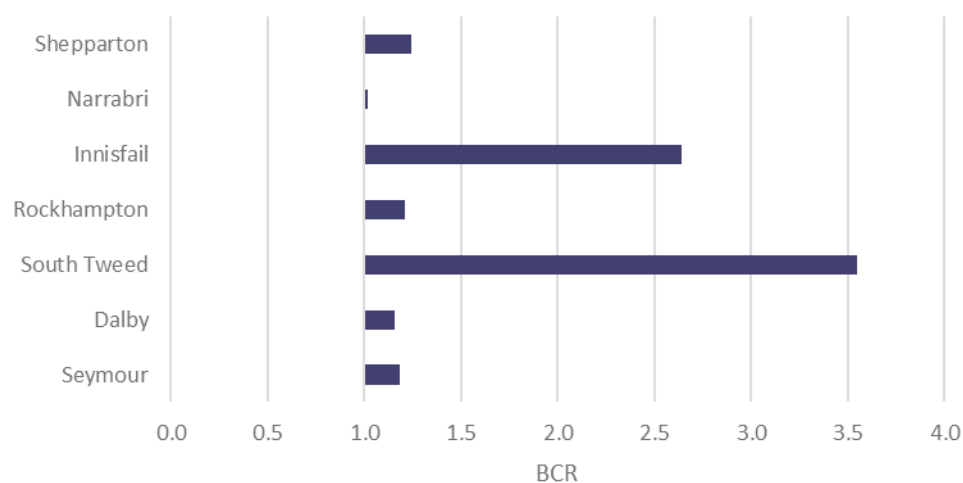


Figure 13. Benefit Cost Ratio for Mitigation Works

Table 7. Economic Results – Summary

Location	Present Value Costs (\$M)	Present Value Benefits (\$M)	BCR	Net Present Value (\$M)
Shepparton	\$45	\$56	1.2	\$11
Narrabri	\$55	\$57	1.0	\$1
Innisfail	\$49	\$130	2.6	\$81
Rockhampton	\$75	\$91	1.2	\$16
South Tweed	\$29	\$103	3.5	\$74
Dalby	\$100	\$116	1.2	\$16
Seymour	\$23	\$28	1.2	\$4

5.6 Sensitivity Analysis

A sensitivity analysis was undertaken for Seymour, to understand the relative robustness of the assessment. These results are summarised in Table 8. They suggest that for large increases in the cost estimate or reductions in the benefits may reduce the BCR below 1.

As noted in **Appendix B**, climate change is incorporated within the economic analysis. A sensitivity analysis was undertaken by removing climate change from the analysis (and assuming the flood damages do not change over time). The results of this are summarised in Table 8. This shows only a relatively minor impact on the BCR.

Table 8. Sensitivity Analysis – BCR Results

Sensitivity Scenario	Seymour
3% Discount Rate	2.0
7% Discount Rate (Adopted BCR)	1.2
10% Discount Rate	0.9
Cost Estimate +40%	0.8
Cost Estimate +20%	1.0
Cost Estimate –20%	1.5
PV Benefits +20%	1.4
PV Benefits –20%	0.9
PV Benefits –40%	0.7
Climate Change	1.1

6 Property Level Mitigation

6.1 Introduction

As identified in Section 1.4, flood risk management includes the consideration of not just structural flood modification options, but also wider consideration of emergency management and property level mitigation. As part of this overall project, a review was undertaken on a sub-set of the property level mitigation alternatives, namely:

- Flood resilience;
- House raising;
- Land swap.

The focus of this assessment is on existing dwellings, and the modification of those existing dwellings on the basis of the above (with the exception of the house relocation). The purpose of the assessment is to determine the economic viability of these options.

6.2 Representative Areas

To support the analysis, six representative areas were chosen to undertake testing of the various alternatives. These areas were high ranked locations from the short-listing process in Section 3, and include:

- Coraki (Figure 14);
- Woodburn (Figure 14);
- Smithtown (Figure 15);
- Noosaville;
- Narrabeen; and,
- Wollongong.

Each of these locations have a range of different types of flood behaviour and types of development. Coraki, Woodbury and Smithtown are all small townships on large river systems and have relatively frequent and deep flooding. The Narrabeen suburb is primarily affected by flooding from Narrabeen Lagoon, which tends to be of relatively long duration. Wollongong, by comparison, is more flash flooding generated by the Illawarra Escarpment.

For each of the areas, IAG provided information for every address within the suburb. A representative property with a floor level of 0.4 metres above ground was adopted for the base case. Based on this information, average damages were extracted for all addresses across a range of floor levels. In addition to the information from IAG, intangibles (excluding risk to life) were also added to the values provided based on **Appendix A**.

The estimates of damages are summarised in Figure 16. In this figure, values for the “≤10”, for example, are the average AAD for all properties where overfloor flooding occurs in events up to and including the 1 in 10 AEP. It provides an understanding of the average damages for different floor levels. However, it is limited by the number of properties within each category. The proportion breakdown is provided in Figure 17 shows that some locations, such as Smithtown, have the majority of the properties in the 1 in 10 AEP or less category. This can lead to some skew in the averages that are calculated for each area.

Rather than looking at the individual areas, Figure 18 provides a summary of AAD across all areas.

It is noted that a representative house was applied for the purposes of this analysis. In reality, many of these areas have dwellings that are set higher than 0.4 metres and some would have dwellings set at near ground level and therefore the damage profile would look different.

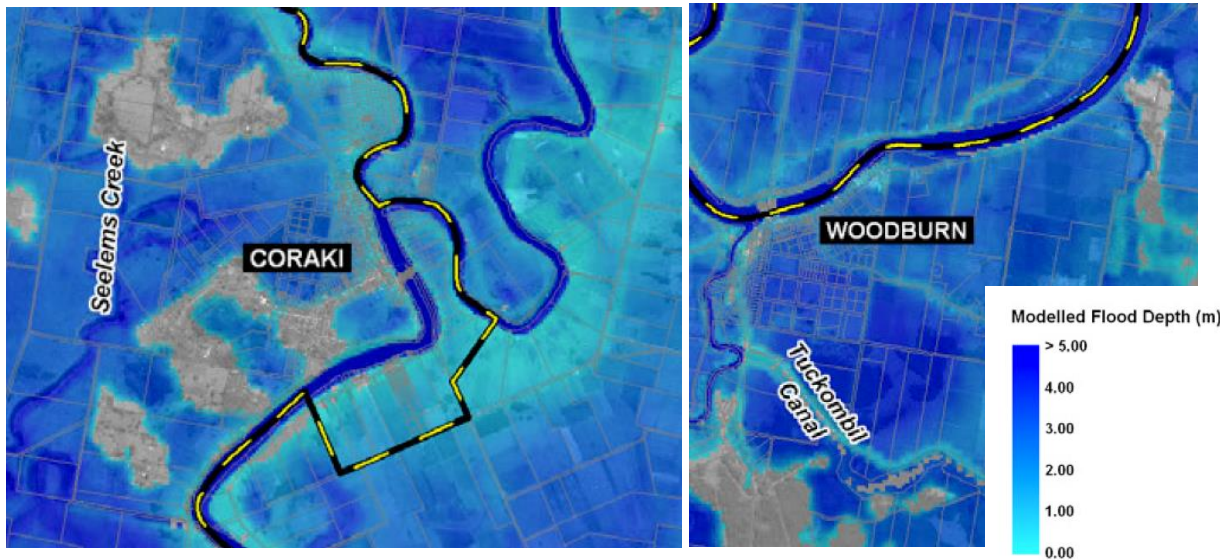


Figure 14. 1 in 100 AEP Flood Depths – Coraki and Woodburn (BMT WBM, 2011)

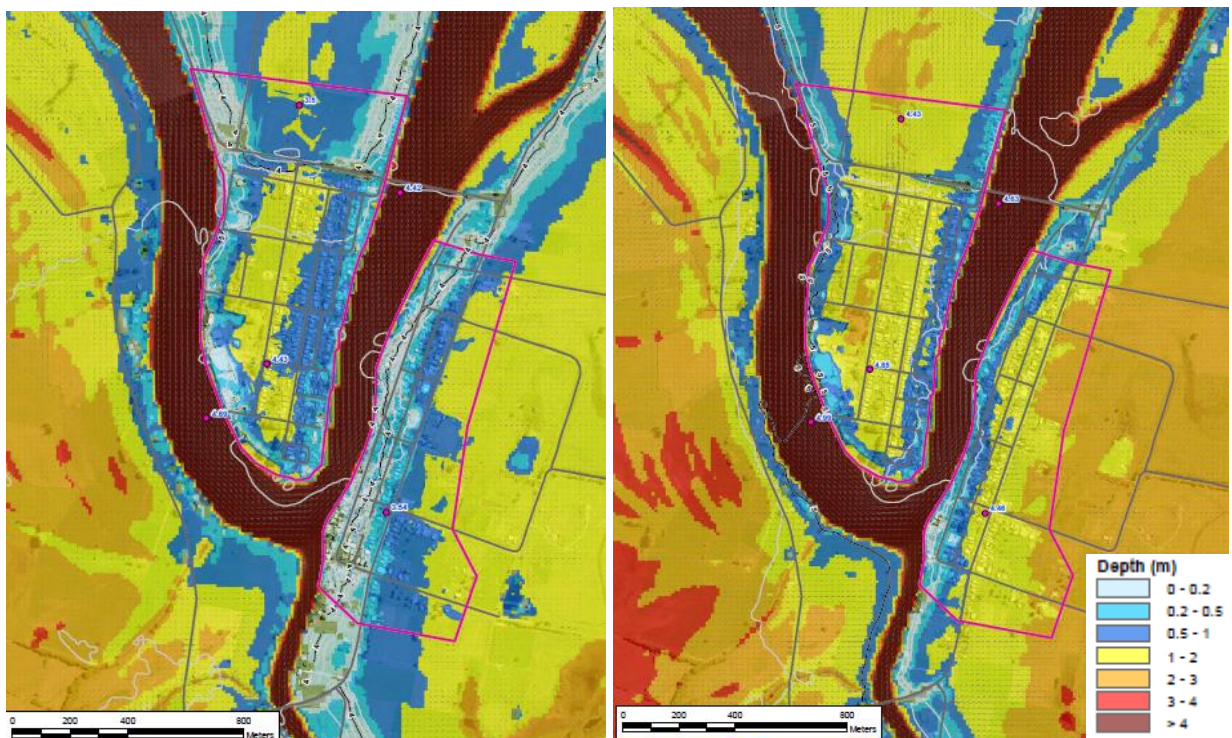


Figure 15. Flood Depths in the Smithtown Area – left 1 in 20 AEP, right 1 in 100 AEP (Jacobs, 2019)

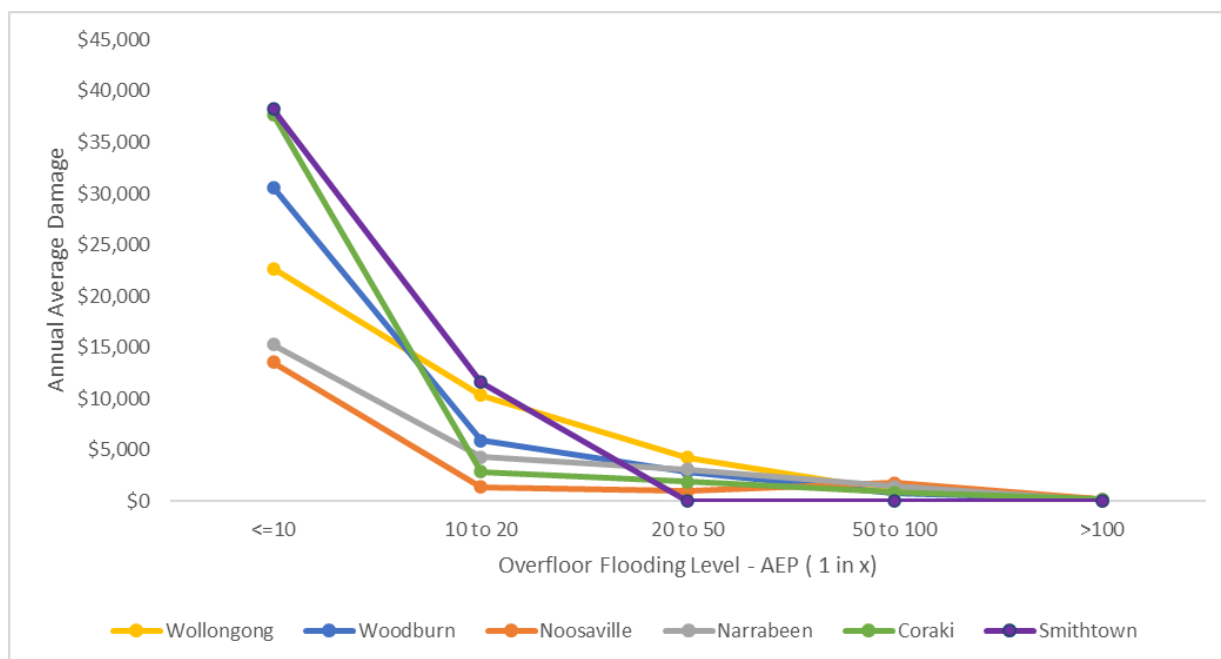


Figure 16. Mean Annual Average Damages for Properties for Representative Areas

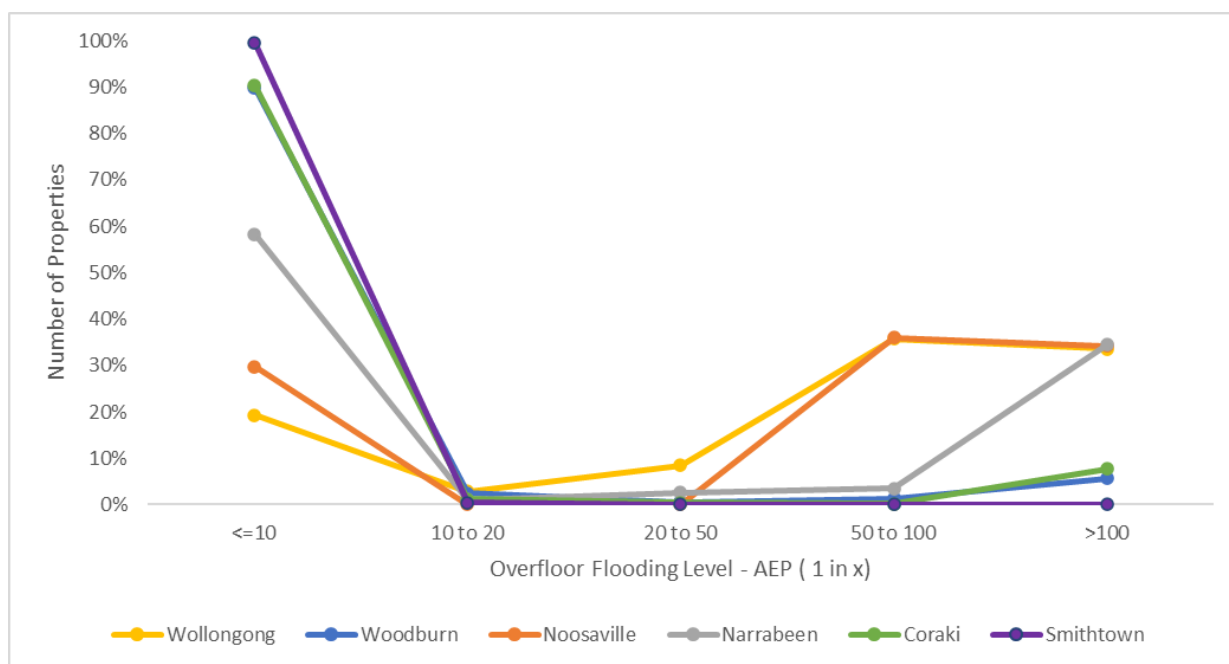


Figure 17. Proportion of Properties for Representative Areas

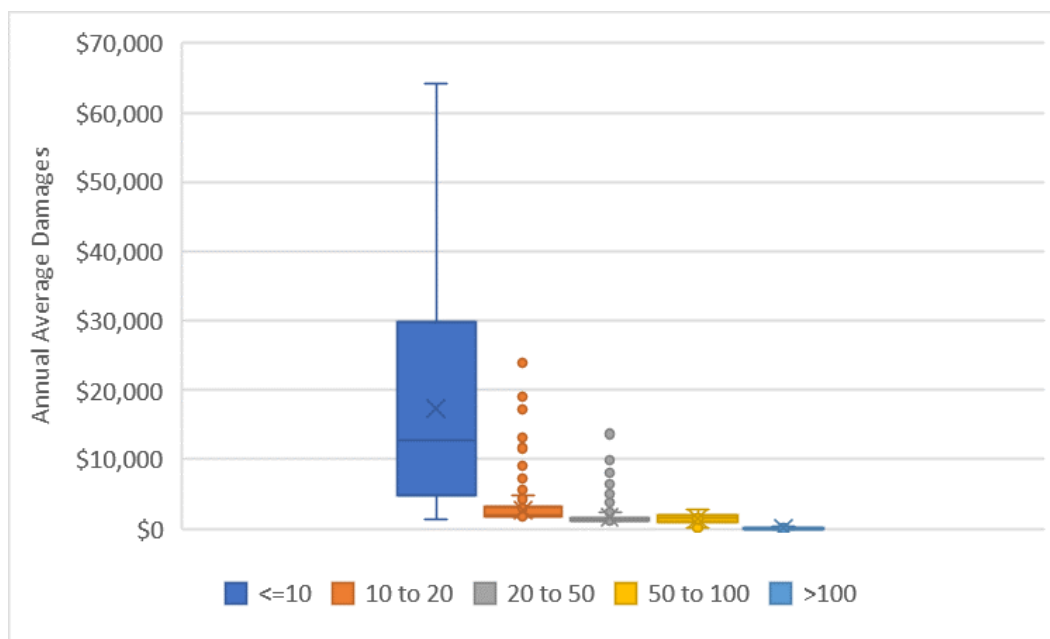


Figure 18. Range in Annual Average Damages for Properties for Various Design Events for All Representative Areas

6.3 Flood Resilient Building Measures

6.3.1 Overview

Flood resilient building measures include a range of potential materials and construction techniques that can be applied to either new buildings or retrofit to existing buildings. The focus of this report is on the latter. The following provides a brief overview on the literature and guidance available on flood resilient buildings and what might be considered as a part of the resilient measures. This is not an exhaustive review, but is intended to provide some background to the economic assessment.

With respect to the different components of residential flood damage, flood resilient building features focus on effort to minimise the direct building damages⁶, being protecting elements of the building such as walls or floorings. It does not provide any benefit for the external damages (e.g. fences etc), contents damages or any significant reduction in intangible damages.

There are several guidelines and references for flood resilient buildings, both nationally and internationally. The two key references for Australia are the Blue Book (HNFMSC, 2006), developed for the Hawkesbury-Nepean floodplain but applicable to NSW and wider, and the more recent Queensland flood resilient guide (QRA, 2019). Despite its age, the blue book, *Reducing Vulnerability of Buildings to Flood Damage – Guidance on building in flood prone areas* (HNFMSC, 2006), represents a milestone in the field of flood-resistant building design. The majority of contemporary standards and reviews (including guidelines overseas) reference this document. A more detailed review of the Blue Book and international guidance is provided in Collier et al (2021). In addition, Collier et al (2021) presents draft

⁶ In the literature on flood damages, building damages can sometimes be referred to as structural damages. To differentiate structural elements of a building (such as the frame) from non-structural elements (such as insulation), they have been referred to as building damages in this report.

resilient development and building controls for new residential development in the Hawkesbury-Nepean floodplain.

The focus of Collier et al (2021) and the Blue Book are primarily on new build construction, rather than retrofitting. However, QRA (2019) does include retrofitting measures.

Collier et al (2021) discussed what was referred to as “structural” resilience and “full” resilience. The former focused more on resilient measures that ensured minimal damage to the actual building structure. This included components such as steel frames (rather than timber frames which can warp and joints that separate) and wall vents to equalise differential water pressures on walls. Full resilience then looked at other measures such as insulation, flooring etc (i.e. protection to building damages).

Structural resilience is difficult to retrofit within an existing building. QRA (2019) suggests waterproofing the building frame as one way to achieve some resilience, but this may prove to be difficult to achieve in reality, due to access and the extensive amount of work required to gain access to the timber frame.

Drawing on the previous work undertaken by QRA (2019) and Collier et al (2021), the following are some examples of potential retrofitting resilient measures:

- Flooring – typically replacing carpet with tiles. This would be best suited to slab on ground type constructions. However, there can still be issues with tiles when there is contaminated floodwater. In the case where there is a timber floor, then it may just be left with the timber (say as polished boards where possible) (to ensure that the floor can be dried out). The other option would be to replace the timber floor with a product such as ModWood (a composite product made to look like timber that is used for decking, noting that it is not currently intended for interior usage).
- Walling – inclusion of fibre cement (rather than the typical fibreboard) sheeting on the walls and polystyrene insulation (rather than typical insulation like Glasswool). In addition, vents are usually required to allow the walls to dry out after the flood and prevent mould. Note that there can still remain some questions on this, particularly on the ability to adequately dry the walls particularly on a retrofit and ensure that mould does not become an issue (or mud/ silt in the walls). It should be noted that there is no known fibre cement sheeting product in the market that has been tested to a common standard for flood inundation.
- Doors – solid core rather than hollow core. Again, this is identified in QRA (2019) but it is not certain as to how a solid core door would perform under prolonged duration.
- Custom kitchens. QRA (2019) discusses custom kitchens with waterproof cabinets, and cabinets that are independent of the benchtop so that the cabinets can be lifted out to allow cleaning.
- Electrical Services. Recommendations for the meter board and all other services to be raised above the flood level.

A key observation of each of these is that they are targeting only one component of a house. If flood resilient flooring were incorporated, for example, this does not protect the walls. Similarly, if a flood resilient kitchen is installed, it does not provide any protection for the walls. Therefore, each element that is installed as flood resilient is effectively only providing “protection” for that specific element.

Further, as identified above, the majority of the retrofit measures do not deal with the structural resilience of the house. For larger depth, longer duration flooding, this can become more important. Collier et al (2021), for example, raised this as a particular concern on the Hawkesbury-Nepean

floodplain where there are relatively large depth ranges between AEP events. Therefore potentially these types of retrofit measures may only be appropriate for smaller inundation depths (say up to 1 – 1.5m and low velocity type environments).

6.3.2 Cost of Resilience

Some representative examples of flood resilient measures are provided in Table 9, together with indicative cost rates based on Rawlinsons (2019).

Table 9. Example Flood Resilient Measures

Element	Base		Resilient Option		% Difference in Cost
	Material	Cost	Material	Cost	
Wall - Insulation	Glasswool	\$9 – 10 per sqm	Polystyrene	\$28 per sqm	200%
Wall – Linings	Fibreboard	\$25 per sqm	Fibre cement	\$41 per sqm	60%
Flooring	Carpet	\$72 per sqm	Tiles	\$120 per sqm	67%
Door	Hollow core	\$142 per door	Solid Core	\$200 per door	40%

Based on the estimates in Table 9, and adopting a typical single storey house, flood resilient measures are likely to cost an approximate \$20,000 extra compared with the non-resilient measures, an overall 80% increase in cost compared with the non-resilient measures.

A review was also undertaken on the available literature, with a brief overview of the different estimates provided in Table 10.

Based on the above, retrofitting of flood resilience may be in the order of \$20,000 - \$40,000 additional compared with the non-resilient alternative, although it would be highly dependent on the existing dwelling and the ability to retrofit the house.

Table 10. Summary of Cost Estimates - References

Source	Country	Cost Estimate	Comments
QRA (2019)	Australia	\$30,000 to \$50,000	For new build, not retrofit.
Keating et al (2019)	UK	\$30,000 to \$50,000	Retrofit. Includes resilient plaster, removable doors, internal wall rendering, resilient kitchen, raised electrics and appliances. Excludes flooring.
Keating et al (2019)	UK	\$50,000 to \$80,000	As above, but with resilient flooring
Blue Book – Single Storey	Australia	\$10,000	New build. Appears to be on the low end of estimates.

6.3.3 Reduction in Damages

Both QRA (2019) and Collier et al (2021) report on economic assessments of flood resilience. In the case of Collier et al (2021), the assessment was based on new construction. In this situation, the choice becomes between the baseline cost of purchasing a relatively standard material (e.g. carpet as a floor

covering) versus spending on the flood resilient alternative (e.g. tiles as a floor covering). In other words, the assessment is on the incremental cost of the flood resilient measures.

Collier et al (2021) found that full resilient measures, inclusive of both structural and non-structural measures, were generally economically viable for events more frequent than the 1 in 50 AEP. However, an independent assessment of the non-structural resilient components was not undertaken as a part of Collier et al (2021).

QRA (2019) also undertook an economic assessment on flood resilience. However, in that situation, the assumption was that the resilient measures would result in a 70% reduction in building contents damages in a flood. It is not clear how the resilient measures that were proposed would result in a reduction in building contents damages.

The Blue Book (HNFMSC, 2006) estimated that the reduction in damages as a result of improving the flood resilience of buildings was in the order of 25% at 1.2m of overfloor flooding. However, the basis of this assumption is unclear and it is likely to still be focused on the savings associated with a new build.

There has been effort in the United Kingdom (UK) on research into this area, with a focus on resilient retrofitting of existing dwellings. However, the housing stock in the UK is typically different to Australian housing stock, which can lead to some challenges in direct comparisons. However, it does provide a general indication of potential benefits. Thurston et al (2008) undertook some work on the potential damages under 'resistance' options (e.g. flood barriers) and flood resilience (e.g. flooring, power points etc). The damage curves from this work are presented in Figure 19. These damage curves would indicate that building resilience measures resulted in a reduction of approximately 38% in damages with no flood resilient flooring, and 55% with flood resilient flooring.

Based on the work of Thurston et al (2008), the 'Multi-Coloured Handbook' for economic assessments in the UK (Penning-Rowsell et al, 2013) recommends an assumed £67.74/m² reduction in damages as a result of flood resilient measures. This was based on an average of with and without resilient flooring, but is based on a typical UK style detached dwelling. However, given the difficulty in scaling this to Australian conditions, an estimate of 38 – 55% is probably more reasonable to adopt for Australian conditions.

Kriebich (2002) estimated the influence of flood resilient measures in Germany. This looked at a range of measures, including for buildings with water barriers and the influence of basements on flood damages. Some of the resilient measures included change in use of rooms below the flood level, in addition to resilient materials. This makes it difficult to compare directly. However, resilient measures such as having services (e.g. electrical utilities) above the ground floor resulted in reductions in damages of around 36%.

QRA (2019) undertook an estimate of the reduction in damages due to flood resilience. The key assumption was that "internal damages" (assumed to be contents damages, consistent with the terminology in the Brisbane River Flood Study) would be reduced by 70%, but that there would be no saving in external or building damages. It was not clear as to the basis of this assumption, and this does not appear to agree with some of the other research. It is unlikely that internal damages, which include furniture and other items, would be reduced by this much.

A summary of some of the literature is provided Table 11. Overall, the reduction in building damages may be in the order of 25 – 50%.

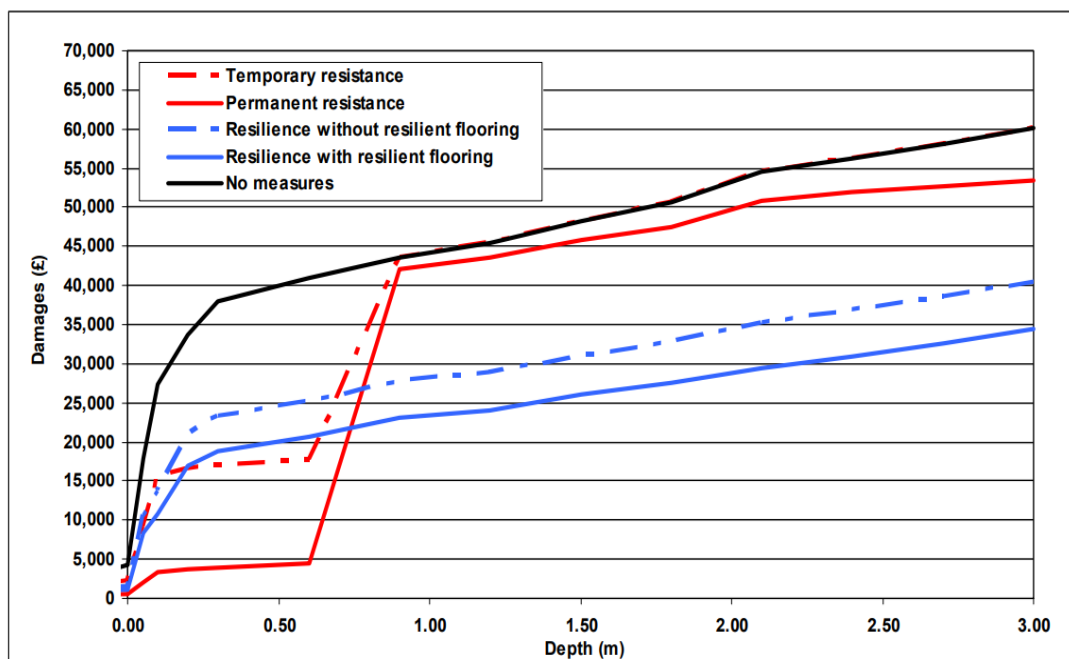


Figure 19. Damage Curves from Thurston et al (2008)

Table 11. Reduction in Building Damages - Literature

Source	Country	Reduction in Building Damages (%)
Kriebich (2002)	Germany	36%
Thurston et al (2008)	UK	38 - 55%
Blue Book - Single Storey	Australia	26%
Blue Book - two storey	Australia	24%

6.3.4 Economic Assessment – Materials

Based on the outcomes of the above, a review was undertaken on the economic viability of retrofitting resilient materials within a building.

As noted above, each resilient measure effectively provides protection or resilience for that particular component. Therefore, one way of viewing the assessment is on the financial question of whether it is more appropriate to spend money on flood resilience now, or to replace the building material each time it floods.

Two scenarios have been considered:

- Scenario 1 – retrofitting of the building is undertaken independent of a flood event. In this situation, the existing building materials are replaced even though there is no damage to them.
- Scenario 2 – retrofitting of the building is undertaken after a flood event. In this situation, the choice is whether to incorporate resilient materials or normal materials, as the existing materials need to be replaced. Therefore, it is the incremental cost of the resilient materials that is a key consideration.

In assessing these scenarios, one way to analyse this is on a unit cost approach. Under this approach, the question is the limit in additional cost of the resilient material compared with the non-resilient material that would be used. This is shown in Figure 20.

The key outcomes from this analysis are:

- Retrofitting an existing home under Scenario 1 when no flooding has occurred, and the existing house materials are serviceable, is unlikely to be viable. As most resilient materials are at least 50% more expensive than their non-resilient alternative, it would only be economically viable when the floor level of the house is at or below the 1 in 5 AEP level.
- Under Scenario 2, the outcome differs as the materials need to be replaced regardless after the flood event. On the basis that most resilient materials are at least 50% more expensive than their non-resilient alternative, then flood resilient materials are more likely to be viable for floor levels that are at a 1 in 20 AEP flood, or more frequent event.
- Should the cost of flood resilient materials fall to less than 1.25 times their non-resilient alternative, it may be economically viable to retrofit homes up to the 1 in 50 AEP extent, which would greatly increase the applicability of flood retrofitting to a larger number of homes.

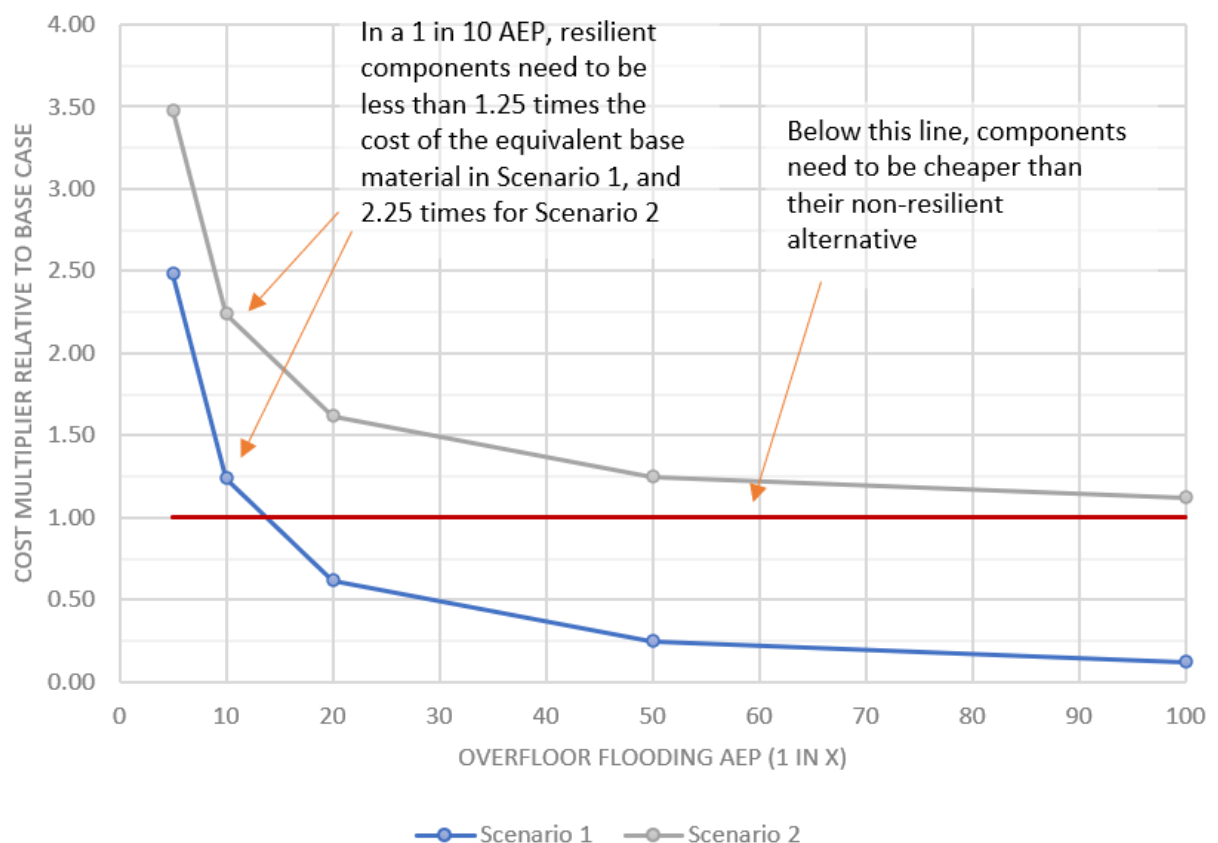


Figure 20. Flood Resilient Cost Multipliers

6.3.5 Economic Assessment – Case Study Areas

In addition to the above, an assessment was undertaken on the case study areas identified in Section 6.2. As noted in Section 6.2, there are a high concentration of properties within one or two AEP ranges of overfloor flooding in some of the study areas. Therefore, the analysis was undertaken across all properties in all representative areas.

The analysis has been undertaken on the basis of Scenario 2 above, where resilient measures are incorporated into the building after a flood event. Therefore, the key cost is the incremental cost of the resilient measures.

The assessment was undertaken on the basis of the mid-range cost estimates for resilience (approximately \$30,000). A mid-range assumed reduction in building damage (around 38%) was adopted, although an estimate of 10% of the building damage was assumed to be associated with external damages and therefore unaffected.

The results of this analysis are summarised in Figure 21.

Individual properties can be highly variable their BCR results, dependent on the level of flood affectation etc. However, Figure 21 suggests that for properties with a floor level at or below the 1 in 10 AEP, flood resilient measures are generally economically viable. For properties with a floor level between 1 in 10 AEP and 1 in 20 AEP, then there would be some situations (or floodplains) where flood resilient measures would be viable.

Figure 21 shows some very high BCR values. These appear to be associated with areas of very high depth flooding in even frequent events and may therefore not be entirely representative. As noted in Section 6.2, a hypothetical dwelling with a floor level of 0.4 metres above ground has been assumed. However, there are some properties with high depths in the 1 in 10 AEP event. In reality, these may be constructed as high-set or Queenslander style dwellings.

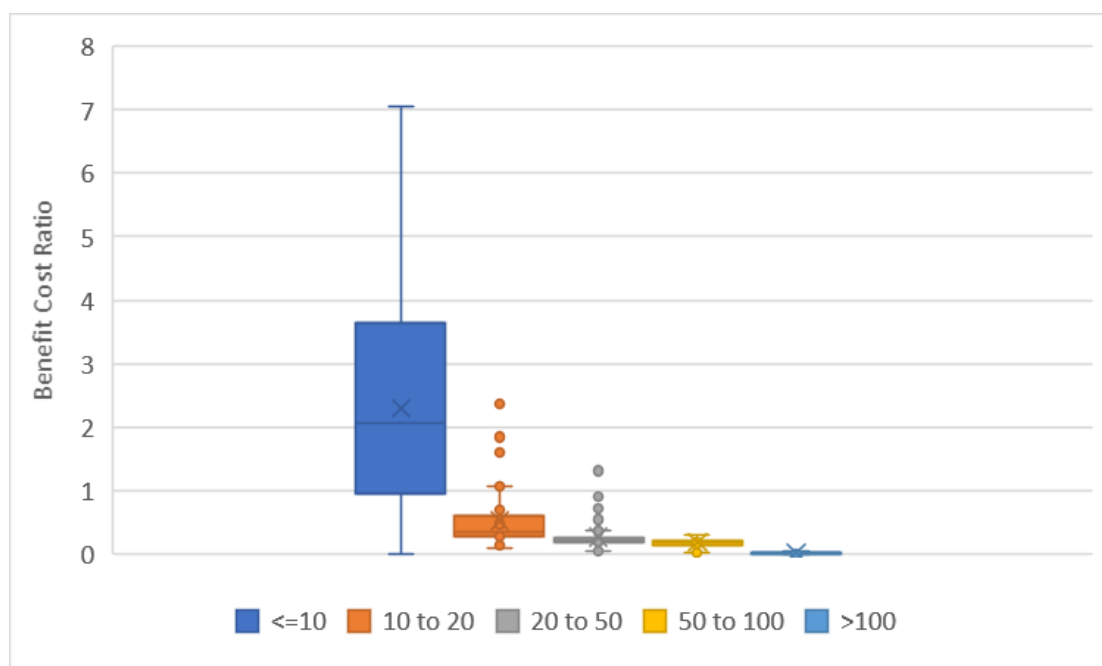


Figure 21. Flood Resilient BCR Results at Different Floor Levels

The economic analysis above is focused on the viability of the flood resilient measures. However, there remains relatively significant “residual” damages that are possible for a property even after residual measures have been incorporated. On average, across all the AEPs, there remains around 80% of the total damage, inclusive of building, contents and intangibles. In other words, the residual measures provide around 20% reduction over the total damages.

6.3.6 Large Scale Resilience Program

The analysis above is based on the retrofit of an individual dwelling. If a large-scale program were adopted, inclusive of a large-scale take-up of that program, then there may be cost efficiencies and cost reductions for resilience.

Ginger et al (2021) identifies that in 2019 the Queensland Household Resilience Program, which focuses on resilience in cyclone areas (such as roof improvements), led to significant reductions in retrofit costs (from \$35,000 to \$20,000, roughly just over a 40% reduction in cost).

The BCR was recalculated for a similar proportional reduction in cost, with the results shown in Figure 22. Under this scenario, then there is an improvement in the results overall, with improved performance of properties in the 1 in 10 to 1 in 20 AEP range.

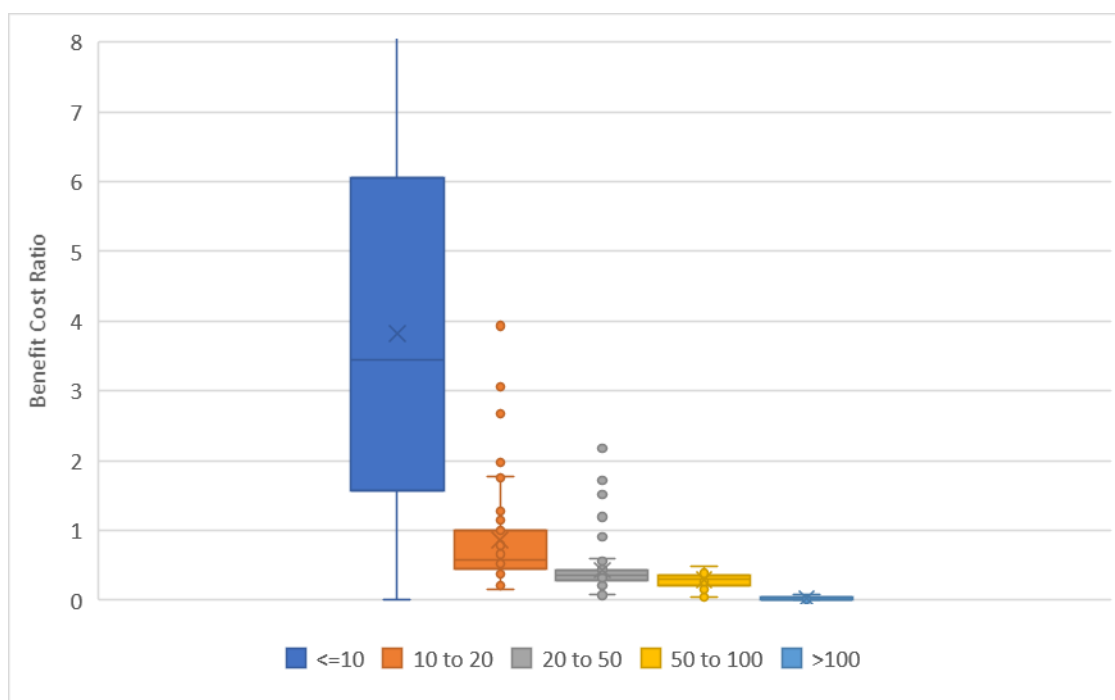


Figure 22. Flood Resilient BCR Results at Different Floor Levels – Large Scale Program

6.4 House Raising

House raising is an alternative property level mitigation where an existing property is raised. This is generally only viable for lightweight structures on piered foundations (e.g. timber). It provides some additional advantages over flood resilience, in that the contents of the property (at least those within the house) are protected. However, there remains an ongoing risk to life as well as external damages to the property itself.

There are some ongoing house raising schemes that have been implemented by various local government authorities. These typically involve some level of subsidy that is provided in order for an individual owner to raise their property.

The cost for raising a house is highly dependent on the type and size of the house, the land it is on, and to a lesser extent the height to which it is to be raised. Typical costs are in the order of \$120,000 per house.

In addition to AAD values for the representative areas for a typical house with a floor level 0.4 metres above ground, IAG also provided AAD values for a range of other heights include for a typical house at 1.8 metres above ground, or in effect a house raised by 1.4 metres.

Using this information, an assessment was undertaken on the viability of house raising. Reductions in both building damages and contents damages were estimated based on the information provided by IAG. It is noted that no change to intangibles were made, as the resolution of the information would be difficult to estimate this. However, there is likely to be some further reduction in damages associated with intangibles (for example a house that is raised may not experience overfloor flooding and therefore may not cause the same issues to residents that an event where overfloor flooding has occurred).

No residual value was assumed beyond the 30 year economic assessment period. This is on the basis that the dwelling is not new at the start of the assessment, and the service life may not extend significantly beyond the 30 year horizon.

Figure 23 shows the results of the analysis. Similar to flood resilient measures, house raising is generally viable for properties with a floor level at or below the 1 in 10 AEP.

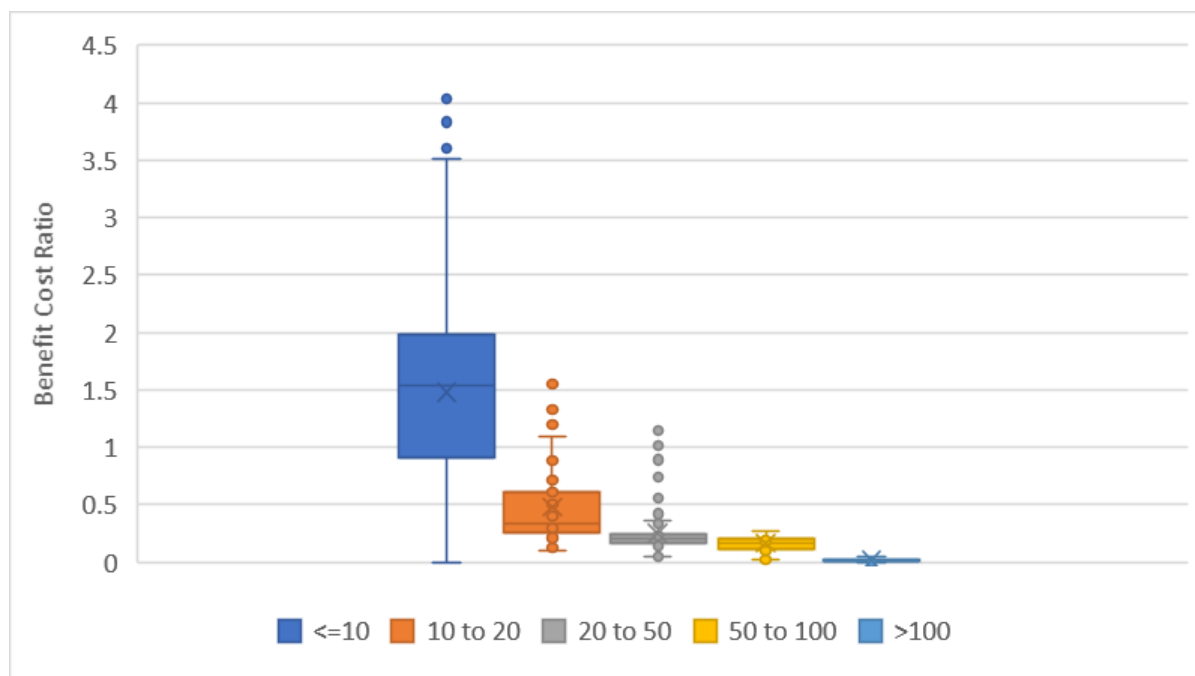


Figure 23. House Raising Benefit Cost Ratio

As with the flood resilience, this analysis has been undertaken on house raising for an individual dwelling. Traditionally, house raising programs have been undertaken at only a few houses at a time, and therefore there is unlikely to be significantly economies of scale. However, if a funding mechanism

were implemented that allowed for larger scale roll-out of house raising, then potentially overall costs may reduce. An alternative scenario was analysed with a 40% reduction in cost. The results are shown in Figure 24.

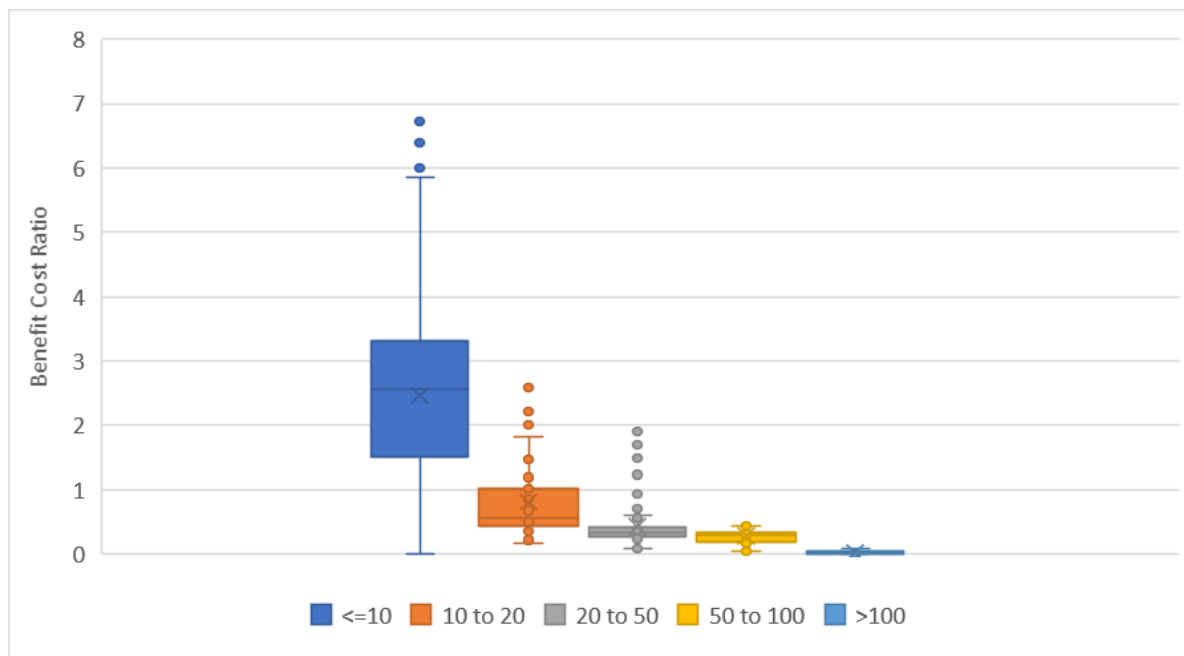


Figure 24. House Raising Benefit Cost Ratio – Large Scale Program

6.5 Land Swap

Under a land swap scheme, the relevant government authority identifies significant flood affected land, and seeks to coordinate an opportunity for those landowners to “swap” their land for a flood free area. Examples of this include a local government swapping an open space (park) area that is not flood affected for a residential dwelling allotment(s) with an existing house(s) (and demolishing the house(s) to create a parkland area). This can have the advantage of not only removing the dwelling from the flood affected area, but also improving flow conveyance by removing the obstruction of the dwelling. Generally, these schemes have typically only been applied in high risk (e.g. high hazard) flood areas and where vacant land is available to enable the swap to occur.

The key benefits are the removal of not only the property damages, but also the risk to life from people being located within the floodplain. The economic benefits considered in this assessment include the building, contents and non risk to life intangibles as identified in **Appendix A**. For the purposes of this analysis on land swap, the risk to life component has not been included given the difficulty in quantifying this with any degree of accuracy at a property scale.

From a cost perspective, effectively the land is “exchanged”, and therefore there is no real loss in land value. However, the landowner is required to construct a new house on the new parcel of land. House cost estimates, as provided by IAG for the different areas, were included within the assessment. An additional allowance of 20% of the house value was also incorporated to allow for demolition of the existing dwelling and potential other costs associated with creation of a new open space.

The economic assessment period was extended beyond 30 years to 50 years, to represent the likely design life of the new house.

The results of the analysis are summarised in Figure 25.

The benefit cost ratio is largely below 1 for all scenarios. However, there are additional considerations for land swap, such as removal of a property from a high hazard area (and hence risk to life and evacuation considerations) or wider improvement of conveyance (and hence reduction in flood damages to surrounding properties). These have not been incorporated within this analysis (as they require specific details on the flood behaviour at the individual properties and their surrounds). Therefore, there is likely to still be merit in this type of scheme under certain conditions. Some examples of this may include:

- Following a flood event, where the existing dwelling has suffered significant structural damage;
- Where homes can be relocated intact (rather than new build) for relatively low cost;
- Where risk to life is extreme and removing homes from the floodplain is warranted, and achieves additional benefit that has not been quantified here;
- Where erosion is likely to cause loss of land and rebuilding may not be feasible;
- Where land is to be reclaimed to improve the function of the waterways and provide benefits to the broader floodplain;
- Where the site is impacted by multiple compounding hazards (such as bushfire).

Following the above, a sensitivity analysis was undertaken for the situation where a house is significantly damaged by a flood event, and requires reconstruction. In this situation, the house would need to be reconstructed regardless. Therefore, the cost of land swap is more around the preparation work on the new land as well as the establishment of the open space area. The results of this sensitivity analysis are shown in Figure 26, which would suggest under these much lower costs the land swap is a viable option for properties with a floor level below the 1 in 10 AEP. BCR values are also relatively high for the 1 in 10 to 1 in 20 AEP floor level range, suggesting that there may be floodplains where this is viable, particularly considering the additional factors that have not been included in this analysis.

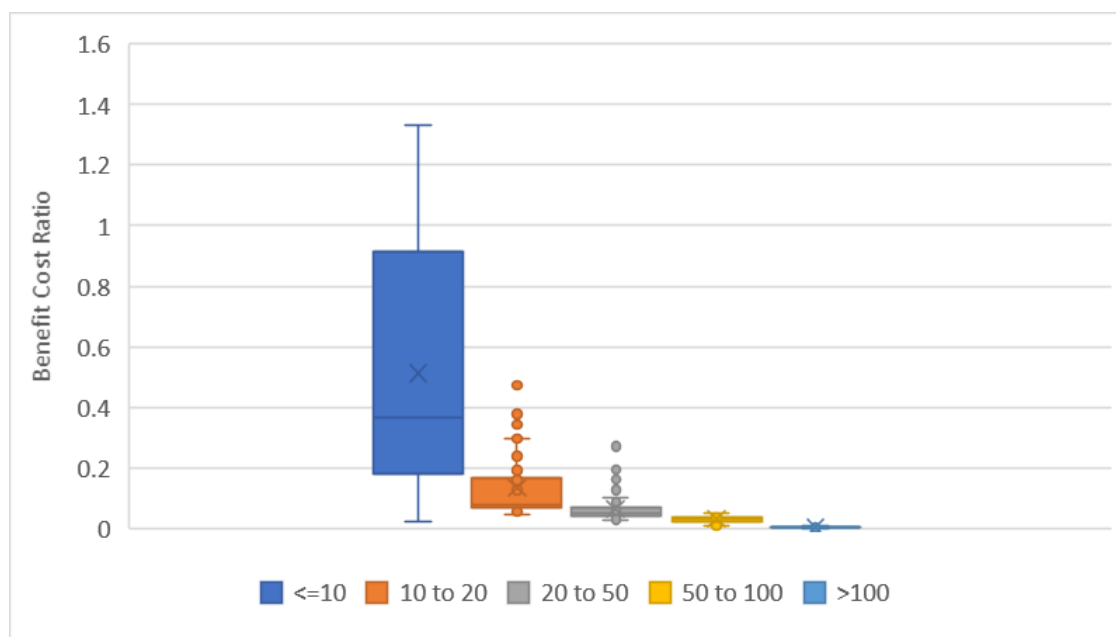


Figure 25. Land Swap Benefit Cost Ratio

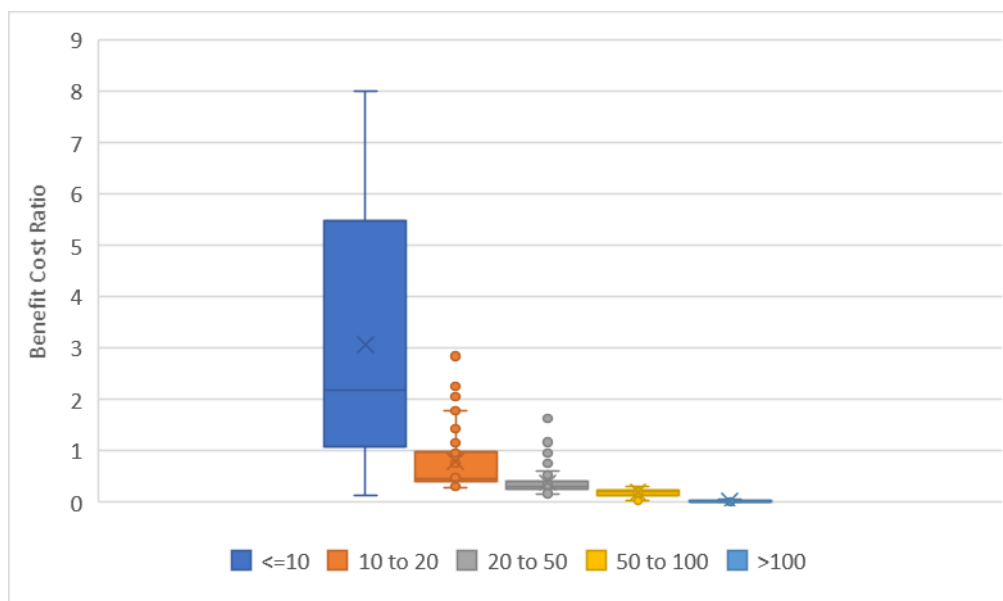


Figure 26. Land Swap Benefit Cost Ratio - Exclusion of House Cost

6.6 Summary

The above analysis has largely demonstrated that flood resilience and house raising are largely viable where property floor levels are at or below the 1 in 10 AEP. This may be further improved if a large-scale program were adopted that could achieve cost efficiencies. However, both options only deal with a portion of the overall flood damages, as well as the risks associated with the property being located in the floodplain. A high level comparison of how the components that the options deal with is presented in Table 12.

Land swap, provides the most “comprehensive” reduction in flood damages and flood risks, but has a lower economic performance. However, as noted, there are additional considerations that have not been included in this analysis, including:

- The reduction in risk to life for the household, as well as the evacuation considerations and demands on emergency services;
- The potential improvement in flood conveyance through the removal of the property, and the associated benefits to other properties as a result;
- For very high hazard flows, the potential risk of partial or full structural failure of the dwelling;
- Where the house can be relocated at relatively low cost, rather than the need to construct a new house;
- Following a flood event, where the existing dwelling has suffered significant structural damage.

Under these types of conditions, land swap may be a viable alternative to be considered.

A sensitivity analysis was undertaken on the scenario where a property experience significant structural damages and requires replacement following a flood event. If the land swap were to occur at that point in time, then the analysis suggests that it would be viable for a floor level less than 1 in 10 AEP, and potential marginal for a 1 in 10 to 1 in 20 AEP. As per the discussion above, other considerations (such as the risk to life and flood conveyance improvements) may result in an improved outcome.

Table 12. Property Mitigation Summary

Mitigation Type	Direct Damage		Indirect Damages		Intangibles	
	Building Damages	Contents Damages	Cleanup Costs	Relocation	Risk to Life	Other
Flood Resilient Building (Retrofit)						
House Raising						
Land Swap						
Low/ No Reduction						
Partial Reduction						
Large Reduction						

7 Conclusions

This report has investigated two key components:

- Identification of potential structural flood mitigation measures (also known as flood modification measures in some jurisdictions) in short-listed floodplains across the country, and an economic assessment of these measures;
- A review of potential property level mitigation measures, such as flood resilience and house raising, and an economic assessment of these measures.

The short-listing process for the floodplains was based on IAG damage information together with stakeholder and literature review. Strategic level flood mitigation measures were identified for the short-listed floodplains, and a preliminary economic assessment was undertaken for each floodplain. The preliminary economic analysis suggests that the mitigation measures would be economically viable.

The above analysis has largely demonstrated that flood resilience and house raising are largely viable where property floor levels are at or below the 1 in 10 AEP. This may be further improved if a large scale program were adopted that could achieve cost efficiencies. However, both options only deal with a portion of the overall flood damages, as well as the risks associated with the property being located in the floodplain.

Land swap provides the most “comprehensive” reduction in flood damages and flood risks but has a lower economic performance. However, as noted, there are additional considerations that have not been included in this analysis, including:

- The reduction in risk to life for the household, as well as the evacuation considerations and demands on emergency services;
- The potential improvement in flood conveyance through the removal of the property, and the associated benefits to other properties as a result;
- For very high hazard flows, the potential risk of partial or full structural failure of the dwelling;
- Where the house can be relocated at relatively low cost, rather than the need to construct a new house;
- Following a flood event, where the existing dwelling has suffered significant structural damage.

Under these types of conditions, land swap may be a viable alternative to be considered.

7.1 Limitations

The approaches adopted in this assessment are appropriate for strategic level economic estimation. Further detail and refinement would be required should the identified potential mitigation measures progress further.

The methodology adopted places a large degree of reliance on the underlying damages dataset provided to Rhelm by IAG. It has been assumed that this data is fit for purpose and representative of the damages for each area.

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Contact Information

Rhelm Pty Ltd

ABN : 55 616 964 517

50 Yeo Street

Neutral Bay NSW 2089

Australia

Contact : Rhys Thomson/ contact@rhelm.com.au

IAG

ABN : 55 616 964 517

Tower Two, Darling Park

201 Sussex Street

Sydney NSW 2000

Australia

Contact : Andrew Dyer/ andrew.dyer@iag.com.au

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Short-Listed Study Areas



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1 Lismore (NSW)

1.1 Locality

Lismore is located in the northern rivers region of NSW, about 730 km north of Sydney. The Lismore LGA has a population of 43,667, of which around 25,000 are within the Lismore township¹. Lismore is located on the confluence of the Wilsons River and Leycester Creek which can result in flooding from either system. The short-listed study area for Lismore is shown in Figure 1.

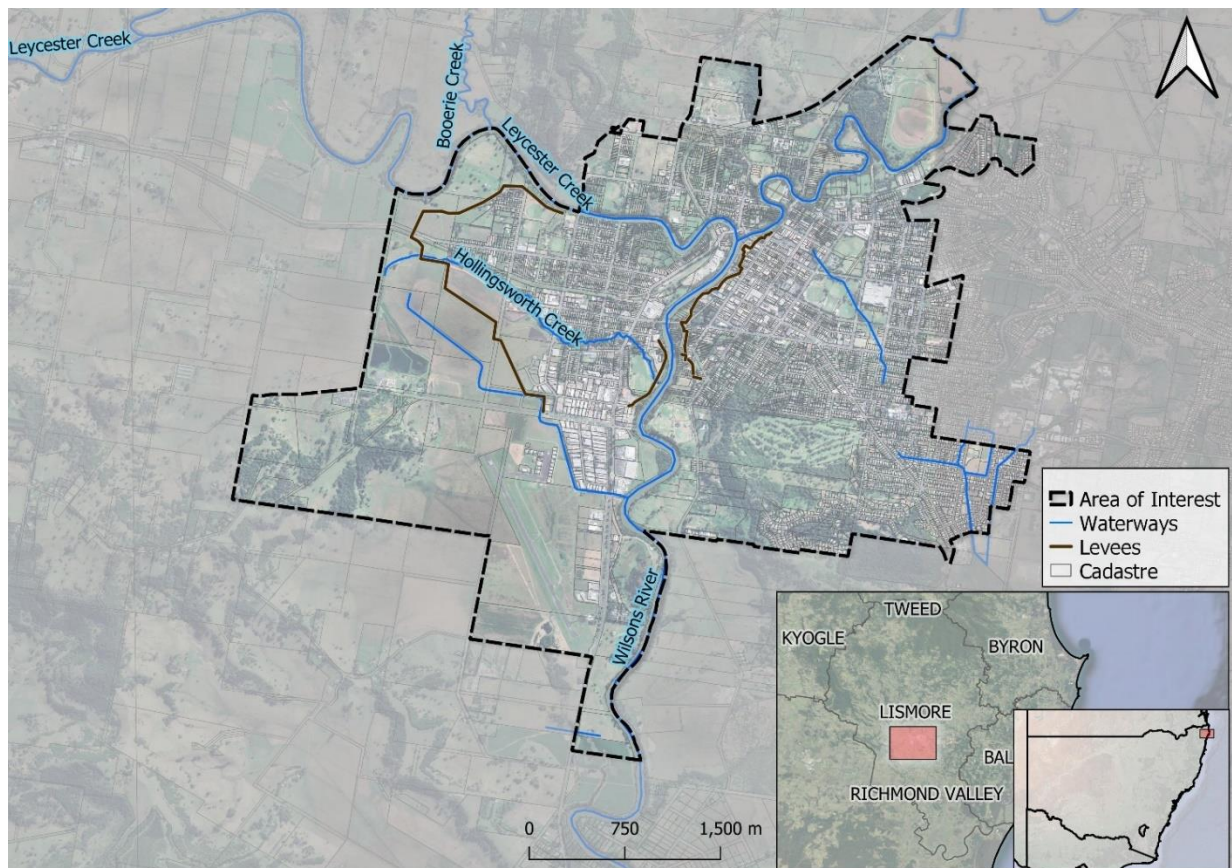


Figure 1. Lismore Locality

1.2 Flood Behaviour

The Lismore FRMSP (Engeny, 2020) has recently been completed which assessed the flooding for Lismore and developed potential mitigation options. An extract of the 1 in 100 AEP flood depth is shown in Figure 2. In the 1 in 100 AEP event Lismore has significant flooding with flood mitigation being overtopped and depths within the township of up to 5m.

Lismore currently has levee protection for the CBD portion of the township as well as for South Lismore. These levees are shown in Figure 3. Both levees have low levels of protection and are expected to overtop in events from the 1 in 10 AEP and greater. Recently these were overtopped in the 2017 flood event, Figure 4 and Figure 5 show large scale flooding for Lismore during this event.

¹ Based on Lismore City Council profile - <https://profile.id.com.au/lismore>

There are also a number of floodgates, pump systems and increase channel conveyance mitigation measures in place.

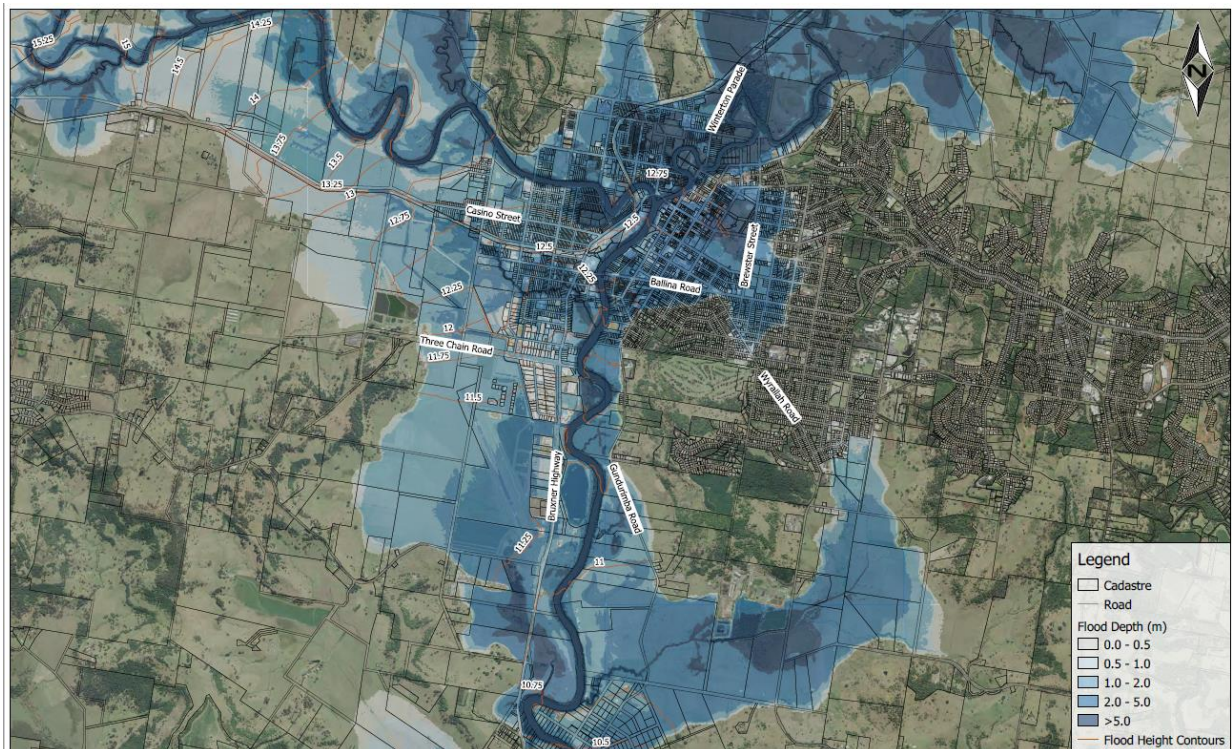


Figure 2. Lismore 1% AEP flood depths (Engeny, 2020)

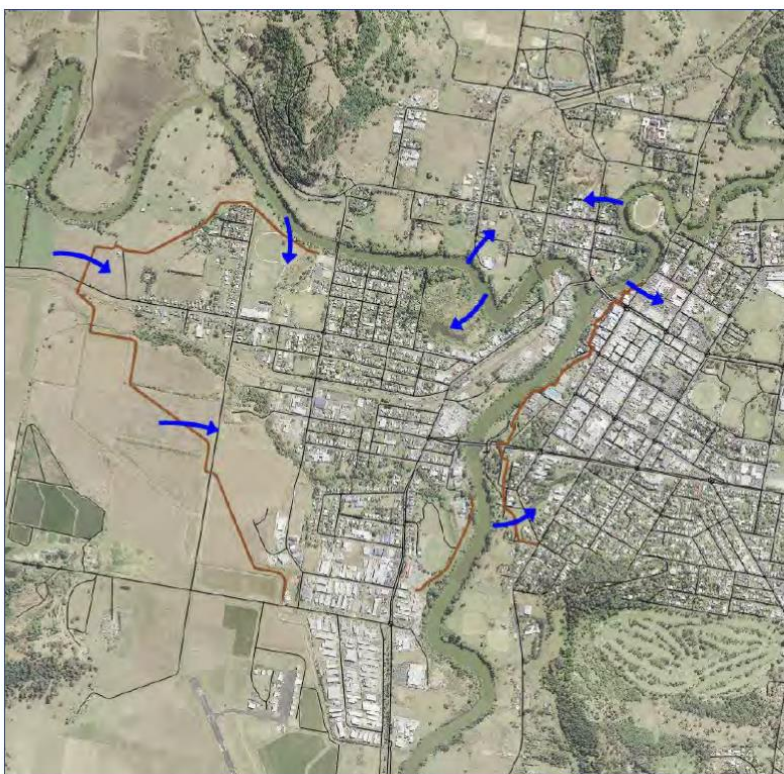


Figure 3. Lismore levees and flooding inundation direction (Engeny, 2020)



Figure 4. Flooding in Lismore in 2017 (ABC News: Ruby Cornish)²



Figure 5. Flooding in Lismore in 2017 (AAP: Dave Hunt)³

² <https://www.abc.net.au/news/2017-03-31/in-photos:-floods-devastate-northern-nsw/8403958>

1.3 Potential Mitigation

The analysis in this report was completed in August 2021, prior to the flooding in the NSW Northern Rivers region in early 2022. We acknowledge that there is ongoing work being undertaken by Lismore City Council, CSIRO, the Northern Rivers Reconstruction Corporation, NSW and Federal Governments and the National Recovery Resilience Agency to mitigate against flood risk and build community resilience in Lismore. Given this ongoing work, analysis on potential mitigation measures has not been undertaken on Lismore.

2 Shepparton (VIC)

2.1 Locality

Shepparton is located in north central Victoria, approximately 181 km north of Melbourne. It is a large centre with a population of 51,631 (including Mooroopna)⁵. Shepparton is a region hub and is a centre for large industry operations including companies such as SPC Ardmona and Campbells Soup Company. It is located at the confluence of the Goulburn River, Broken River and Seven Creeks and each of these systems can cause flooding within the township. It is a complex floodplain network with the timing and magnitude of each system influencing the potential impacts on the community.

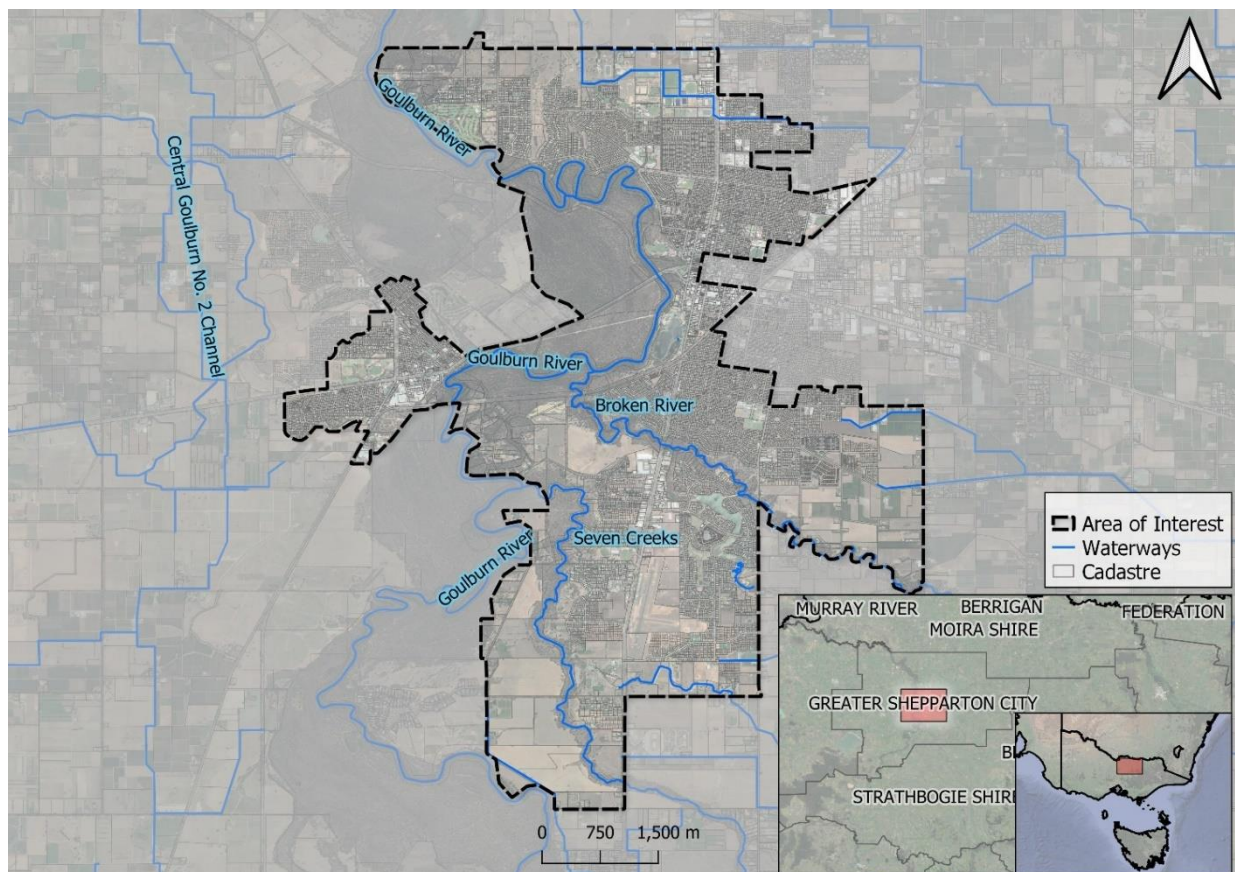


Figure 6. Shepparton Locality

2.2 Flood Behaviour

A recent study has been completed, the Shepparton Flood Mapping and Intelligence Report (Water Technology, 2019) providing a contemporary evaluation of flood behaviour through the township for a range of events. These include a Goulburn River dominant, Broken Creek dominant and Seven Creeks dominant events. These events are then enveloped to form the expected 1% AEP event.

⁵ [3218.0 – Regional Population Growth, Australia, 2017-18: Population Estimates by Significant Urban Area, 2008 to 2018". Australian Bureau of Statistics. Australian Bureau of Statistics. 27 March 2019.. Estimated resident population, 30 June 2018.](#)

The combined flood result is shown in Figure 7. Across Shepparton and Mooropna there is widespread flooding, although most overbank flooding is less than 1m in depth.

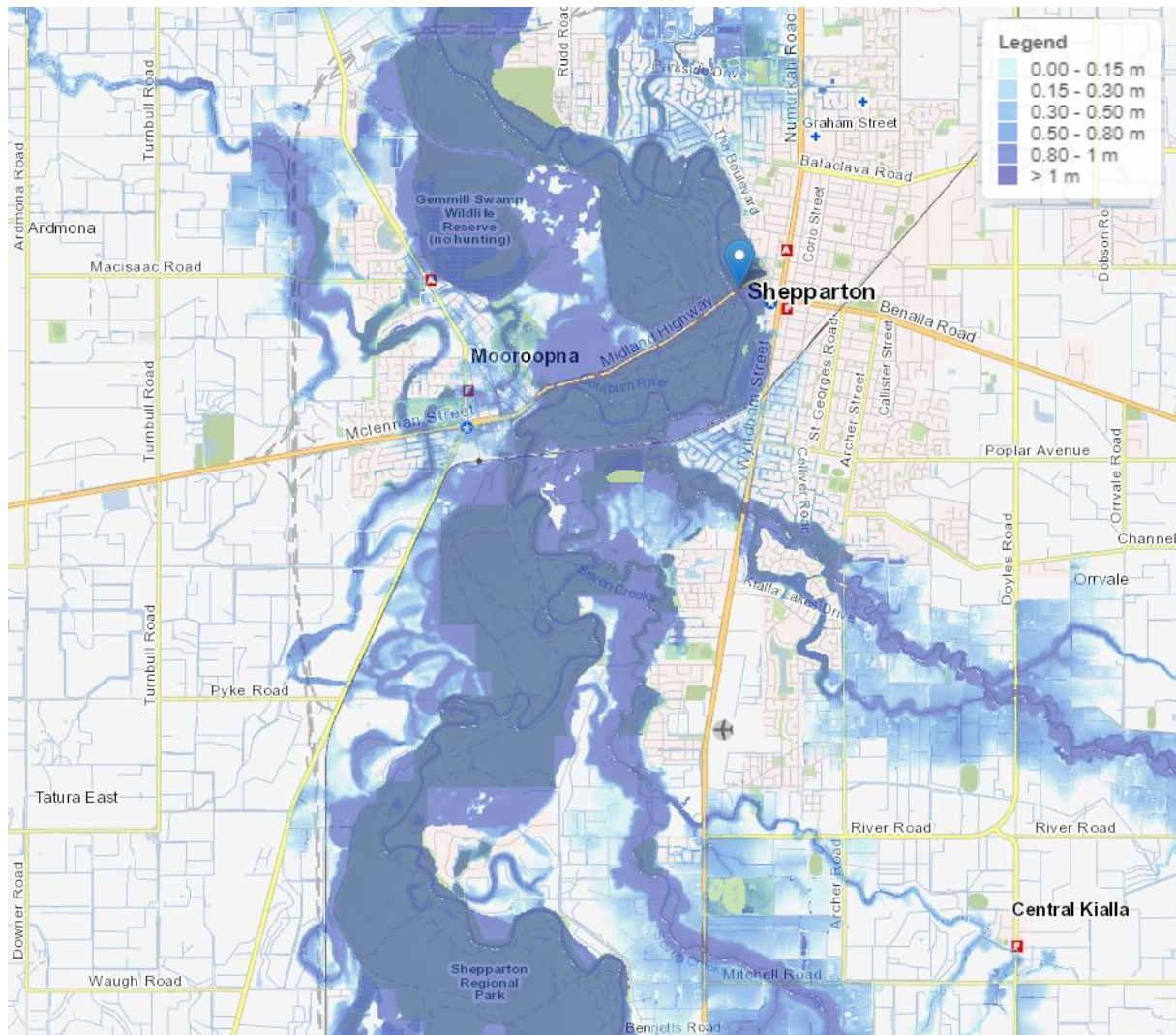


Figure 7. Shepparton 1% AEP flood conditions (Water Technology, 2019)⁶

Further to the 2019 Water Technology study there has been a Shepparton East specific study completed (BMT WBM, 2017) and an older Shepparton-Mooropna Flood Study (SKM, 2002) which covered a similar area to the 2019 study. Each of these studies has completed a flood damage assessment as part of the analysis. The Shepparton-Mooropna Study (SKM, 2002) included a damage assessment and mitigation option assessment.

2.3 Mitigation

Mitigation options have been developed from assessment of the current flood study results (Water Technology, 2019) and from options developed in the Shepparton-Mooropna Flood Study (SKM, 2002). The 2002 Flood Study assessed several flood mitigation options but due to changes in flood levels (impacts associated with the levees) the mitigation options were not developed further. It is also

⁶ <http://www.floodreport.com.au/>

understood that during the 2002 study, that there were some community objections to the proposed levees, although it is not clear if that sentiment remains.

The SKM (2002) assessment was on the basis of 1 in 100 AEP protection provided by the levees. Therefore, a lower protection of 1 in 50 AEP has been considered for the purposes of this strategic design, as it may be easier to offset any increases in flood levels or changes in flood behaviour. However, flood modelling would be required to refine this. For example, a protection at a 1 in 20 AEP level, whilst protecting less properties, may result in less afflux.

The mitigation options developed as possible protection measures include:

- South Shepparton Levee
- South Mooroopna Levee
- Kialla Levee
- Boulevard Levee
- Kialla Lakes levee
- Riverside / Shopping Centre levee
- East Mooroopna Floodway - Increased waterway opening in causeway and railway line crossing.

The mitigation options are presented in Figure 8 and with more description in Table 2.

Table 1. Descriptions for proposed mitigation options for Shepparton

Mitigation Option	Potential Protection	General Description
South Shepparton Levee	1 in 50 AEP	Earth levee, ~2m in height. One major road crossing. Levee length of around 4.3km long.
South Mooroopna Levee	1 in 50 AEP	Has two major road crossings. ~1.5m in height, total length around 2.5km long.
Kialla Levee	1 in 50 AEP	Open land, less constraints for construction. ~1.5m height. 0.6km long.
Boulevard levee	1 in 50 AEP	Reasonably open earth levee, 1 major road crossing. ~1.5-2m in height, 4.9km long.
Kialla Lakes	1 in 50 AEP	Low levee ~1.5m in height, required road redesign. 1.3km long.
Riverside / Shopping Centre	1 in 50 AEP	~1m in height, 0.5km in length.
East Mooroopna Floodway	Increased conveyance of floodway	Roughly 64,000 m ³ to be excavated and a large bridge widening on a major road. Identified in the SKM (2002) study to offset impacts of levees.

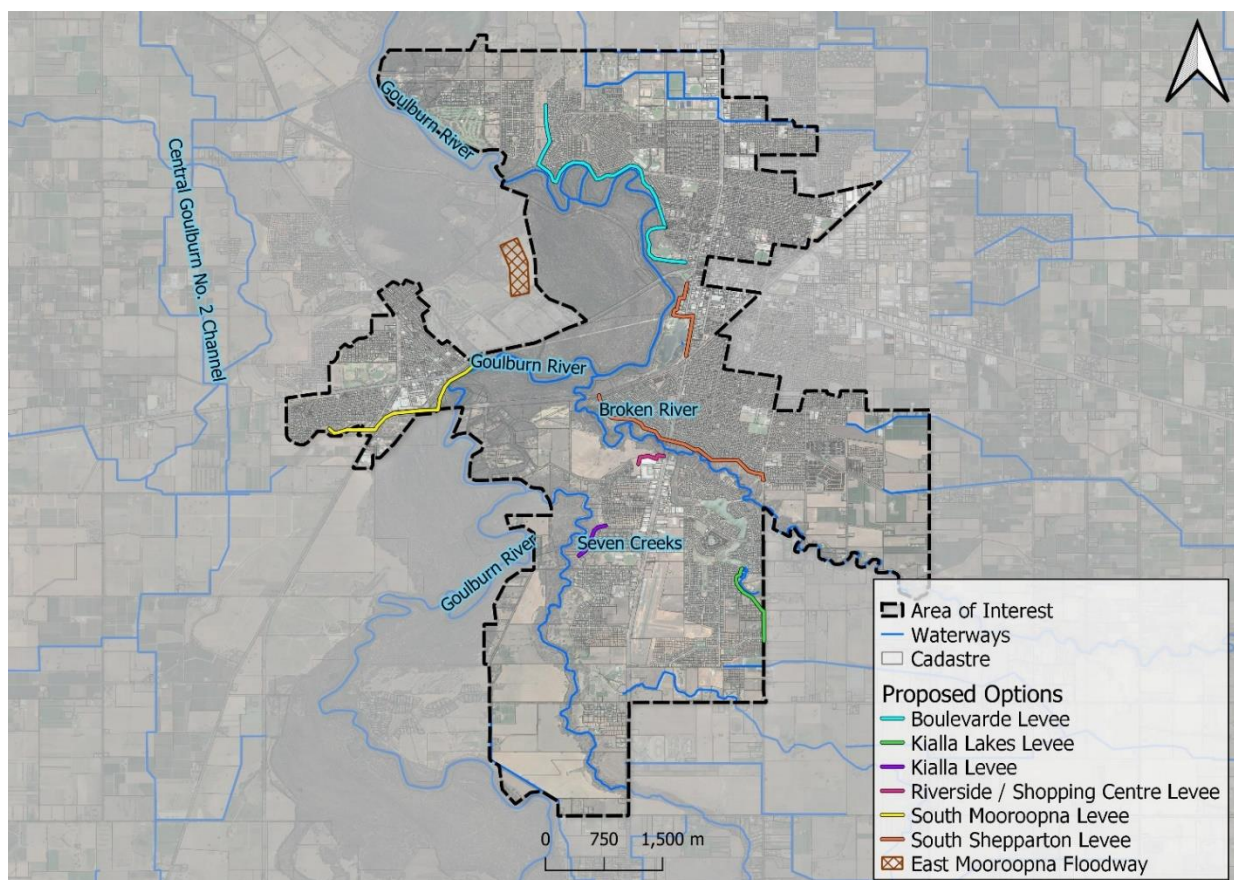


Figure 8. Shepparton mitigation options

2.4 Costing

The proposed mitigation options have been costed based on similar levee development in other locations, road crossing and an estimate of how complex the levee would be to construct. Costs are summarised in Table 2.

Table 2. Estimated costs for proposed mitigation options for Shepparton.

Mitigation	Description	Cost (\$m)
1	South Shepparton Levee	\$9.7
2	South Mooroopna Levee	\$3.9
3	Kialla Levee	\$0.7
4	Boulevard levee	\$7.9
6	Kialla Lakes	\$3.5
7	Riverside / Shopping Centre	\$0.3
8	East Mooroopna Floodway	\$3.0
Total		\$28.9
Contingency (65%)		\$18.8
Total with contingency		\$47.7

2.5 Current Status

The Shepparton mitigation options are strategic only. They were assessed in the SKM study in 2002, however new modelling has been undertaken since that time and no updated assessment of the mitigation works has been undertaken. The findings in 2002 indicated that there were widespread increases in flood levels with the development of the flood mitigation and since the SKM (2002) study no further assessment has been undertaken.

A detailed investigation would be required to understand the impacts of the mitigation as well as concept design to understand the limitations of the mitigation options.

2.6 Key Considerations and Uncertainties

Previous mitigation analysis for Shepparton indicated that the mitigation was likely to have unacceptable impacts across the broader floodplain. The feasibility of the mitigation options would need to be understood prior to further consideration and design.

Previous mitigation identification and assessment resulted in poor community acceptance of intervention works. More indirect methods were utilised to manage the future risk to the floodplain, such as increased planning controls and improved on-site detention policies.

2.7 Summary

Shepparton is well understood to have a large flood risk with significant damages in rare flood events. There is a large range of potential mitigation options available for protecting the township which makes it a suitable location for further consideration. However, a limitation is the sensitivity of the floodplain to mitigation options and community acceptance for the mitigation works.

Table 3. Shepparton - Summary

Item	Description
Level of Design	Strategic. While the mitigation was assessed in 2002 (with a higher protection), no update to this assessment has been undertaken
Flood Mitigation Performance	Targeting a 1 in 50 AEP protection for those areas protected by the levees. May be required to lower this protection if negative flood impacts.
Cost Estimate	\$47.7M Strategic only.
Constraints	<ul style="list-style-type: none"> Potential environmental constraints, particularly for the floodway Uncertain on community acceptance of the scheme
Further Work Required	A flood risk management study to undertake appropriate optioneering and community engagement.

3 Narrabri (NSW)

3.1 Locality

The Narrabri study area is located within the Namoi River floodplain and is drained by a number of smaller tributaries including Mulgate Creek, Horsearm Creek and Long Gully. Narrabri has experienced above floor flooding from each of these sources on a regular basis in the past. Flooding is complicated through the township, as the Namoi River splits upstream of the township, with low flows continuing in Namoi River and higher flows bypassing down Namoi Creek.

The locality of the Narrabri is shown in Figure 9. This figure shows the split of the Namoi River system.

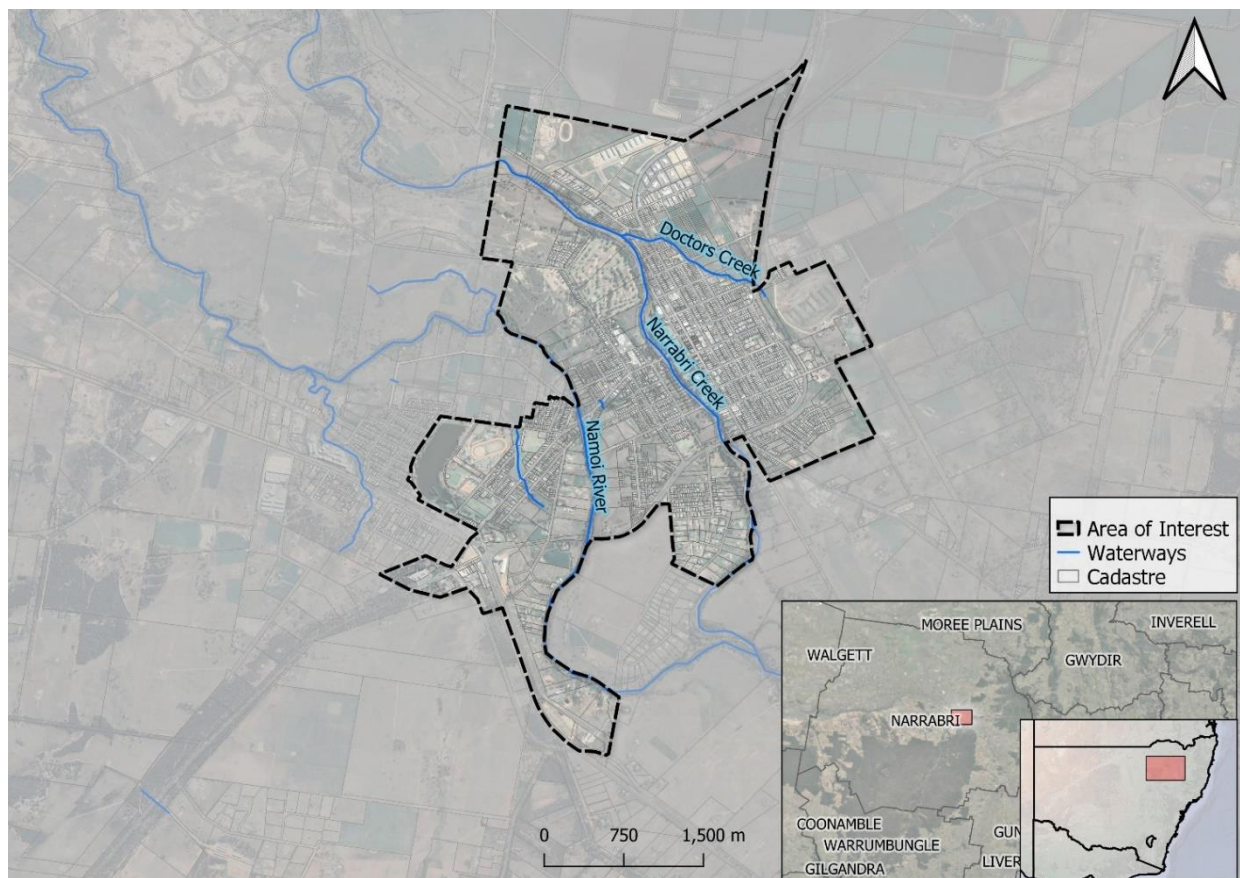


Figure 9. Narrabri Locality

3.2 Flood Behaviour

The current Narrabri Flood Study was completed in December 2016 by WRM Water Environment and updated in 2019. Narrabri is influenced by both regional flooding (Namoi River) and localised flooding (Narrabri Creek, Doctors Creek, Mulgate Creek, Horse Arm Creek and Long Gully). The 1% AEP local flooding (i.e. flooding driven from local creeks such as Horse Arm Creek) is shown in Figure 10, and the regional flooding (driven by the Namoi River) is shown in Figure 11.

The study indicated that there are around 5,000 properties impacted by flooding in the area, with over 180 homes and businesses expected to have overfloor flooding in the 1% AEP event for the local catchment flood, and over 1200 for the regional flood (WRM Water Environment, 2016). At the time of issue of this report the FRMSP had not been completed (but is underway). It is unknown when this is

likely to be completed. From the flood study it is evident that much of Narrabri is impacted during events from the 20% AEP and is significantly impacted for events from 2% AEP and larger.

Local flooding results in shallow depths experienced throughout the main township, whereas regional flooding results in widespread flooding within Narrabri with depth of around 0.5-1.0 m.

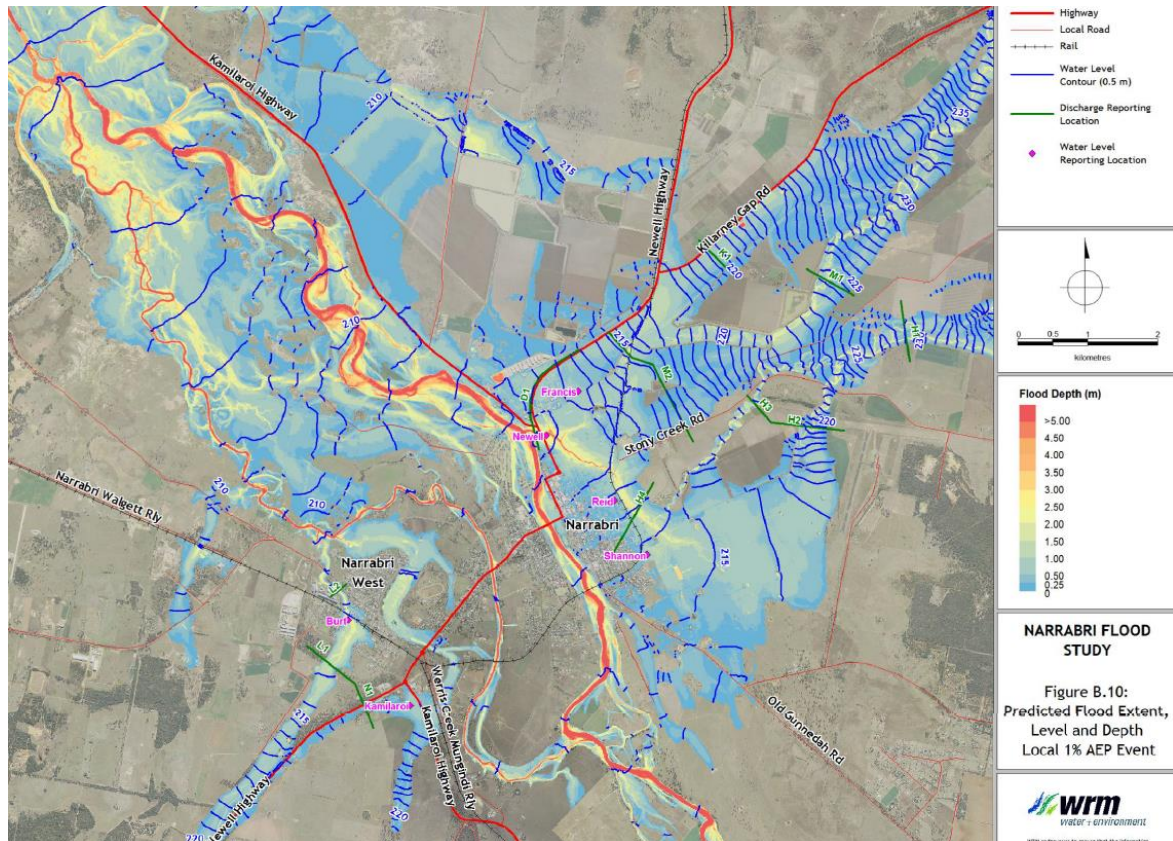


Figure 10. Narrabri 1% AEP flood conditions for local events (WRM Water Environment, 2016)

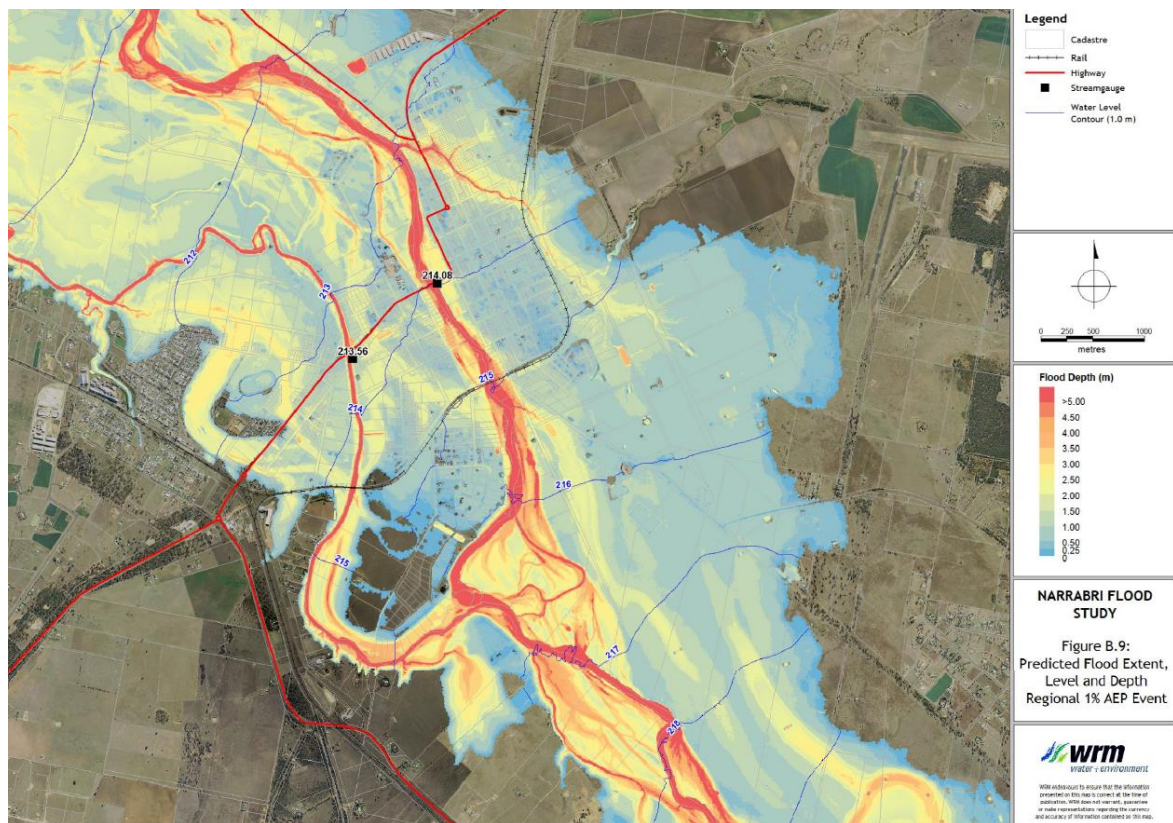


Figure 11. Narrabri 1% AEP flood conditions for regional events (WRM Water Environment, 2016)

An animation of the 1% AEP flood can be viewed by the following link:

https://www.youtube.com/watch?v=6f_Ue25Qx8Q&ab_channel=NarrabriShire

Aerial imagery of a significant flood event in 2004 is shown in Figure 12 and Figure 13. Figure 12 shows the influence of a levee and culverts on Horse Arm Creek. Figure 13 shows the Francis Street Industrial Estate.

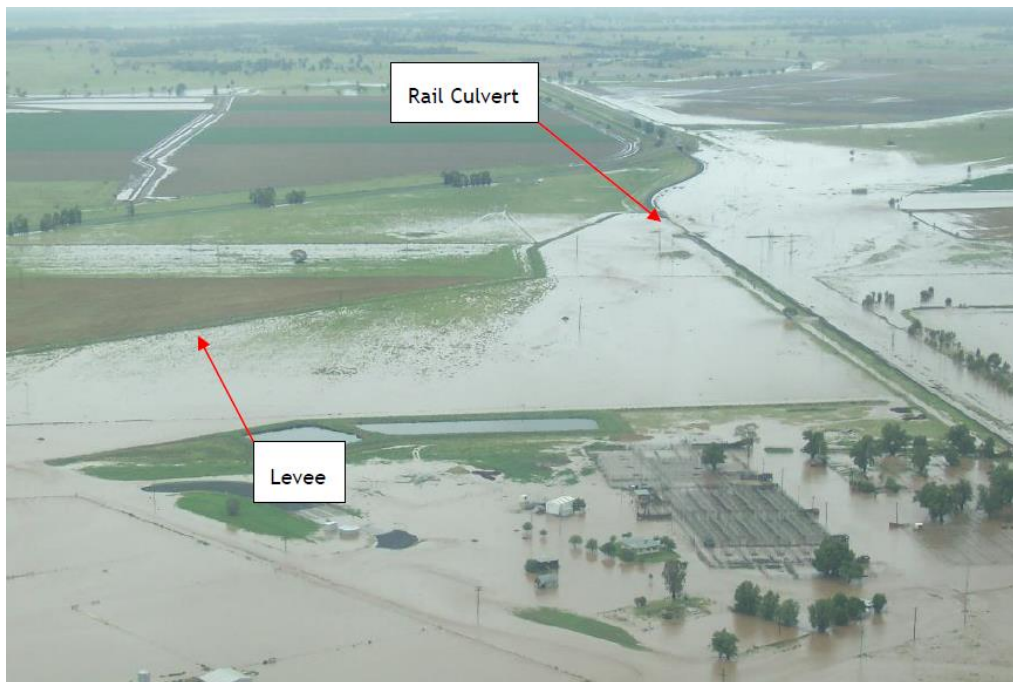


Figure 12. Aerial image of the 2004 flood for Narrabri (within Horse Arm Creek)⁷



Figure 13. Aerial image of the 2004 flood for Narrabri of the Francis Street Industrial Estate³

⁷ Narrabri Flood Study (WRM water and Environment, 2016)

3.3 Potential Mitigation

Narrabri is affected by extensive flooding with no major mitigation works within the main township. Flooding of the township occurs in events as frequent as frequent as a 1 in 10 AEP event and can be caused by either regional floods on the Namoi River system or local flooding from the smaller creeks in the area.

There is currently a FPRMSP in development, but this has not been completed and therefore there are no publicly identified mitigation works. As there are no current floodplain mitigation strategies investigated, the mitigation options developed have been based on available flood mapping and the underlying DEM for the township and as a result are only conceptual. The proposed mitigation options are shown in Figure 14 with additional details of the mitigation options summarised in Table 4.

Table 4. Narrabri flood mitigation options

Option	Proposed protection ⁸	General Description
South East Levee	1 in 20 AEP	Earth levee ~2m in height, linking to the railway line, 1 road crossing, 1.8km
East Levee	1 in 20 AEP	Earth levee with some complicated sections, linking to rail line. ~2m high and 3 road crossings, 3.9km
Central Levee	1 in 20 AEP	Earth levee, ~1.5m high and 1 road crossing, 0.7km
Central Floodway Sth	1 in 20 AEP	Earth levee, ~1.5m high and 3 road crossings, 2.3km
Central Floodway Nth	1 in 20 AEP	Earth levee, ~1.5m high and 2 road crossings, 0.85km
West Levee	1 in 10 AEP	Earth levee, ~1.5m high and 2 road crossings (this levee may be difficult to implement), 1.6km
Industrial Levee	1 in 10 AEP	Earth levee, ~1.5m high and 2 road crossings (this levee may be difficult to implement), 1.9km
Channel widening / improved conveyance	N/A	Options to improve both Narrabri River and Narrabri Creek main channel conveyance. This has potential to alleviate any increases from proposed levee works.

⁸ This could be higher or lower depending on impacts and what can be achieved by design

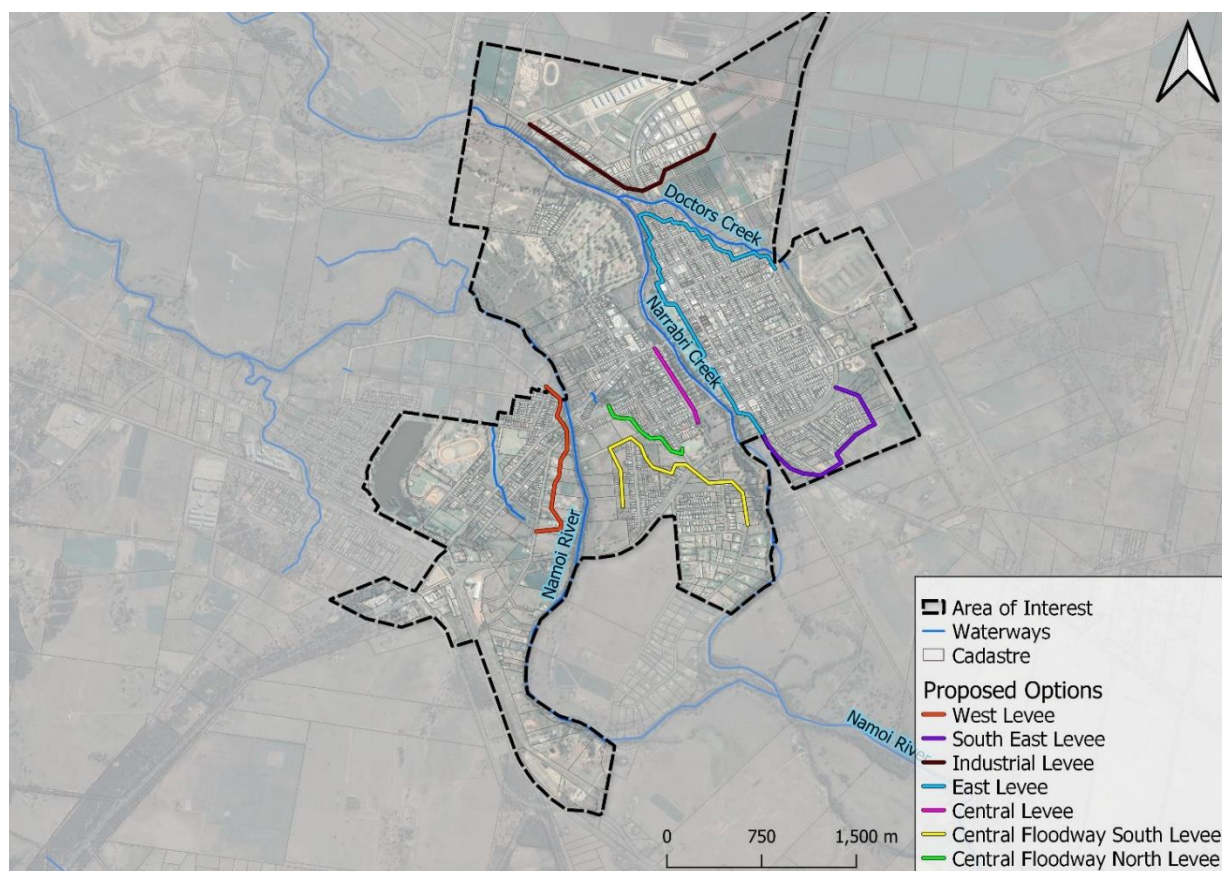


Figure 14. Potential mitigation options for Narrabri

3.4 Costing

The mitigations options considered have been costed using assumptions based on general levee project construction costs and cost estimates for completed projects across Australia. The costs are approximate only but give an indication of the expected scale of the works. A summary of the costs is supplied in Table 5.

Table 5. Costs estimates for Narrabri

Option	Proposed protection	Mitigation Indicative Estimated Cost (\$m)
SE Levee	1 in 20 AEP	\$5.0
East Levee	1 in 20 AEP	\$11.1
Central Levee	1 in 20 AEP	\$2.8
Central Floodway South	1 in 20 AEP	\$5.7
Central Floodway North	1 in 20 AEP	\$2.7
West Levee	1 in 10 AEP	\$4.0
Industrial Levee	1 in 10 AEP	\$4.5
Total		\$35.8
Contingency (65%)		\$23.3
Total with Contingency		\$59.1

3.5 Current Status

All mitigation options for Narrabri have been developed as a concept only during this initial investigation. No assessment of the feasibility or acceptance of the proposed mitigation option has been undertaken. Mitigation options would require a detailed flood assessment, detailed costing, consultation and full detailed design prior to final adoption.

Council is currently undertaking a FPRMSP that is likely to identify a number of flood risk mitigation measures. The outcomes of this study should inform any future works in this study area.

The current status of Narrabri mitigation is **Strategic Only**.

3.6 Key Considerations and Uncertainties

The key consideration for Narrabri is that no formal investigation into mitigation options has been undertaken. The options developed are very high level and may produce impacts that are unacceptable to the community. It is unclear if levee options have been explored in the past or discussed at a strategic level for Narrabri as a part of their ongoing FPRMSP.

Flooding through the township is complex which may exacerbate the flood impacts on other areas due to the proposed mitigation options. Therefore, it will be important to ensure that appropriate flood analysis is undertaken.

3.7 Summary

The flood impact within Narrabri is high and the proposed mitigation options provide some protection to flood up to 1 in 10 to 1 in 20 AEP. There is uncertainty surrounding the impacts of the proposed mitigation options and with the community acceptance of flood mitigation works. The status of the options is strategic only and time and detailed studies would be required and approvals obtained before proceeding with works at this location.

Table 6. Narrabri - Summary Mitigation

Item	Description
Level of Design	Strategic. No formal modelling or investigation of mitigation options undertaken.
Flood Mitigation Performance	Targeting a 1 in 10 to 1 in 20 AEP protection for a number of areas in Narrabri. Potential for flood impacts on adjacent properties – modelling required to refine scheme.
Cost Estimate	\$59.1M
Constraints	<ul style="list-style-type: none"> • Potential flood afflux • Several road crossings and interfaces with private properties • Environmental considerations are uncertain
Further Work Required	Floodplain risk management study and plan to be completed (currently in progress), including appropriate optioneering and community engagement.

4 Innisfail (QLD)

4.1 Locality

Innisfail is located approximately 73km south of Cairns, within the Cassowary Coast Regional Council LGA. It is located at the confluence of the South Johnstone and North Johnstone Rivers, which merge at Innisfail to form the Johnstone River.

The broader Innisfail area, which spans west and east of the rivers, has a population of over 7000 people, with around 3,200 dwellings⁹. A general overview of the locality is shown in Figure 15.

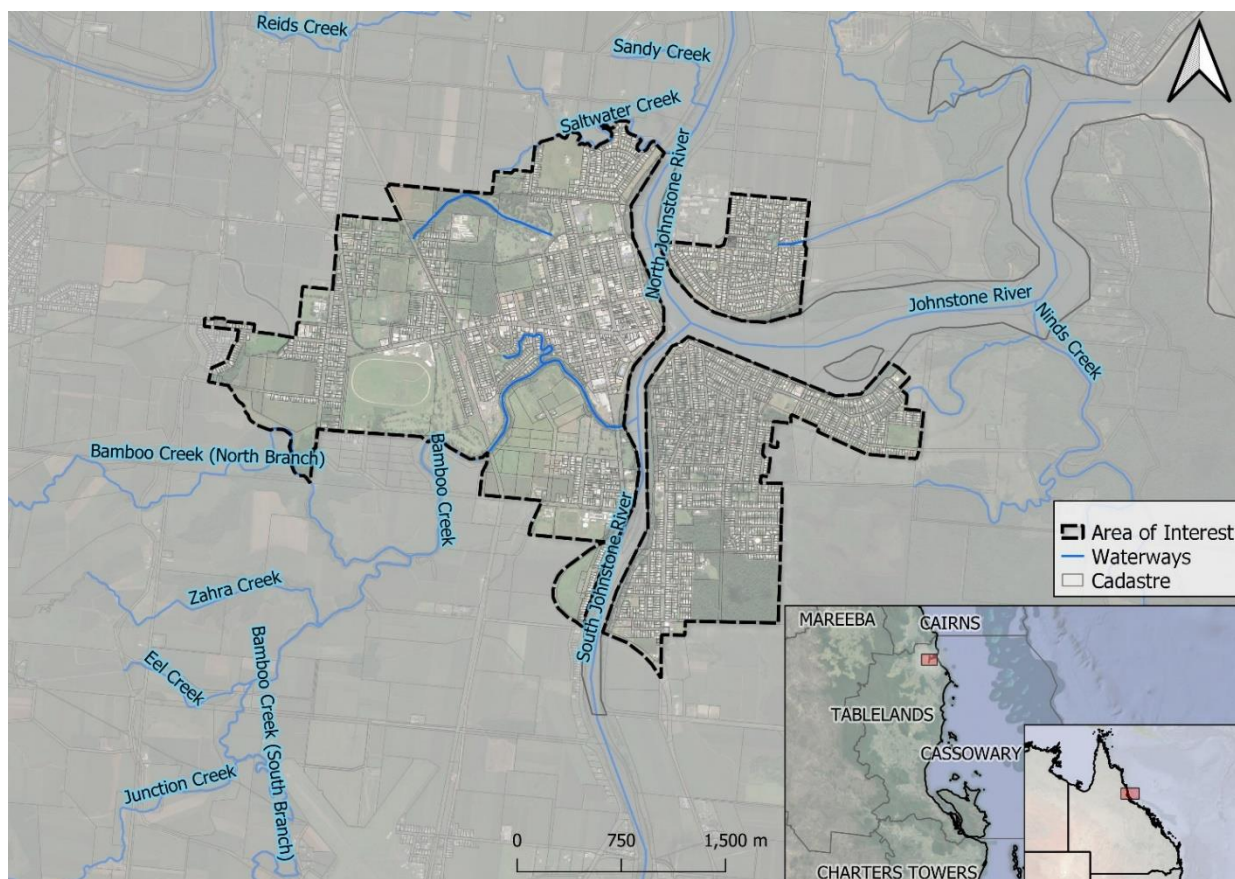


Figure 15. Innisfail Locality

4.2 Flood Behaviour

BMT WBM undertook a flood study in 2014 that incorporated the Johnstone River catchment and floodplain. A general overview of the flood depths for the 1 in 20 and 1 in 100 AEP are shown in Figure 16 and Figure 17.

Reviewing the flood behaviour, it would appear that more frequent flooding within the main township of Innisfail is driven by backwater flooding up tributaries such as Saltwater Creek and Sweeney Creek. The worst affected urban areas are parts of Innisfail, on the western side, as well as the suburb of Cullinane, which borders Saltwater Creek in the north. On the eastern side of South Johnstone River,

⁹ https://quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/UCL314014

areas of Webb, South Innisfail and the southern parts of South Innisfail are affected. An overview of the terrain is provided in Figure 18, which provides a general understanding of these inundation areas.

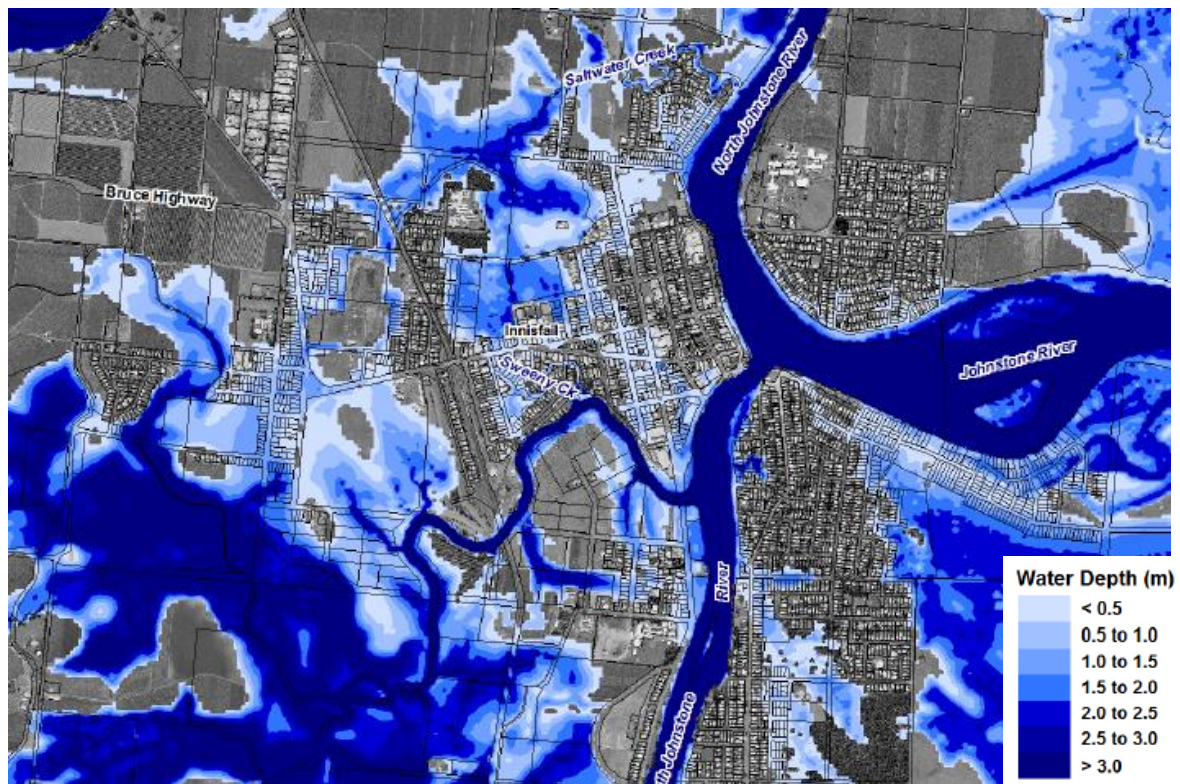


Figure 16. 1 in 20 AEP Flood Depth – Innisfail

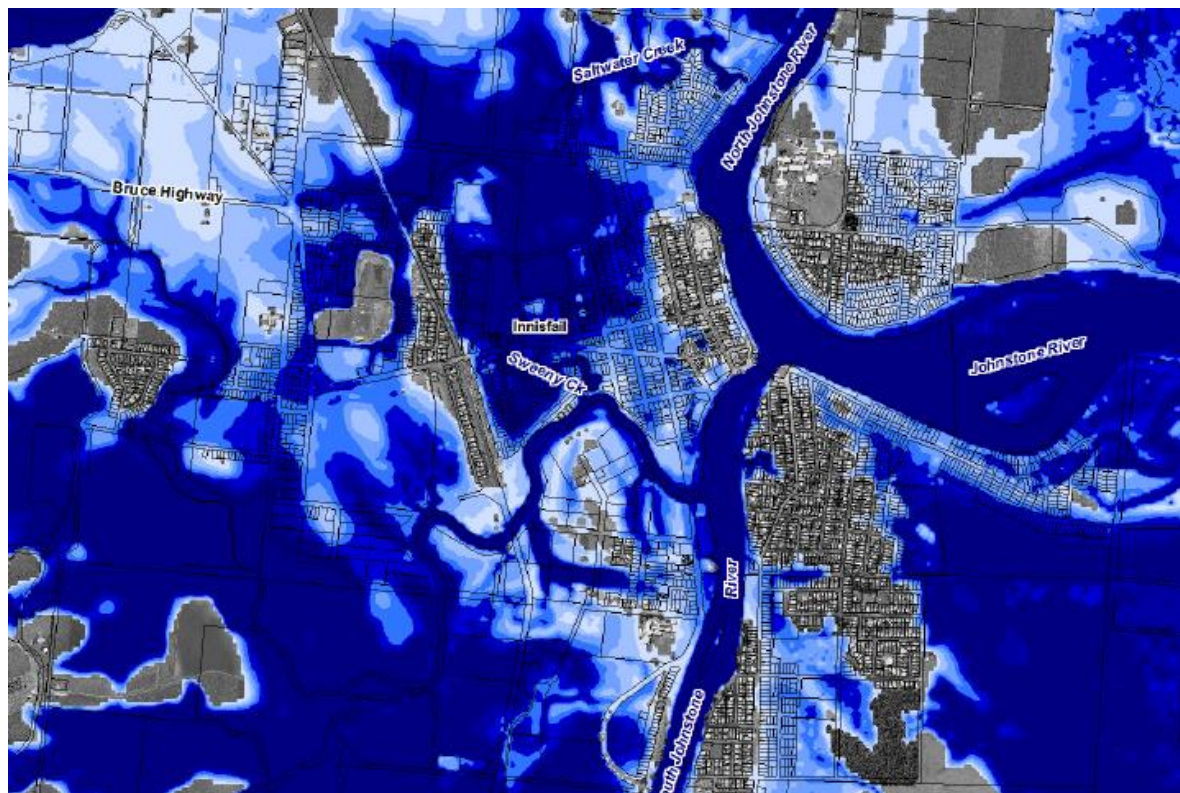


Figure 17. 1 in 100 AEP Flood Depth – Innisfail

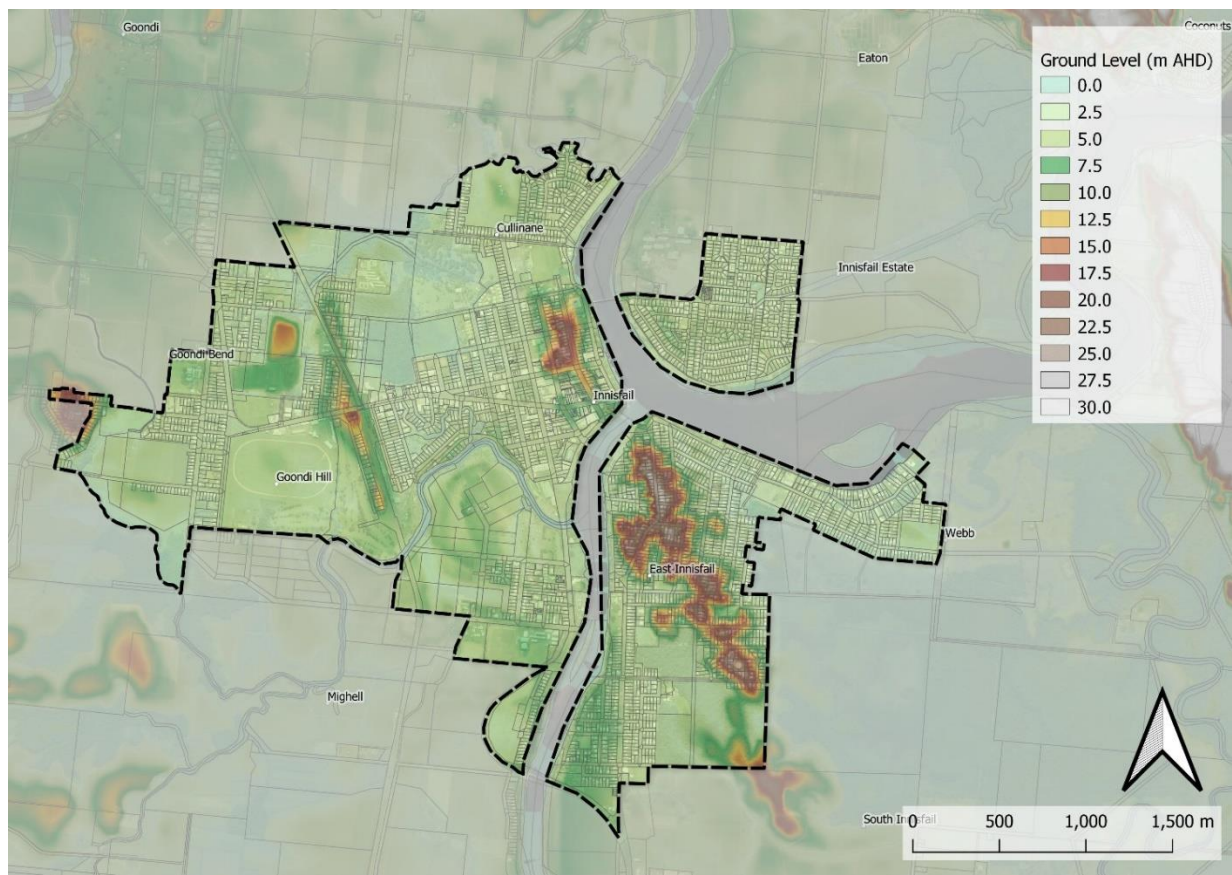


Figure 18. Overview of Terrain – Innisfail

4.3 Mitigation

Innisfail has had several investigations of potential flood mitigation options that have assessed levees, dredging and increased conveyance options. A selection of the more viable mitigation options has been identified that have potential to protect Innisfail without impacting the surrounding floodplain to unacceptable levels. The mitigation options identified are shown in Figure 19 and summarised in Table 7 along with a general description of the levee and mitigation option.

The proposed levees are set at a 1 in 50 AEP protection level, however this may not be achievable, and a lower level of protection may be required to be adopted. BMT WBM (2014) identified adverse impacts as a result of a 1 in 100 AEP levee scheme, and therefore a lower threshold of 1 in 50 AEP has been adopted in this report on the assumption that it may be easier to manage the potential flood impacts. A detailed study into the mitigation options should be undertaken to determine the feasibility of the options and the level of protection.

BMT WBM (2014) identified a potential dredging option for the river, which may have the potential to offset the afflux from the levees. This has been included in the overall mitigation option, although this should be reviewed depending on the necessity and afflux. Environmental considerations in particular in regard to this option will need to be considered.

Table 7. Innisfail mitigation options description

Mitigation Option	Proposed Protection	General Description
South Innisfail	1 in 50 AEP	Earth levee, 0.5km long, requires a flood gate.
Goondi Hill Levee	1 in 50 AEP	Earth levee, 3.3km long, 2 road crossings.
Innisfail levee	1 in 50 AEP	Earth and concrete levee, 1.5km. Major road crossing and a flood gate.
Cullinane Levee	1 in 50 AEP	Earth levee, 3.1km long, includes a flood gate and multiple road crossings.
Dredging of Johnstone River - Large Scenario	Improved conveyance to off-set proposed levees	Dredging of the river, not well scoped but may offset the increases due to levees.

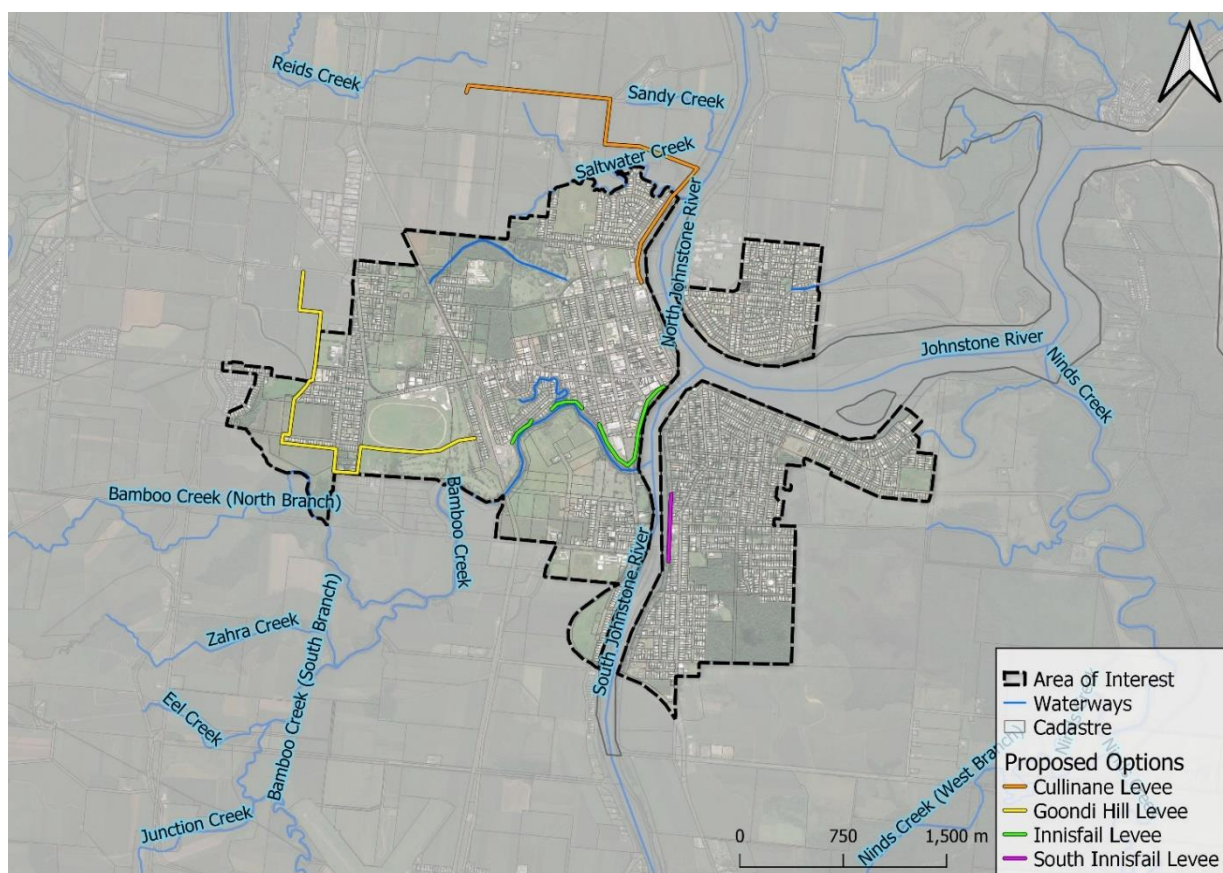


Figure 19. Innisfail mitigation options

4.4 Costing

The mitigation options have been costed based on regional rates and observation of the complexities of the levee location. A summary of the costs is shown in Table 8.

Table 8. Estimated costs for proposed mitigation option for Innisfail.

Mitigation	Description	Cost (\$m)
1	South Innisfail	\$1.7
2	Goondi Hill Levee	\$6.5
3	Innisfail levee	\$7.0
4	Cullinane Levee	\$6.2
5	Dredging of Johnstone River - Large Scenario	\$10.5
Total		\$31.9
Contingency (65%)		\$20.7
Total with contingency		\$52.7

4.5 Current Status

All mitigation options are at a strategic level only stage. They would require studies examining the influence on the broader floodplain.

4.6 Key Considerations and Uncertainties

Previous investigations identified that the mitigation options when applied collectively resulted in increases in flood levels on the floodplain. Unfortunately, these studies did not evaluate the mitigation options individually and the impact of each levee / mitigation option is unknown.

There is a risk that some of these options are not feasible due to the impacts on flood behaviour.

4.7 Summary

Innisfail has significant flood risk and associated potential damage and is a good location to explore flood mitigation options. Some mitigation options have been developed in the past, however these were not examined to find a suitable level of protection to manage the floodplain impacts to the protection offered. There is potential in Innisfail for some mitigation options but a further investigations are required.

Table 9. Innisfail - Summary

Item	Description
Level of Design	Strategic. While the mitigation was assessed in 2014 (with a higher protection), no update to this assessment has been undertaken.
Flood Mitigation Performance	Targeting a 1 in 50 AEP protection for those areas protected by the levees. May be required to lower this protection if negative flood impacts are identified.
Cost Estimate	\$52.7M
Constraints	<ul style="list-style-type: none"> Potential environmental constraints, particularly for the dredging option Challenges with some levees crossing creeks and roads. Flood gates required Uncertain on community acceptance of the scheme Potential flood afflux of the scheme, further investigation required.
Further Work Required	A flood risk management study to undertake appropriate optioneering and community engagement.

5 Rockhampton (QLD)

5.1 Locality

Rockhampton is the largest urban centre in Central Queensland and is located adjacent to the Fitzroy River. The Fitzroy River has a significant catchment of about 140,000 km². Rockhampton has been subjected to flooding historically, with typical flood events corresponding to cyclones. Flooding has the capacity to block major north-south transport routes for Queensland as well as restrict access to Rockhampton Airport.

Rockhampton is shown in Figure 20.

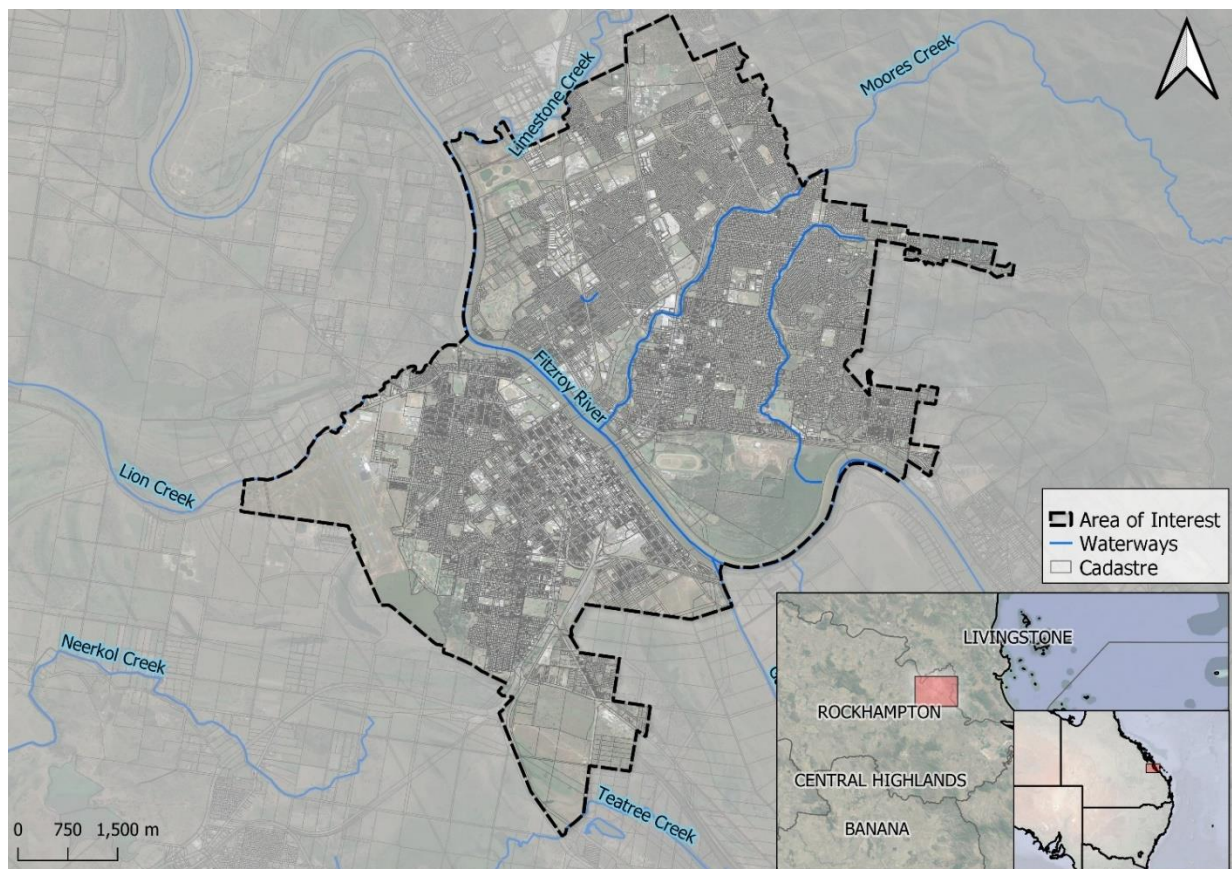


Figure 20. Rockhampton locality

5.2 Flood Behaviour

Rockhampton had serious flooding in 1991 which prompted a detailed investigation into the flooding and potential mitigation for Rockhampton and surrounds. This has since been updated in 2011 and 2014 with revised flood mapping. A summary of the flood investigations include:

- Rockhampton Flood Management Study 1992
- Fitzroy River Flood Study 2011
- Fitzroy River Floodplain and Road Planning Study 2011
- Fitzroy River Flood Modelling 2014.

Historic large floods for Rockhampton include the 1988, 1991, 2008 and 2010/11 floods. Images of the large flood in 1991 are shown in Figure 21, much of the township was inundated. The 2010/11 floods were of a similar level in Rockhampton to the 1991 event.



Figure 21. Rockhampton floods in 1991¹⁰



Figure 22. Rockhampton floods in the 2010/11 floods¹¹

The 2010/11 flooding was comparable to the 1991 event and resulted in severe disruption to Rockhampton and the region. Some key impacts included:

- Bruce Highway closure for 13 days

¹⁰ Rockhampton Flood Management Study (Camp Scott Furphy, 1992)

¹¹ Flood Study Report – Fitzroy River Flood Study (AECOM, 2011)

- Capricorn Highway closure for 13 days
- Airport closed for three weeks.

The type and number of properties impacted are summarised in Table 10.

Table 10. Estimated number of Rockhampton properties impacted in 2010/11 floods

Property Type	No. Affected Properties
Aged care/Nursing homes	16
Agriculture	63
Business	258
Community	161
Industry	338
Livestock	791
Residential	2858
Vacant	826
Total	5311

The impacts to the Bruce and Capricorn Highways interrupt a major transport route for Queensland. Similarly, the impact on the closure of Rockhampton airport for an extended period results in substantial economic impacts. Previous studies have completed damage assessments for the township, however these were not publicly available.

The 1 in 100 AEP flood extent (as generated in 2014 by Aurecon) is shown in Figure 23.

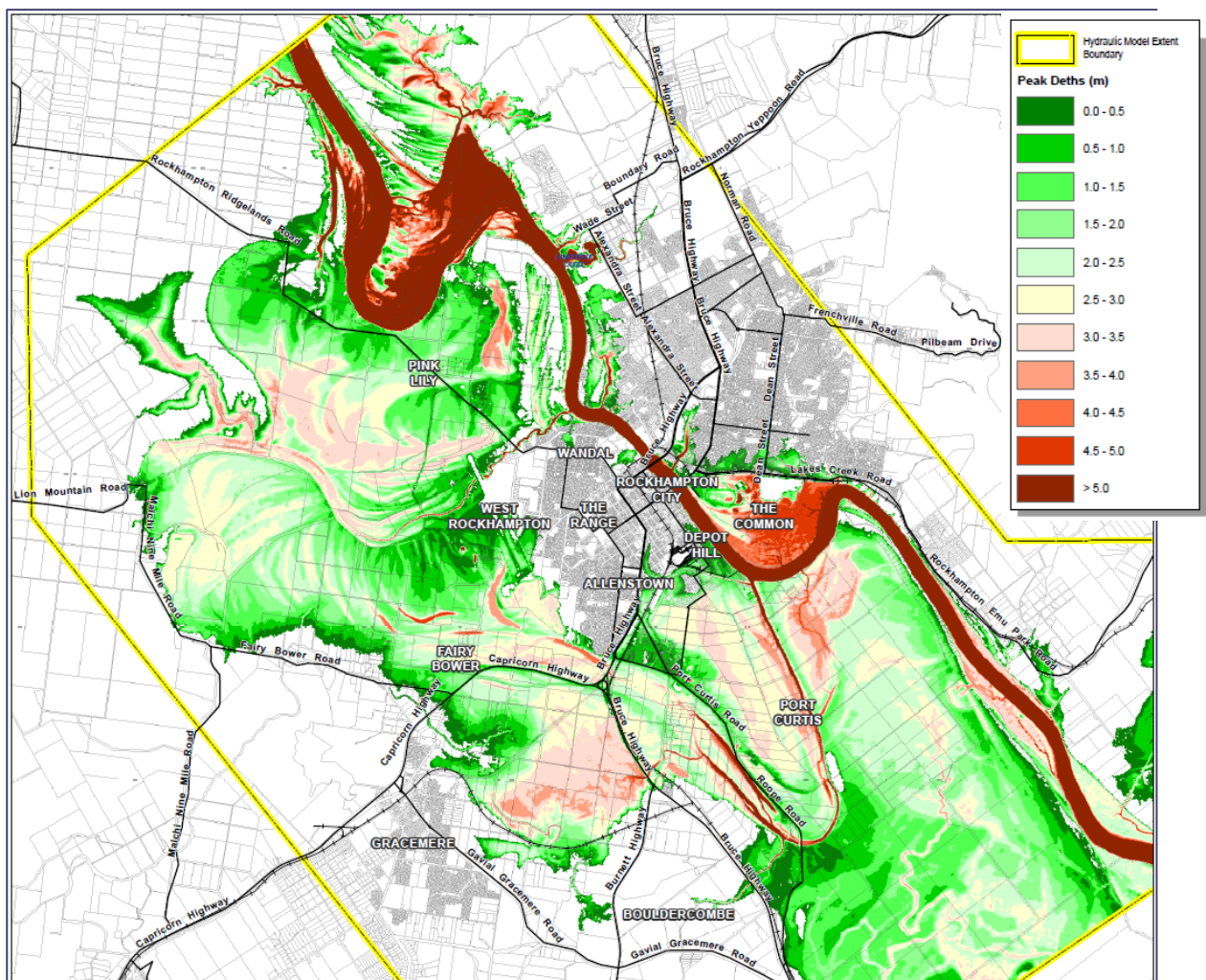


Figure 23. Flood depth for the 1% AEP event at Rockhampton¹²

5.3 Mitigation

A number of studies and investigations have been undertaken in Rockhampton, with a particular focus on the South Rockhampton Levee. This levee is shown in Figure 24 and described in

Table 11. The levee runs to and from the Bruce Highway along the Fitzroy River. The option has been through a detailed Environmental Assessment Report (EAR) process and is ready to proceed to construction.

The key constraint for this project is the lack of funding. It is understood that Council is seeking funding but has yet to receive funding to implement the levee¹³.

Given the level of investigation on this mitigation works, this has been focused on in this report. It is also understood that other options are being considered, including raising of the Bruce Highway to improve its flood immunity.

¹² Aurecon, 2014

¹³ <https://www.rockhamptonregion.qld.gov.au/CouncilServices/Works-in-my-area/South-Rockhampton-Flood-Levee>

Table 11. Rockhampton mitigation option description

Mitigation Option	Proposed Protection	General Description
South Rockhampton Levee	1 in 100 AEP	Large levee ~8.8km long, has an EAR completed (2019)

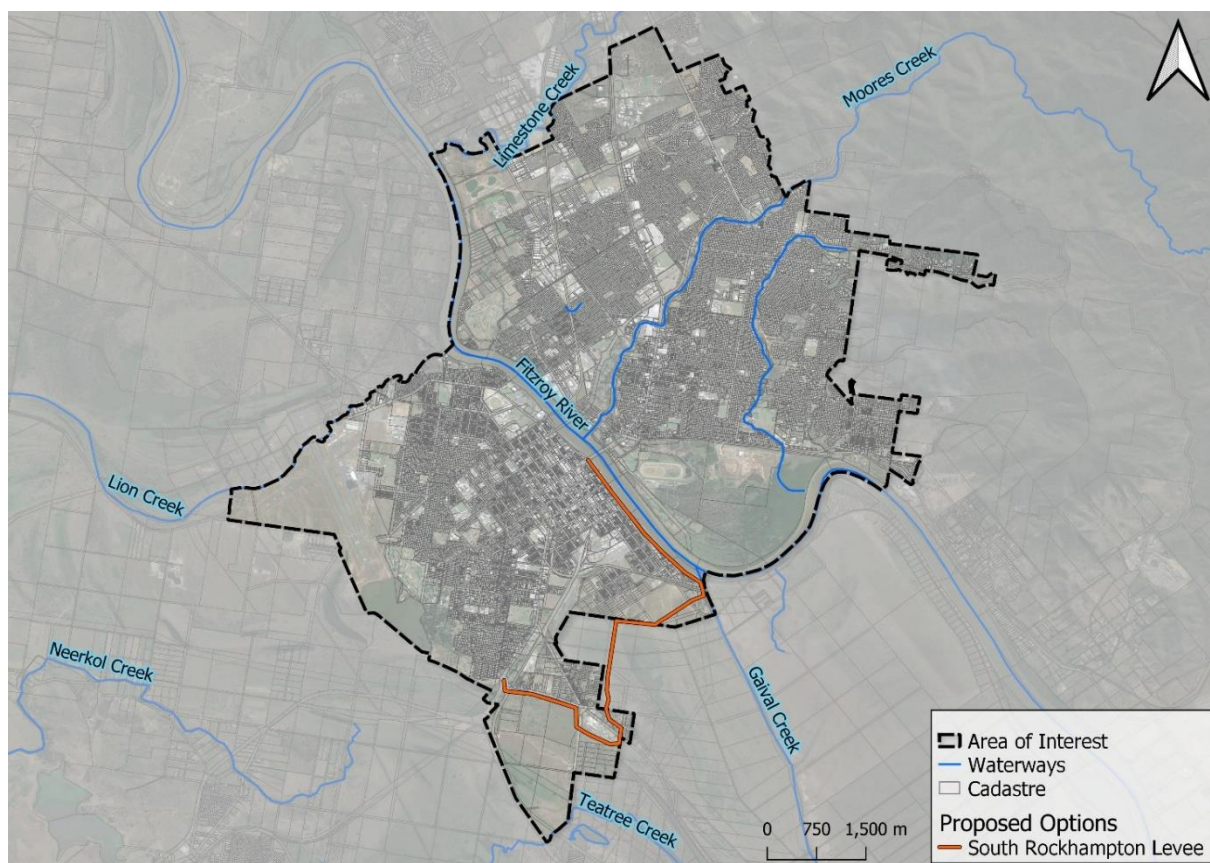


Figure 24. South Rockhampton levee

5.4 Costing

As part of the detailed design process the cost to deliver the project was determined to be \$80.4m (AECOM, 2019) (Table 12). This cost estimate includes design, project management and contingencies.

Table 12. Estimated costs for proposed mitigation option for Rockhampton

Mitigation	Description	Cost (\$m)
1	South Rockhampton Levee	\$80.4
Total		\$80.4

5.5 Current Status

The levee has been through a rigorous EAR process and is expected to be ready for construction.

5.6 Key Considerations and Uncertainties

The project has been demonstrated to have a positive cost to benefit ratio and is ready to implement.

5.7 Summary

There is a significant flood risk at Rockhampton that also has implications for the Queensland economy (by way of the isolation of Rockhampton and the impact on the transport in the region). There are also significant viable mitigation projects that have been developed. Most notably the South Rockhampton The proposed flood levee for the area has had an extensive study already completed (Environmental Assessment Report).

Table 13. Rockhampton - Summary

Item	Description
Level of Design	Detailed design, ready for tender (pending funding).
Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levees.
Cost Estimate	\$80.4M
Constraints	<ul style="list-style-type: none"> Relatively low, given EAR undertaken.
Further Work Required	Minimal, ready to be tendered.

6 South Tweed (NSW)

6.1 Locality

South Tweed is located in the north-east of NSW, south of the Queensland border. As at 2016 South Tweed had a population of 7,615¹⁴. South Tweed is located on Terranora Creek but is also influenced by flood flows in the Tweed River and coastal inundation (storm surge). There is an existing levee protecting some of South Tweed to around a 1 in 20 AEP level. South Tweed is shown in Figure 25.

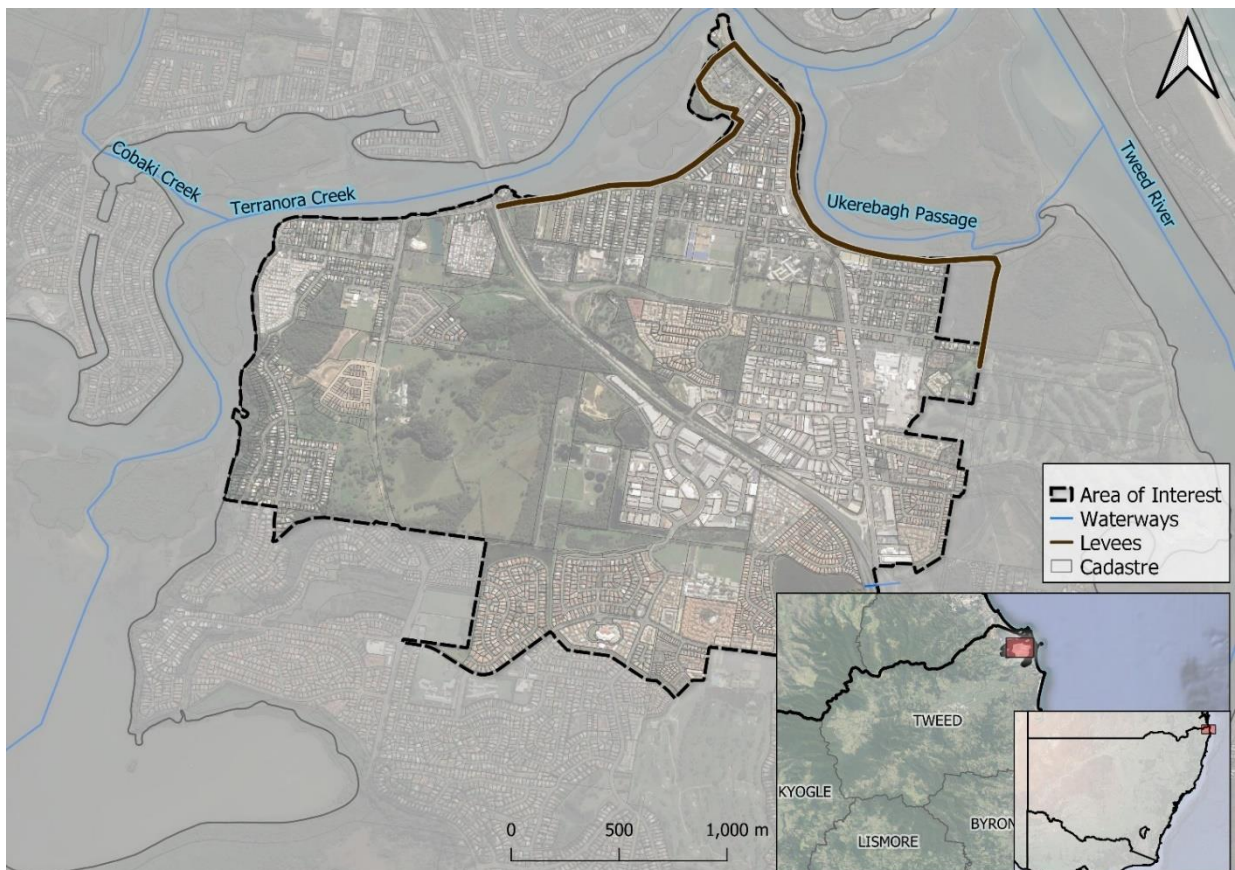


Figure 25. South Tweed Locality

6.2 Flood Behaviour

South Tweed Heads is located between Terranora Creek and Tweed River and is affected by storm surge and tides. There have been a number of major floods in the Tweed catchment in living memory, including the largest flood on record in 1954¹⁵. In lower Tweed the embankment and drainage structures of the Pacific Highway and Barney Point influence flood behaviour in large events. In extreme events the river mouth / entrance conditions and the dunes between Kingscliff and Fingal Head influence flood behaviour.

Evacuation during flooding in Lower Tweed is extremely constrained. It has limited capacity to safely house evacuees and evacuation routes are limited. Flooding occurs relatively frequently, especially in the older parts of town. Many locations in Lower Tweed flood in events as frequent as the 1 in 20 AEP.

¹⁴ 2016 Census, Australian Bureau of Statistics

¹⁵ Tweed Valley Floodplain Management Study and Plan, BMT WBM 2014b.

Most of the older parts of Tweed Heads South are flooded in a 1 in 100 AEP event, newer development has generally been filled to above the 1 in 100 AEP.

As South Tweed Heads is impacted from frequent flooding, it is currently protected by the Tweed Heads South Levee. Figure 26 shows the 1 in 100 AEP flood extent and the PMF extent across the region. The Tweed Heads South Levee is shown as well, this levee is constructed and provides flood protection to 0.2m below the 1 in 20 AEP event. The Phillip Parade Levee is a proposed levee only and this area currently has no levee protection.

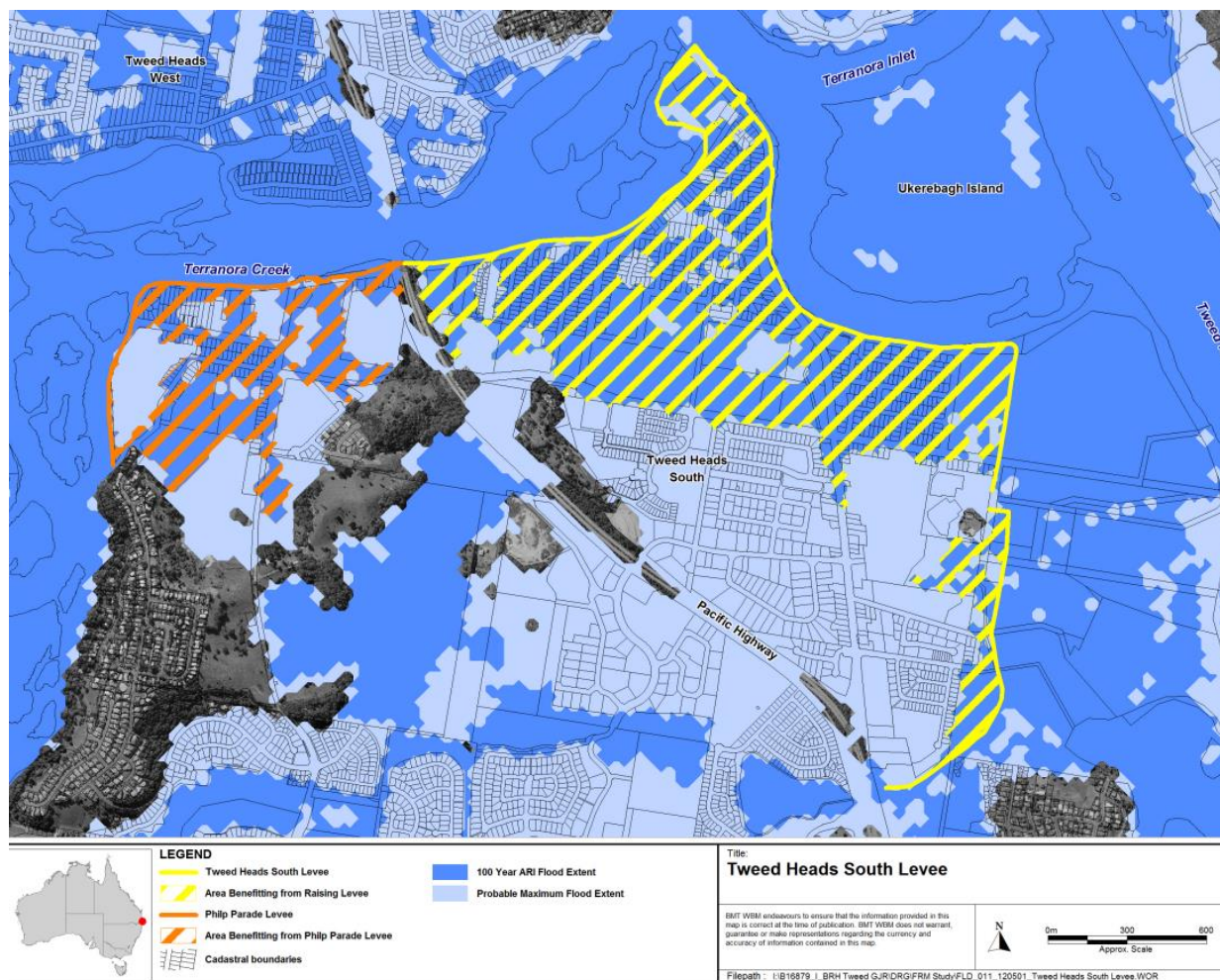


Figure 26. Flood extent for the 1 in 100 AEP and PMF events for Tweed Heads and Levees¹⁶

¹⁶ Tweed Valley Floodplain Risk Management Study, BMT WBM 2014b.

6.3 Potential Mitigation

A levee around the South Tweed area was investigated at a strategic level as a part of the Tweed Valley Floodplain Risk Management Study in 2014 (BMT WBM, 2014b). The 2014 study identified raising the South Tweed levee around 0.8m to a height of 2.8 mAHD. The levee protects the older parts of Tweed Heads to the east of the Pacific Motorway. Newer development within the existing levee have been filled above the 1 in 100 AEP level. The second option is an extension to the levee along Phillip Parade. This levee would again protect the older parts of Tweed Heads.

A summary of the mitigation options is described in Table 14 and shown in Figure 27.

Table 14. South Tweed mitigation options description

Mitigation Option	Proposed Protection	General Description
South Tweed Levee	1 in 100 AEP	Earth bank, 2 road crossings, Raise from 2mAHD to 2.8mAHD, 4.4km in length
Phillip Parade Ext	1 in 100 AEP	Earth bank, road crossings, one flood gate, build to 2.8mAHD, 1.4km in length

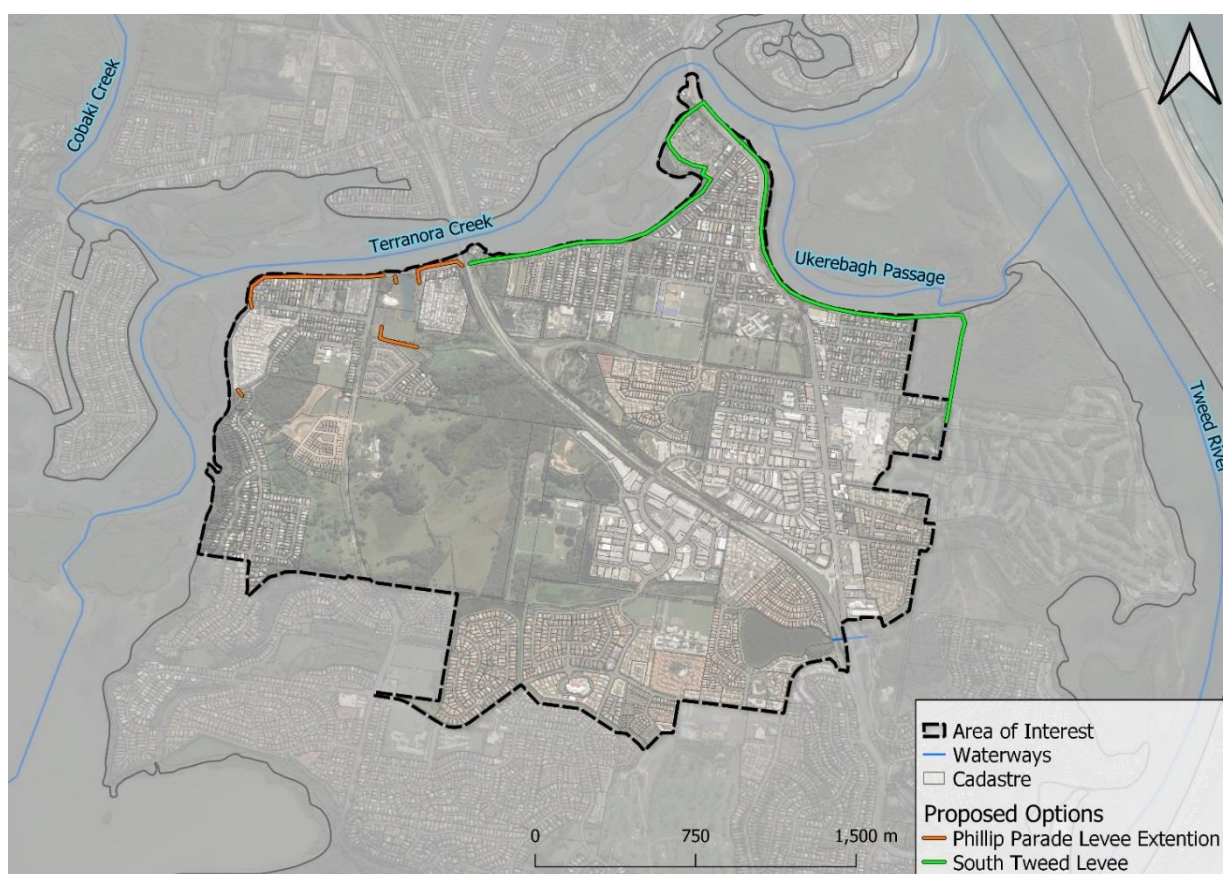


Figure 27. South Tweed proposed mitigation

6.4 Costing

The South Tweed mitigations options have been costed using typical rates for earth levee construction, costs for road crossing and flood gates. The estimates are shown in Table 15.

Table 15. Estimated costs for proposed mitigation options for South Tweed

Mitigation	Description	Cost (\$M)
1	South Tweed Levee	\$12.1
2	Phillip Parade Ext	\$6.6
Total		\$18.7
Contingency (65%)		\$12.2
Total with contingency		\$30.9

6.5 Current Status

Both options have only been investigated at a strategic level as a part of the Tweed Valley Floodplain Risk Management Study (BMT WBM, 2014b).

6.6 Key Considerations and Uncertainties

The South Tweed upgrade has been assessed and is understood to be an option that can progress to concept design stage. It is an existing levee upgrade and the land is available for the works.

The Phillip Parade levee is at concept stage only, this will require an assessment to determine a suitable layout and whether this can achieve the expected protection without impacting the broader floodplain.

6.7 Summary

South Tweed Heads experiences flooding in the older parts of the town in events below the 1 in 20 AEP event. The existing levee, which was constructed in 1979, protects to around 0.2m below the 1 in 20 AEP event. The levee is currently set at 2mAHD and requires an increase up to 2.8mAHD to protect to the 1 in 100 AEP event with freeboard.

There is also an additional concept option for a new levee along Phillip Parade. This level is a concept only and has not been assessed in greater detail than the current high level study.

It is noted that a higher level may need to be adopted to manage climate change, if the 1 in 100 AEP protection is to be maintained into the future.

Table 16. South Tweed - Summary

Item	Description
Level of Design	Strategic.
Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levee.
Cost Estimate	\$30.9M
Constraints	<ul style="list-style-type: none"> Potential environmental constraints, particularly for Phillip Parade extension May be further engineering constraints, particularly for the Phillip Parade extension
Further Work Required	A flood risk management study has been undertaken. Further investigation and optioneering required on the levee options.

7 Dalby (QLD)

7.1 Locality

Dalby is located 211 km north west of Brisbane on the Western Downs. Dalby has a population of around 12,000¹⁷ within the town and a further 5,000 residing in the rural district. The town is located on Myall Creek which drains into the River Darling basin. Dalby is the commercial centre for the northern Darling Downs, Queensland's productive wheat region.

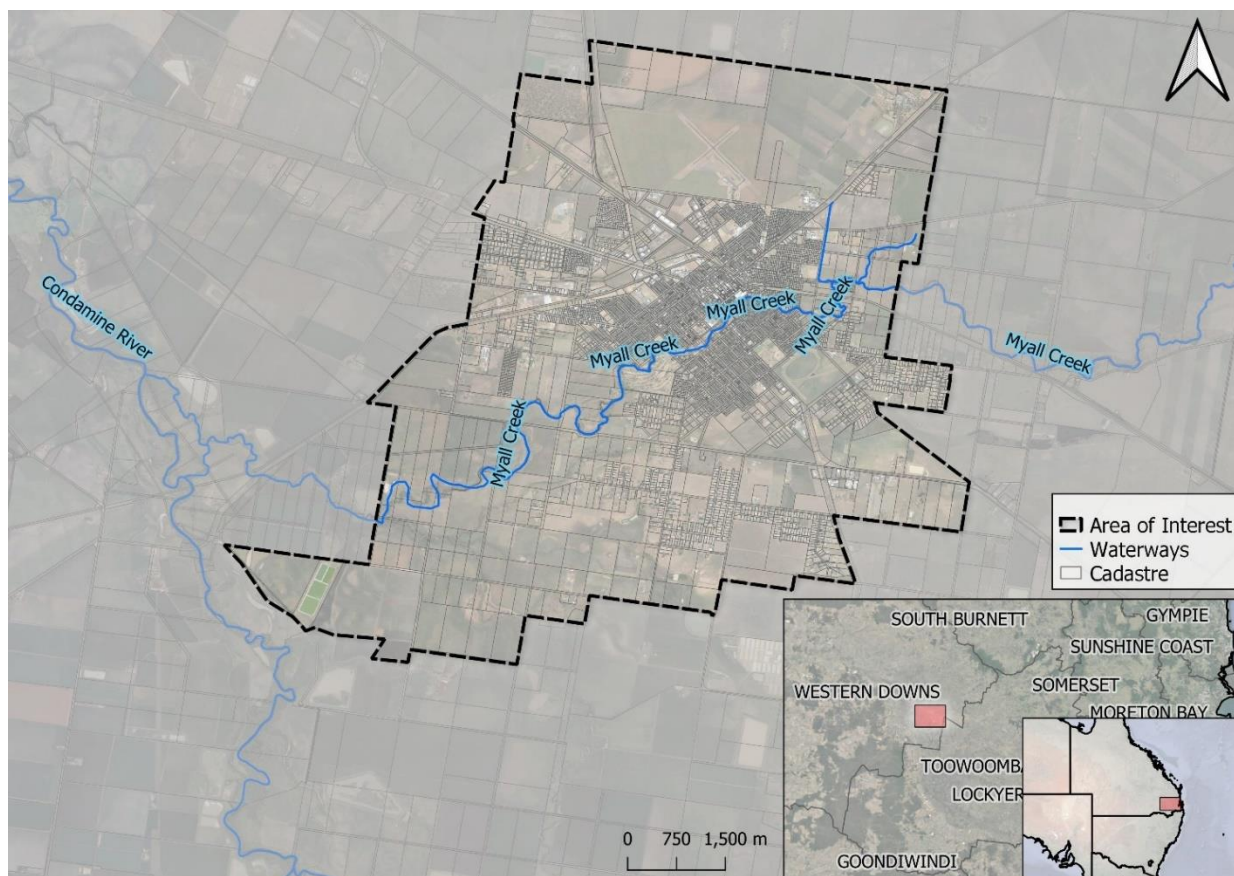


Figure 28. Dalby locality

7.2 Flood Behaviour

Dalby has had a recent flood study completed in 2014 (Water Technology), which updated a previous study (SKM, 2007). As with many other Queensland floods, they are predominantly driven by cyclone events. Several large floods have impacted Dalby, in recent times flooding has occurred in 2010/11 and in 2013¹⁸.

¹⁷ As of 2016, ABS Census

¹⁸

<https://queenslandplaces.com.au/dalby#:~:text=There%20have%20been%20seven%20'majormetres%20and%20breaking%20its%20banks>



Figure 29. Dalby flooded in 2010/11 ¹⁹



Figure 30. Dalby flooded in 2010/11 (Picture: Lyndon Mechielsen²⁰)

The 2014 flood study updated the estimated 1 in 100 AEP flood event as shown in Figure 31.

¹⁹ <https://www.couriermail.com.au/news/queensland/sunshine-coast/business/govt-rejects-flood-fund-pleas/news-story/f48cee8f1f8b85f0097716340e9b62ab>

²⁰ https://public.fotki.com/Pedro23/all_sorts_of_travel/around_australia/queensland-floods/queensland-floods/dalby-qld.html

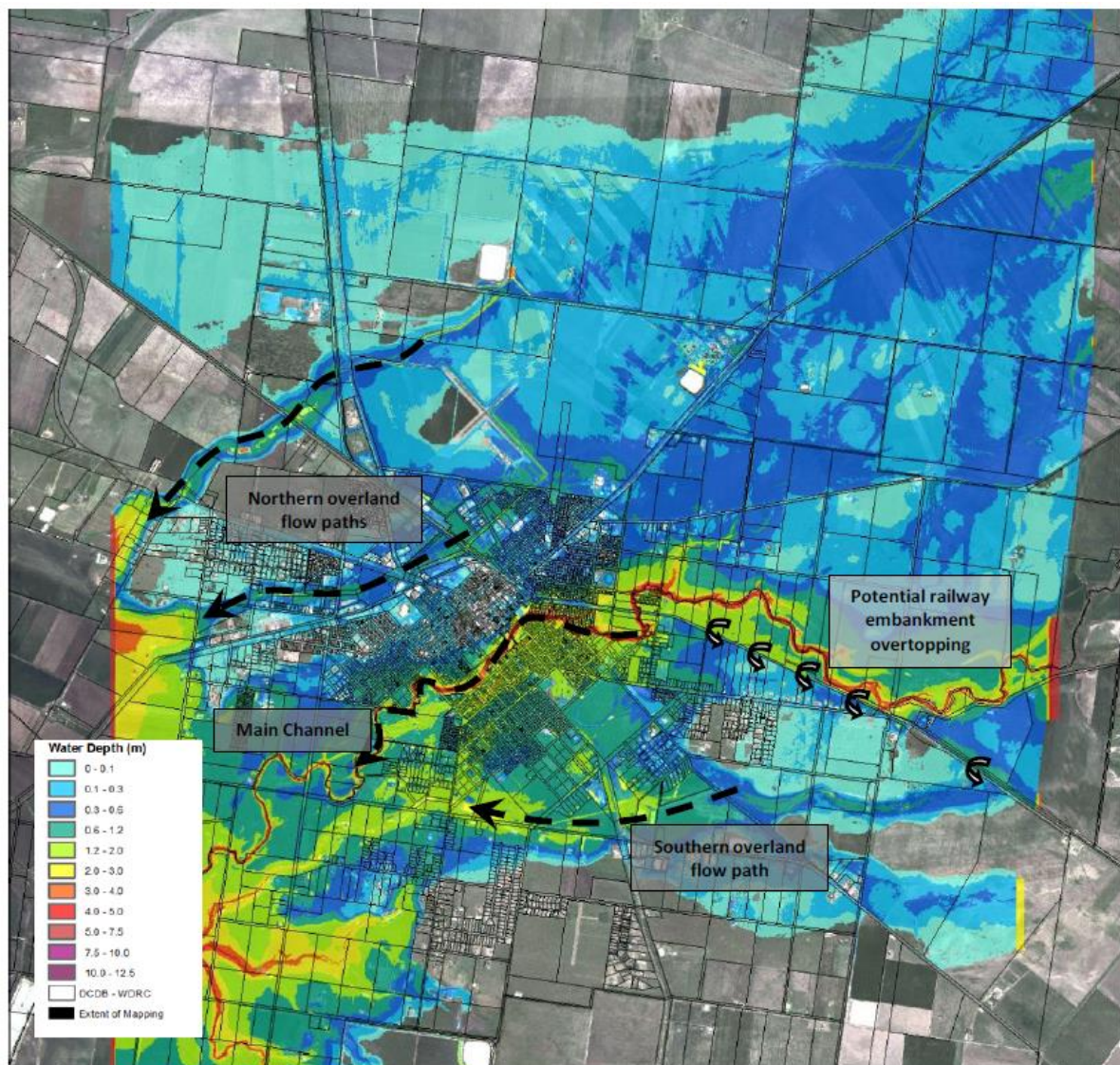


Figure 31. 1% AEP flood depths and extent for Dalby²¹

The IAG residential damage database relies on a single design flood event to assess flood risk in Dalby and therefore has limited ability to simulate the impacts of potential flood mitigation measures. A review was therefore undertaken on the estimation of damages from the Water Technology (2014) study. In the absence of other information, this data has been used to inform the economic assessment.

²¹ Dalby Flood Study – Volume 1 – Detailed Technical report, Water Technology 2014

There are an estimated 3,263 properties within the 1% AEP flood extent. A breakdown of the contributing components is summarised in the graphic opposite, with residential properties forming the majority of those likely to experience damage. The full damage costing is shown in Table 18.

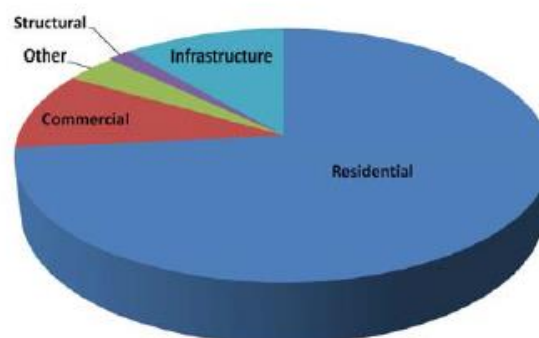


Table 17. Estimated overfloor flooding for Dalby (BMT WBM, 2014)²²

Inundated Properties (above floor level)		
Event (AEP)	Residential	Commercial/Industrial
50%	3	0
20%	221	9
10%	847	38
5%	1,347	50
2%	1,868	61
1%	2,118	72
PMF	4,150	227

Table 18. Estimated damages for Dalby (Water Technology, 2014)³⁹

Damages (\$millions)						
Event (AEP)	Residential	Commercial	External / below floor	Structural	Infrastructure	Total
50%	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
20%	\$3.6	\$0.5	\$0.3	\$0.0	\$0.6	\$4.9
10%	\$18.1	\$2.5	\$1.3	\$0.0	\$2.8	\$24.7
5%	\$33.9	\$4.9	\$2.1	\$0.1	\$5.2	\$46.2
2%	\$53.4	\$7.5	\$2.9	\$0.7	\$8.2	\$72.7
1%	\$65.6	\$9.0	\$3.3	\$1.4	\$10.1	\$89.3
PMF	\$175.9	\$43.7	\$6.4	\$45.4	\$34.9	\$306.4

7.3 Potential Mitigation

Current flood mitigation options have been discussed in the Western Downs Floodplain Risk Management Study - Dalby (Water Technology, 2014) with most investigations limited to small scale measures to address issues associated with stormwater runoff. Some of these mitigation options include the Louis Street Drain and Hospital/Russell Street Drains. However, larger mitigation options have been proposed and assessed at a high level in the 2014 FRMSP for the Darling Downs.

²² Updated to 2020 dollar terms using CPI adjustment.

The key mitigation options proposed include:

- Northern levee (Ashmore Street levee)
- A southern floodway (flood bypass option).

The northern levee is designed to intercept flow coming from the north at Ashmore Street and direct it into Spring Creek. These flows are broad shallow flows which enter town and approach the airport and town.



Figure 32. Flows overtopping Ashmore Street in the 2010/11 floods (Water Technology , 2014)

A second large-scale option is a southern flow bypass option. This option is more complicated due to the size and scale of the works. There is also substantial land acquisition and road diversion costs that are not yet quantified. It does however have the potential to reduce damages by a considerable amount for the township. The impact on the AAD is not known. For the purposes of the economic assessment, it has been assumed that this scheme has an approximate layout for the southern bypass as shown in Figure 33.

BMT WBM (2014a) considered two alternative floodways, a lower capacity and a higher capacity one. For the purposes of this analysis, the higher capacity one has been adopted. However, depending on budget and constraints, the lower capacity one may be an alternative.

The proposed mitigation options are shown in Figure 34 and described in Table 19.

Table 19. Dalby mitigation options description

Mitigation Option	Proposed Protection	General Description
Levee Ashmore Street	1 in 100 AEP	Earth bank levee, 3 road crossings, 8.8km, ~1-2m in height
Southern Flow Bypass	Unknown	Large bypass, multiple properties impacted. Approximately 1m of earth excavated. Potential alternative lower capacity floodway.

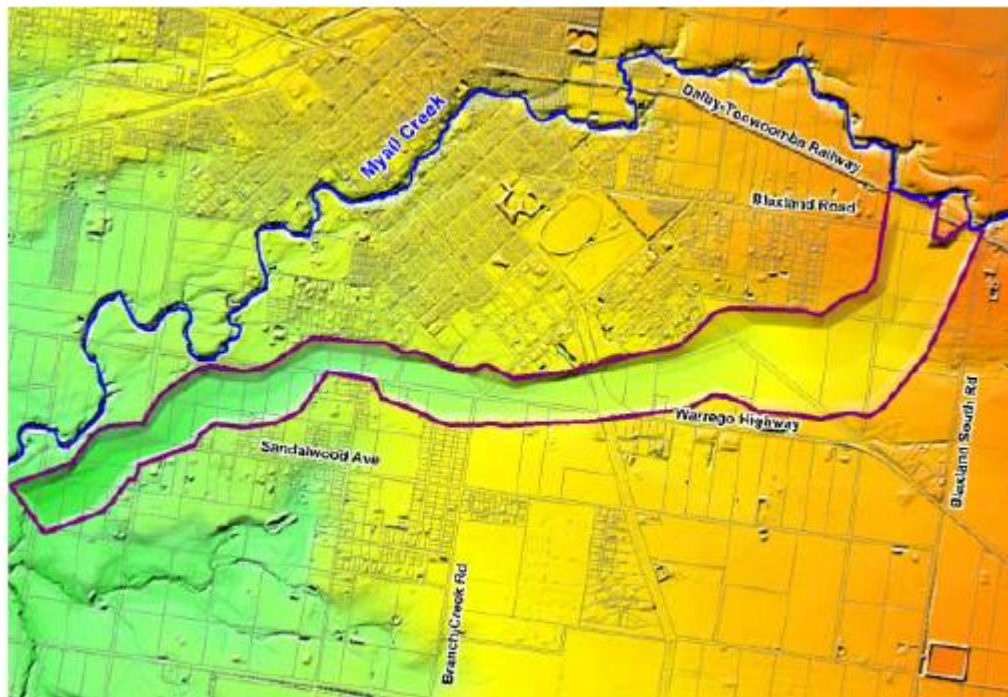


Figure 33. Southern bypass mitigation option (BMT WBM, 2014a)

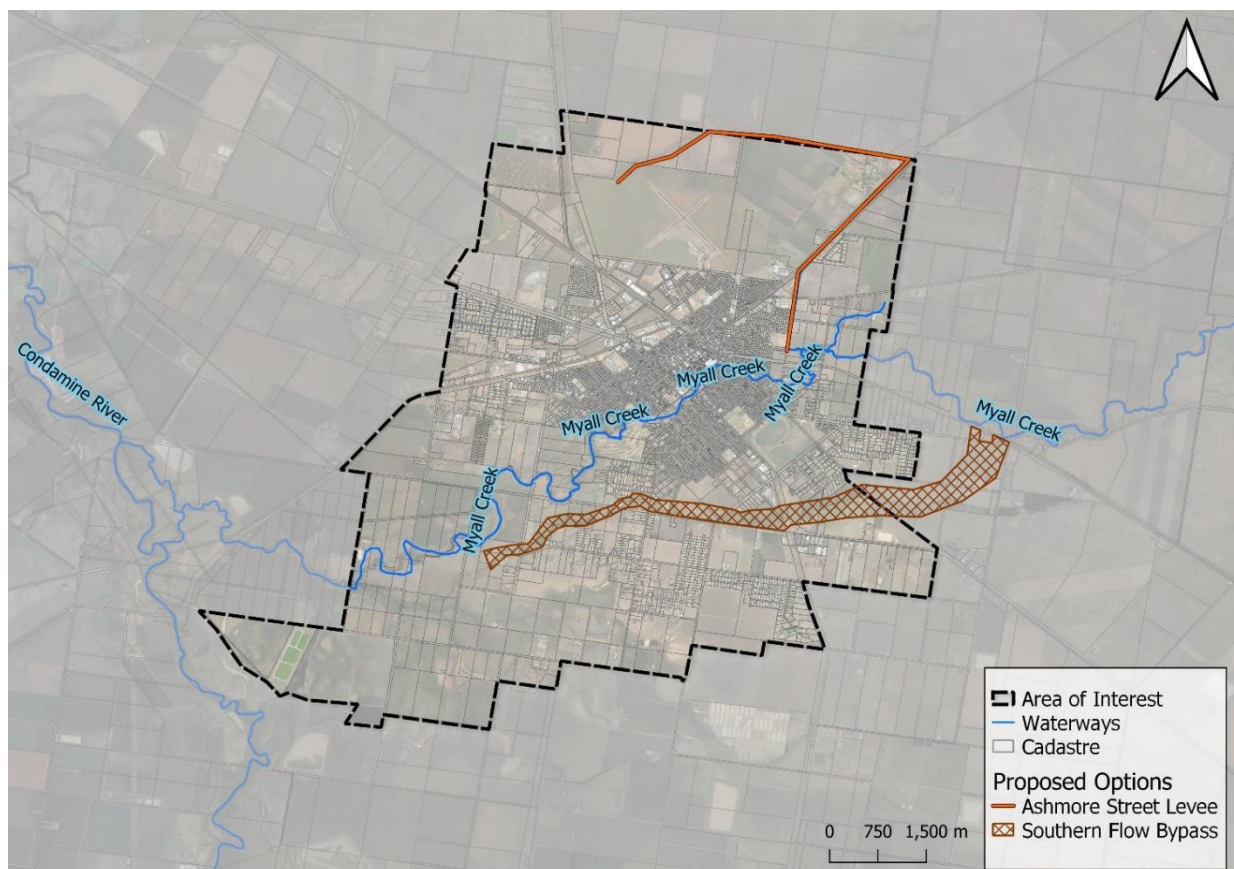


Figure 34. Dalby mitigation options

7.4 Costing

The levee mitigation option has been costed using assumptions regarding the location and length of the levee and estimated rural levee cost rates. The southern flow bypass option is more difficult to cost given the requirement to use a large section of land to the south of Dalby. This area would require extensive excavation and agreements would be required with owners through this area. A summary of the estimated costs is included in Table 20.

Table 20. Estimated costs for proposed mitigation option for Dalby

Mitigation	Description	Cost (\$m)
1	Levee Ashmore Street	\$10.8
2	Southern Flow Bypass	\$53.9
Total		\$64.6
Contingency (65%)		\$42.0
Total with contingency		\$106.7

7.5 Current Status

The mitigation options for Dalby are at a strategic level only at this stage. No investigation to the viability, benefits and impacts have been assessed.

7.6 Key Considerations and Uncertainties

The mitigation options for Dalby would need further studies undertaken to understand the flood impacts. There is a risk that these options would cause unacceptable flood impacts. For the southern flow bypass floodway there is expected to be considerable risk in getting access and permission to use the land as a bypass.

7.7 Summary

Dalby has significant flood risks that are understood and defined in terms of flood extent, depth of overfloor flooding and damages. A northern levee has previously been identified, with further work required on conceptual design.

A large scale southern flow bypass floodway is possible, but the large size and scale of the bypass may have a number of constraints.

Table 21. Dalby - Summary

Item	Description
Level of Design	Strategic. Further analysis required to understand relative benefits of proposed options
Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levee, uncertain for the flowpath.
Cost Estimate	\$107M
Constraints	<ul style="list-style-type: none"> Potential environmental constraints, particularly for the excavation Land acquisition issues along the flowpath. Uncertain on community acceptance of the scheme Potential flood afflux of the scheme, further investigation required.
Further Work Required	A flood risk management study, to undertake appropriate optioneering and community engagement.

8 Seymour (VIC)

8.1 Locality

Seymour is a historic railway township located at the southern end of the Goulburn Valley in the Shire of Mitchell (Figure 35). Seymour is located 104 km north of Melbourne along the Hume Hwy. Seymour has a population of 6,327²⁵. The township services the surrounding agriculture industries of equine, cattle, sheep and wine production. The town also is the main service location for the nearby military base of Puckapunyal (population of 1,176²³). Seymour is also a regional hub for retail, light engineering, medical services and education.

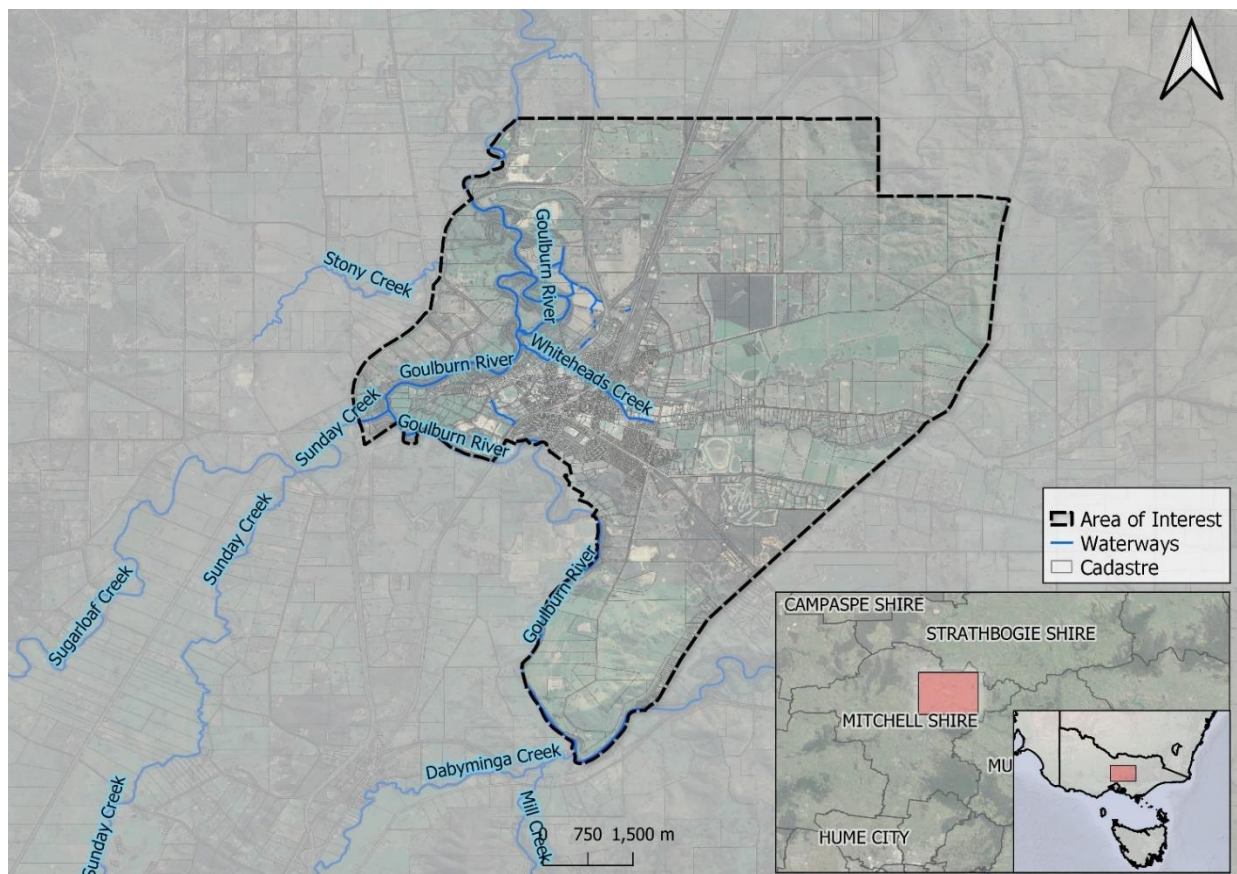


Figure 35. Seymour Locality

8.2 Flood Behaviour

Seymour experiences flooding from the Goulburn River and Whiteheads Creek. Historic flooding occurred in 1870, 1916 and 1917 which forced the relocation of the town commercial centre to Emily Street²⁴. The 1916 flood was the largest in the town's history. More recently in 1974 a significant flood inundated the town with one death and nearly 200 buildings suffering direct damage from floodwaters. The 1 in 100 AEP flood is expected to inundate over 400 buildings with 90% of these having over floor flooding. The 1 in 100 AEP extent based on Goulburn River flooding is shown in Figure 36 (including the proposed levee) and the 1 in 100 AEP flooding for Whiteheads Creek is shown in Figure 37.

²³ Based on the 2016 census

²⁴ Seymour Flood Mitigation Project (Cardno, 2015)

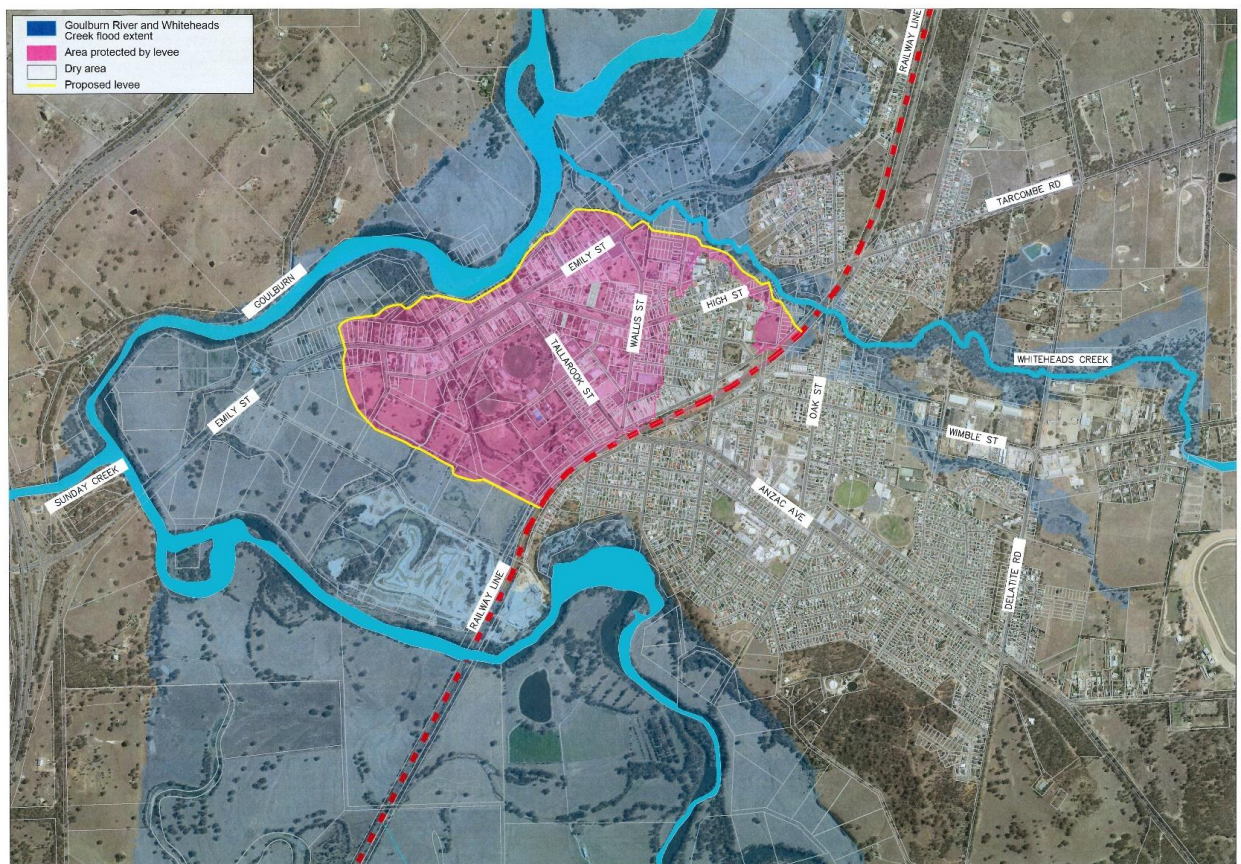


Figure 36. Goulburn River flood extent (with proposed levee), 1 in 100 AEP²⁵

²⁵ <https://engagingmitchellshire.com/seymour-flood-levee-2019>

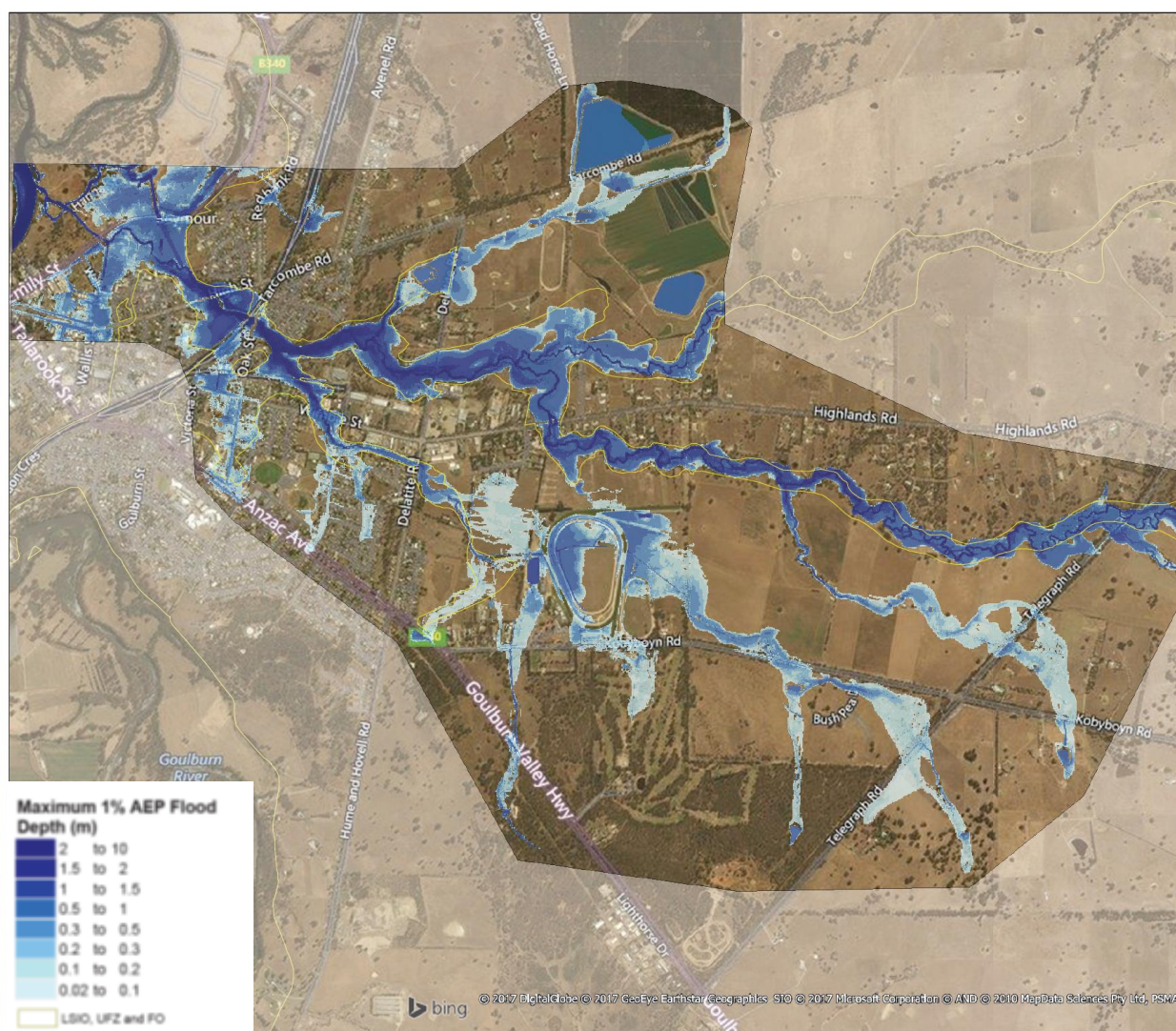


Figure 37. Whiteheads Creek 1% AEP flooding²⁶

8.3 Potential Mitigation

The Seymour levee is proposed to protect the main business area of Seymour, the levee has been scoped and designed by Cardno (2015) in the Seymour Flood Mitigation Project. The levee is shown in Figure 38, it includes two major crossings of Emily Street and ties into the existing 1 in 100 AEP protected railway line. Sections of the levee are near buildings and are complex to construct. Major crossings are proposed to be filled using temporary barriers during flooding. A description of the levee is provided in Table 22.

Table 22. Seymour mitigation option description

Mitigation Option	Proposed Protection	General Description
Seymour Levee	1 in 100 AEP	Earth levee with large urban sections, 4.2km long, requires a multiple road crossings.

²⁶ Source: <https://engagingmitchellshire.com/whiteheads>

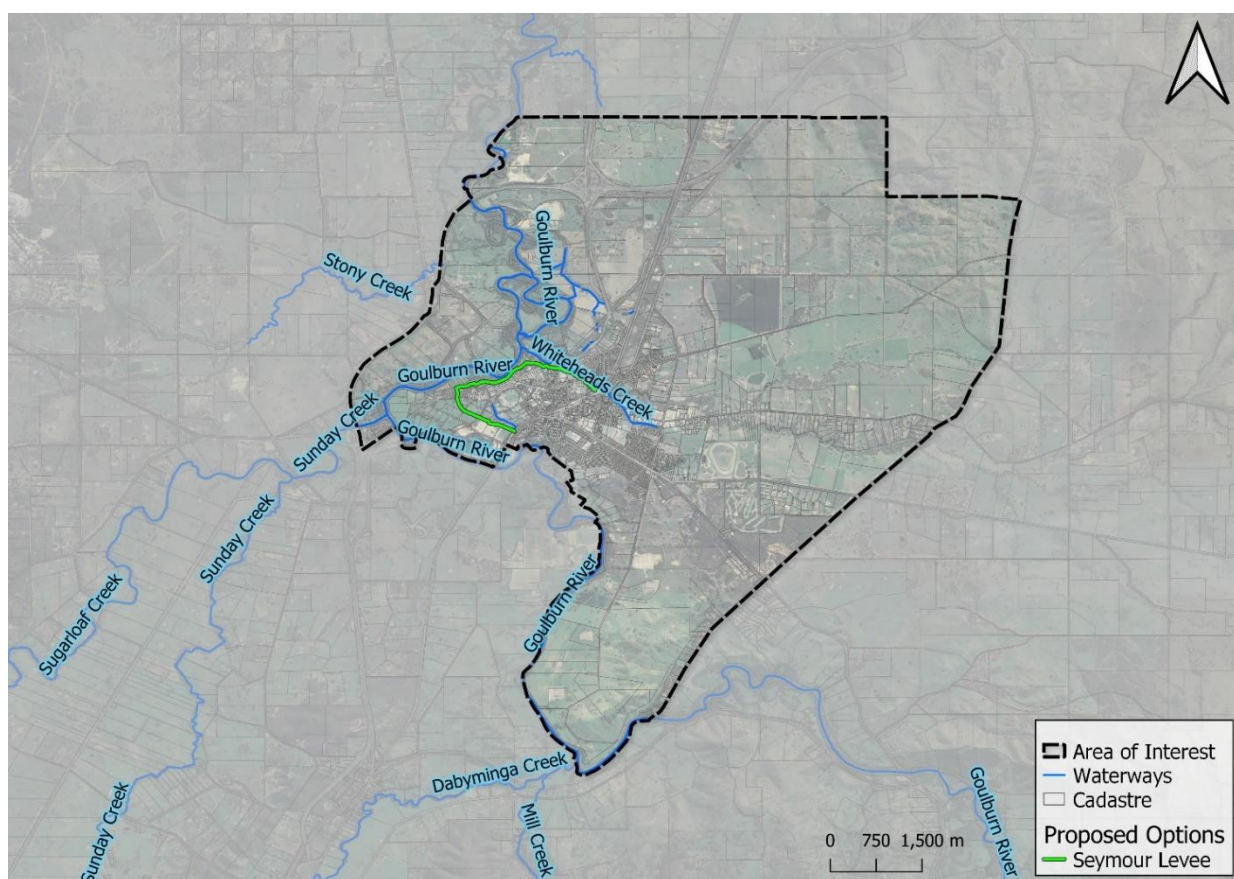


Figure 38. Proposed Seymour levee location

8.4 Costing

The Seymour levee has been fully costed and assessed ready for funding and construction. The project had an estimated cost of \$20m and had been through a detailed design process. This cost has been adopted with an additional provision of 25%.

Table 23. Estimated costs for proposed mitigation option for Seymour.

Mitigation	Description	Cost (\$M)
1	Seymour Levee	\$20.0
	Total	\$20.0
	Contingency (25%)	\$5.0
	Total with contingency	\$25.0

8.5 Current Status

The Seymour levee had been developed through to detailed design. The project was terminated due to community consultation and project funding requirements. The mitigation option is considered to be well scoped and understood.

8.6 Key Considerations and Uncertainties

A Council meeting to consider a future directions report was held on Monday 29 June 2020 where a decision was made to stop the Seymour Flood Mitigation Project. While the proposed Seymour Flood

Levee was considered to be a ‘multi-generational project’ aimed at protecting the town’s CBD from a 1 in 100 AEP event, the implications and risks associated with the project were too high to warrant further progression²⁷.

The levee was fully scoped, designed and ready to progress to development, however funding became an issue and the community did not fully support the project and funding approach. Based on discussions with key stakeholders, it is understood that the key issue for the community was the affordability and the cost recovery from the community.

8.7 Summary

Seymour has a mitigation option that can protect the main township of over 400 properties from flooding in the 1 in 100 AEP flood. If funding issues are to be resolved, then the project may receive community support. The mitigation option would be reasonably ready to take to final design.

Table 24. Seymour - Summary

Item	Description
Level of Design	Detailed
Flood Mitigation Performance	Targeting a 1 in 100 AEP protection for those areas protected by the levee.
Cost Estimate	\$25M. Detailed
Constraints	<ul style="list-style-type: none"> Potential community objection, although it is understood that this primarily was associated with the funding rather than the levee itself.
Further Work Required	Finalise detailed design

²⁷ <https://engagingmitchellshire.com/seymour-flood-levee-2019>

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Appendix B

Economic Methodology

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1 Introduction

1.1 Overview

The following provides an overview of the economic assessment methodology that has been adopted for this project. It uses a combination of IAG's internal databases for residential damages, together with available literature and guidance on flood damages, and compares these against strategic cost estimates for the mitigation measures identified.

The key purpose of this economic assessment is to:

- Provide an understanding of the level of flood impact within each of the identified study areas;
- Provide a “proof of concept” of the various high level strategic mitigation measures that have been identified for the study areas. While additional work will be required to refine both the cost estimates and the estimation of the benefits, an order of magnitude cost benefit analysis provides an understanding of the potential viability of the potential mitigation works in the study areas.

1.2 Terminology

The economic impacts of flooding are typically estimated through “damages”, representing the economic loss at different magnitude flood events.

Benefits from flood mitigation are then typically measured as the reduction in damages that would be achieved as a result of a mitigation measure.

In referring to damages, there are three key categories that are typically referred to:

- Tangible Damages – Direct: these represent the direct cost/impact on the property and building being inundated by floodwaters. For example, the damage to the contents of a house or structural damage to a building.
- Tangible Damages – Indirect: these represent the knock-on costs/impacts as a result of direct damages. They can include relocation/ evacuation costs, loss of wages or sales for a business following a flood etc. These are typically associated with properties that are impacted by flooding. However, properties adjacent to the flooding can also be impacted (for example, a commercial property impacted by a reduction in customers as a result of surrounding flood impacts).
- Intangible Damages: these represent the social and environmental costs beyond those identified above. They can be both direct or indirect and may include mental health issues, risk to life, impacts to the environment and community, etc. They are typically difficult to quantify and estimating their potential reduction as a result of a mitigation measure can be highly challenging.

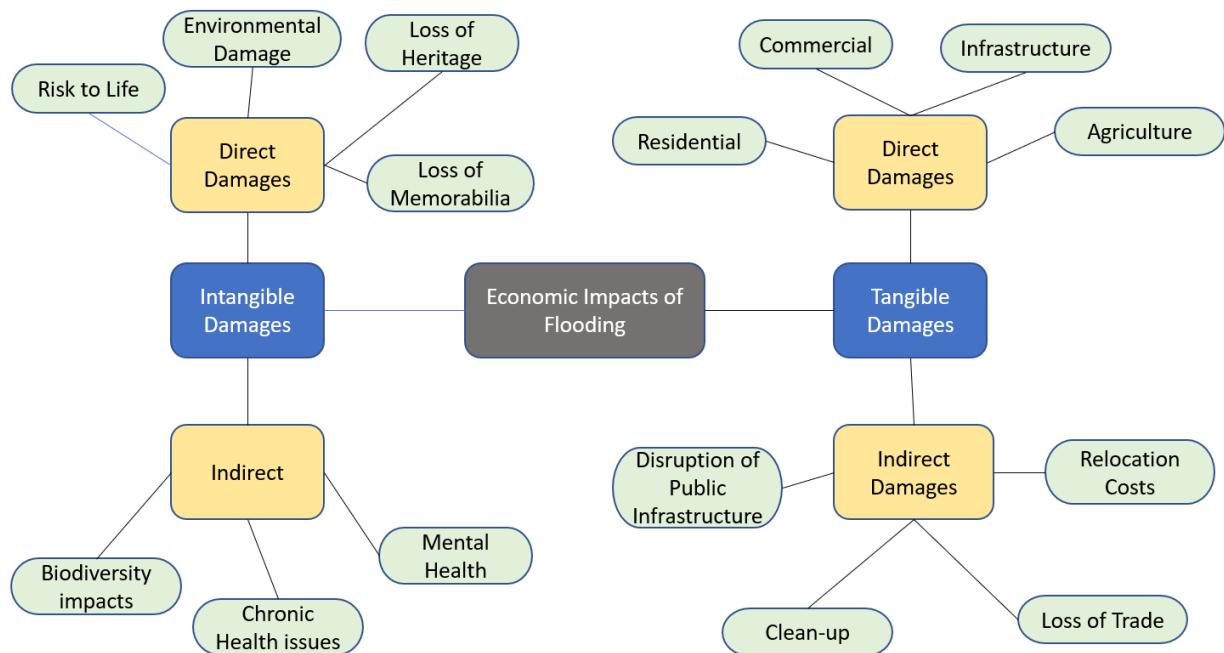


Figure 1. Examples of Types of Damages

1.3 Key Economic Assumptions

The following were the key economic assessment parameters assumed:

- Economic Assessment Period – 30 years. This period commences following construction of the proposed mitigation measure.
- Base year of 2020/21.
- Discount Rate – 7%.

The 7% discount rate is commonly adopted as the core discount rate across most jurisdictions in Australia.

1.4 Approach to Estimating Benefits

Should the mitigation measures identified in this report, or related measures, progress further in their design, then the majority (pending magnitude) would require approval through various government departments, either at a state or Commonwealth level. This would include approval through the different assurance pathways, such as the NSW Treasury gateway process. With this in mind, benefits have been incorporated within this report that are justifiable under that type of framework, and conservative where required.

2 Costs

2.1 Capital Cost Estimates

Capital cost estimates were prepared for each of the potential mitigation measures identified for the short-listed areas. The derivation of these estimates is discussed in **Appendix C**.

2.2 Capital Expenditure Profile

Mitigation measures for each of the study areas are at a different stage of design, with some locations still in an early strategic optioneering phase while others, such as the measures at Rockhampton, have completed detailed design. For simplicity, and to ensure an equal comparison between locations, a simplified expenditure profile over a four year period was assumed. This expenditure profile is shown in Figure 2.

Further refinement of this expenditure profile would be required if the mitigation works are investigated further.

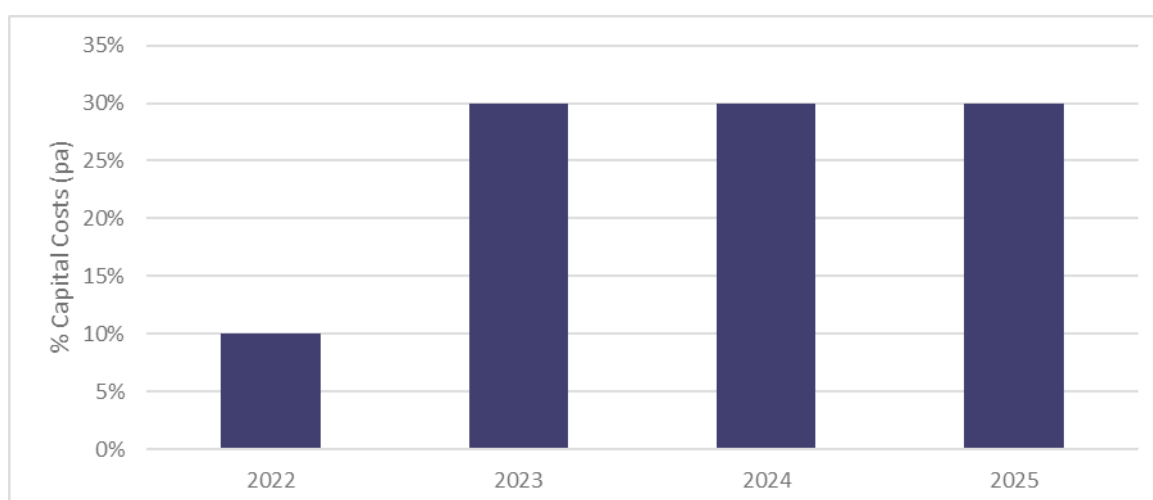


Figure 2. Expenditure Profile Adopted

2.3 Maintenance Costs and Operational Expenditure

The ongoing annual maintenance costs were estimated to be approximately 0.5% of the total capital costs. This was based on cost estimates in AECOM (2019) for the Rockhampton levee project. This also aligns with similar cost estimates that Rhelm has used in other levee projects, and in reviewing levee maintenance costs for various local governments.

2.4 Residual Value

The service life of the infrastructure proposed, where it is properly maintained, will extend beyond the economic assessment period. Therefore, there is a residual value associated with the asset at the end of the economic assessment period.

Based on a number of projects undertaken by Rhelm, the service lives for the key flood options proposed are summarised in Table 1.

Table 1. Service Life Assumed

Infrastructure	Service Life (yrs)
Levee	70
Floodway	100

3 Tangible Damages

3.1 Residential

IAG provided key summarised information from their damages databases for the study areas, as per Section 2 of the main report. This information was provided at an Australian Bureau of Statistics (ABS) Mesh Block scale.

In addition to direct damages, it is understood that the AAD provided also incorporates indirect damages, such as clean-up and relocation costs.

Given that these estimates are inclusive of both direct and indirect damages, no modifications were undertaken to these estimates for the purposes of this assessment.

It is noted that the loss functions adopted by IAG in deriving these estimates were not provided. The reliability of the AAD estimates are also entirely reliant on the underlying quality of the flood information held by IAG.

3.2 Commercial/ Industrial

While the IAG AAD estimates were provided for residential properties, no equivalent information was available for commercial and industrial damages.

There are a number of stage-damage curves available in the literature to estimates commercial and industrial damages, such as ANUFLOOD, the recent Brisbane River Flood Study (BMT WBM, 2018) and Thomson et al (2021). However, each of these damage curves requires an estimate of a flood level at an individual property, across a range of flood event probabilities. Information at the property scale was not available for this purpose across the study areas.

An alternative approach was adopted by undertaking a review of the correlation between residential damages and commercial damages.

As noted, there are a number of damage curves for both commercial/ industrial as well as residential properties in the literature. For the purposes of this assessment, the Brisbane River Flood Study (BMT WBM, 2018) damage curves were used. This is because these curves are recent, and they are from the same study (and therefore are more consistent).

3.2.1 Comparative Residential Damage Curve

While AAD estimates are available from IAG for the study areas, the loss function for individual properties was not available. In order to undertake a correlation of the residential and commercial damages, a suitable damage curve is required. A representative single storey, slab on ground residential damage curve from the Brisbane River study was adopted for comparison purposes. In addition to the direct damage estimate, the following indirect damages were also included, to be consistent with the IAG residential damages:

- External damages - \$15,000 – representative value derived based on the DECC (2007) residential damage curves and Mason et al (2012).
- Clean-up costs - \$4000 – this is based on the Smith et al (1990) and BTRE (2002) estimates.
- Relocation costs – derived based on the UK MCM (2013) and adopting Australian rental values.

The resulting damage curve was converted to a total damage per square metre of dwelling.

3.2.2 Commercial Damage Curves

Direct Damages

The Brisbane River Flood Study (BMT WBM, 2018) commercial damage curves are based on the ANUFLOOD damage curves (and updated based on surveys in Brisbane) and include five “value classes” representing different types of commercial and industrial uses, as well as different sizes of commercial premises (small, medium and large). For the purposes of this assessment, the medium sized commercial damage curves were used.

A key challenge with any of the commercial and industrial damage curves in the literature is the significant variability in the underlying estimates, which is a function of the variation in commercial and industrial uses. Not only can this vary between locations, but also over time as commercial tenancies change. Figure 3 shows the range in commercial damage estimates based on the Brisbane River Flood Study, providing an overview of the potential variability.

Indirect Damages

Indirect commercial damages can include loss of sales and rent, as well as clean-up costs following a flood event. However, it is important to recognise the difference between financial and economic losses and ensure that transfer payments are not included. For example, while an individual shop has lost sales during the recovery after the flood event, a shop in a neighbouring town is likely to have increased sales as a result, and therefore the net impact on the economy is not the loss of sales only.

In the Australian-based literature, the typical approach adopted has been to incorporate a percentage of the direct damages, rather than attempt to estimate the indirect damages, for example:

- BMT (2018) undertook a review of some of the relevant guidance on indirect damages for application to the Brisbane River Flood Study. BMT (2018) adopted a rate of 55% of the direct damages for commercial properties. This was based on guidance from DNRM (2002), although it is not clear the underlying assumptions.
- Read Sturgess and Associates (2000), as part of the Rapid Appraisal Method (RAM) recommends adopting 30% of the direct damage as an estimate.

In recent work undertaken by Rhelm (and reported in Thomson et al, 2021), the loss of trade was estimated based on data on business closures and impacts is available from the Queensland floods of December 2010 and January 2011. A survey of 555 businesses undertaken by the Chamber of Commerce & Industry Queensland (2011) identified periods of business closure and direct damages. The survey was undertaken between 18 January 2011 and 25 January 2011 and was therefore still soon after some of the flood events (the Brisbane River flood, for example, was roughly a week before, and 34% of the respondents were from Brisbane). The estimated indirect damages associated with lost earnings are provided in Table 2, with the median around 18% of the indirect damages. Allowing for clean-up costs, a 30% value for indirect damages (as per Read Sturgess and Associates, 2000) may be representative. Therefore, this has been adopted for this study.

Table 2. Estimate of Indirect Damages based on Queensland Flood Business Survey¹

Statistic	Direct Damage	Indirect Damage – Estimated Total Lost Earnings		
		Financial	Economic	% of Direct
Median	\$40,000	\$70,000	\$7,000	18%
Average	\$588,689	\$908,087	\$90,809	15%

3.2.3 Correlation of Residential and Commercial Damages

Based on the above analysis, a comparison was undertaken between the total damages per square metre (inclusive of both direct and indirect damages) of both the residential and commercial damages, as shown in Figure 3.

This comparison shows a reasonable degree of similarity between the residential damages and the commercial damages for a Value Class 3, which is around the middle of the range for commercial properties.

On this basis, the residential total damage per square metre may provide an approximation of the average commercial damages per square metre, noting that there is a large degree of variability in the underlying commercial damages between the value classes.

Therefore, for the purposes of this strategic level assessment, it has been assumed that the IAG AAD per square metres provides a reasonable approximation for the commercial damages per square metre.

¹ Economic costs estimated in accordance with the UK MCM, adopting 10% of the financial cost.

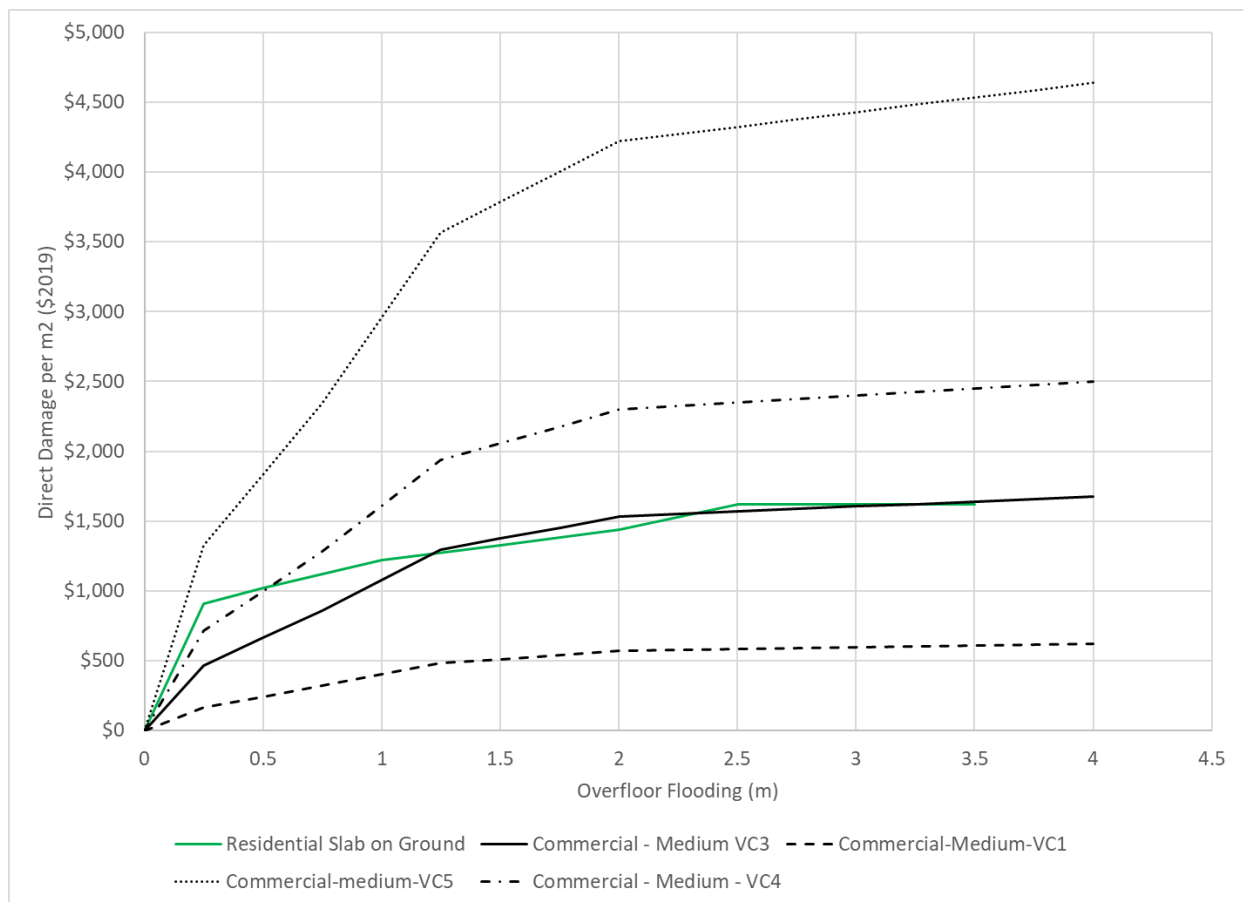


Figure 3. Comparison of Commercial and Residential Damage Curves²

3.2.4 Estimate of Commercial Damage per Mesh Block

In order to estimate the commercial damages for each mesh block within a study area, the following was undertaken:

1. Convert the total annual residential damages for a mesh block to an average AAD per square metre. This was based on the number of dwellings, and assuming an average dwelling size³ of 220m². Given the correlation above, it was assumed that the AAD per square metre for residential would be similar to the AAD per square metre for commercial properties.
2. Estimate the commercial and industrial building footprint areas for each mesh block. This was estimated using Microsoft building footprint data for Australia⁴, and overlaying land use planning data for the various jurisdictions. This resulted in a total building square metre for the mesh block. It is noted that this does not consider buildings that are more than one storey, and merely assesses the ground floor or building footprint. However, as most of the damages are typically on the ground floor, this was considered a reasonable approximation.

² VC = Value Class

³ Based on the ABS 8752.0 - Building Activity, Australia, Dec 2018 for new builds (detached homes)

⁴<https://github.com/microsoft/AustraliaBuildingFootprints>

3. Using the total commercial and industrial building footprint area, together with the AAD per square metre from Step 1, an estimate could then be made on the commercial and industrial AAD.

This approach assumes that the damages per square metre on a mesh block scale are reasonable uniform. Either the residential and commercial properties are spread evenly throughout the mesh block, or that the flood levels are reasonably consistent across the mesh block. Given the small scale of the mesh blocks, this is considered to be appropriate for this strategic assessment.

3.2.5 Considerations

Key considerations in this analysis are:

- There is a large potential variability in commercial and industrial damages, which is dependent on the type of commercial and industrial use. The approach adopted effectively uses a value class that lies largely in the middle range. However, areas with higher or lower value commercial uses could result in changes in the flood damage estimates.
- The conversion approach between residential and commercial damages provides a strategic level estimate of commercial damages. However, for more detailed assessments, it is recommended that a more detailed review of commercial buildings and their potential flood damage be completed.

3.3 Infrastructure Damage

Infrastructure flood damage includes damage to public infrastructure such as roads, bridges and utilities (water, electricity etc), as well as parks and other recreation areas.

Some methods, such as the RAM (Read Sturgess & Assoc, 2000), rely on explicit estimates of the damages based on, for example, a damage per kilometre of road inundated. However, these estimates require a detailed understanding of the flood extents and depths across a range of flood events.

An alternative approach is to adopt an uplift factor, based on the total damages to residential buildings. This is largely on the basis that the proportion of public infrastructure is somewhat proportional to the total number of dwellings in an area.

Based on assessments of the 2000 and 2007 floods in the UK, Penning-Rowsell et al (2013) estimated the breakdown of damages as provided in Table 3. However, Penning-Rowsell et al (2013) also noted that these two floods were relatively severe in the UK, and that the proportion of damage to public infrastructure could be highly variable.

For this project, a 25% of residential damages has been adopted as representative of the likely infrastructure damages. Based on the values in Table 3, this would appear to provide a reasonable estimate of the potential damages to the various elements of public infrastructure.

Table 3. Damages sustained during the UK 2000 and 2007 floods and those damages as a percentage of total household damages and total household and business damages (Penning-Rowsell et al, 2013)

	Damage Estimate (£ million)	% as a proportion of total household damage	% as a proportion of total household and business damage
2000 floods			
Property Damages	570	-	-
Road Traffic Disruption	13	2.3	-
Railway Network	6	6	-
2007 floods			
Households	1200	-	-
Businesses (buildings, contents & disruption)	740	-	-
Electricity	138	11.5	7.1
Gas	<1	0.1	0.1
Water (and wastewater)	186	15.5	9.6
Roads	191	15.9	9.8
Rail	36	3	1.9
Telecommunications	<1	0.1	0.1
Schools	49	4.1	2.5

3.4 Clean-up Costs

While both the commercial and residential damages incorporate an allowance for clean-up, this focuses on the individual properties, and not to public spaces and public infrastructure. In the March 2021 Hawkesbury-Nepean flood, in addition to significant clean-up of individual properties, significant debris was washed down the river system and large amounts of that debris accumulated along the foreshore in specific locations as well as out to the ocean before being deposited on beaches and was required to be cleaned up by various councils. Hawkesbury City Council reported around 4,700 tonnes from March to July 2021 of flood debris clean-up, although this was focused more on affected residential dwellings⁵. Central Coast Council identified that 710 tonnes of flood related debris were cleaned off beaches in their LGA following the Hawkesbury River flood⁶.

With increasing costs of disposal, together with the potential contamination of this material (including from asbestos) the disposal costs can be relatively high, together with the effort required for the clean-up itself.

In 2011, the Brisbane River flood resulted in significant mud and silt being deposited that was cleaned up by volunteers and public authorities. Estimates from that flood were that the clean-up and

⁵ https://www.hawkesbury.nsw.gov.au/_resources/media-releases/2021/july/free-skip-bin-service-for-flood-waste-concludes

⁶ Central Coast Ordinary Meeting Minutes, 27 April 2021, https://cdn.centralcoast.nsw.gov.au/sites/default/files/Council/Meetings_and_minutes/amendeditem59centralcoastcouncilfloodrecoveryreport.pdf

rehabilitation of public assets and spaces was roughly 4% of the total damages of the flood (BMT WBM, 2018).

For the purposes of this project, a similar 4% has been assumed. This 4% has been applied to the total residential and commercial damages.



Figure 4. Mud in Brisbane in 2011 Flood⁷ (Left) and Clean-up of Patonga Beach after Hawkesbury 2021 Flood⁸

⁷ [flickr.com/photos/brisbanecitycouncil/5429354413](https://www.flickr.com/photos/brisbanecitycouncil/5429354413)

⁸ NBN News (2021). *Hawkesbury River Rubbish – Two Tonnes Collected from Patonga Beach.* nbnnews.com.au/2021/03/25/hawkesbury-river-rubbish-two-tonnes-collected-from-patonga-coastline/

4 Intangible Damages

4.1 Introduction

Intangible damages incorporate impacts to individuals and the overall community that typically do not have a market or dollar value. For example, these may include flood-induced anxiety, depression and/or post-traumatic stress disorder (PTSD), living disruptions and loss of community. There are a variety of economic methods that can be used to estimate the monetary value of some of these impacts, such as Willingness to Pay methodologies. However, these are typically only undertaken in very large projects. In other cases, these methods are used to derive reference values that can be adapted for wider use. Due to the nature of intangible damages, it is difficult to estimate them to a high degree of accuracy.

Where intangibles are incorporated within an assessment, one of the most common ways this is done is through an uplift factor, where the intangibles are estimated as a proportion of the tangible damages.

The studies undertaken by Deloitte (2016) suggests that the average intangible-to-tangible ratio is 1.2. However, it is noted that this is based on three separate types of disaster (earthquake, fire and flood), and all of which were relatively large in scale for Australia (e.g., Brisbane flood).

Deloitte (2021) updated this analysis to estimate the proportion of intangible damages. This was based on an analysis of three historical events:

- The South-east Queensland floods (Queensland, 2010–11)
- The Black Saturday bushfires (Victoria, 2009)
- The ‘Pasha Bulker Storm’, an East Coast Low event (Newcastle, New South Wales, 2007).

In the revised estimate, they incorporated a reduction in the multiplier for smaller (or more frequent events). While not explicitly reported, a review of the results would suggest that the intangible damages are roughly 75% of the tangible damages.

BMT WBM (2018) for the Brisbane River Flood Study reviewed the Deloitte (2016) analysis and incorporated an adjustment to the intangible damage uplift factor. This adjustment was based on an analysis of indirect damages from flooding in Katherine (Northern Territory) and assumed that intangible damages would follow a similar trend to indirect damages. The proposed BMT WBM (2018) uplift factors are summarised in Table 4. For the Brisbane River Flood Study, these factors resulted in intangibles being approximately 55% of the tangible damages. However, this uplift would vary from floodplain to floodplain, given the variability in the values in Table 4.

For the IAG residential database, individual damages for different events were not available, and only a summarised AAD value. However, the number of dwellings impacted for each AEP range can be estimated based on the information provided. This can be used to estimate an approximate intangibles uplift factor for the AAD.

Table 4. Uplift Factors for Intangibles as identified in BMT WBM (2018)

AEP	Intangibles uplift factor
5%	0.00
2%	0.72
1%	1.20
PMF	4.56

The purpose of the Deloitte (2021) study was to provide an estimate of the total damage of natural disasters in Australia at a macro scale. However, applying an uplift factor of 75% may be difficult to justify when assessing the viability of a specific infrastructure project for approved funding.

An alternative approach is to estimate the intangible values more explicitly. In this study, this has been undertaken in two ways:

- Estimating the Risk to Life (Section 4.2)
- Estimating other Intangibles from Willingness to Pay studies in the literature (Section 4.3).

4.2 Risk to Life

One component of intangible damages relates to the potential loss of life and injury for people as a result of the flood.

Risk to life, or more correctly, estimating the value of the loss of life in a flood, requires two key components:

- An estimated Value of a Statistical Life (VSL), representing the economic value of a typical person
- An estimate of the likely loss of life in a floodplain in any given flood event.

4.2.1 Value of a Statistical Life

Transport for NSW (2020) provides a detailed review of the available literature for VSL and based on this review they adopted Willingness to Pay values to void casualties and fatalities associated with transport related accidents. These are summarised in Table 5. These are recommended for use in all Transport for NSW economic assessments.

In the absence of more detailed assessments in the flood sector, these are likely to represent the best estimates for Australian conditions.

Table 5. Cost per Casualty (TfNSW, 2020)

	Source	VSL (2019 AUD)
Fatality		\$7,752,786
Serious Injury (requiring hospitalisation)		\$495,874
Moderate (emergency department) or minor injury		\$77,472

4.2.2 Probability of Loss of Life

The probability of loss of life/injury occurring varies in terms of:

- The likelihood, magnitude and nature of the flood event
- The characteristics of population at risk, including amongst others:
 - Number of individuals
 - Demographics
 - Flood awareness and education
 - Accessibility and evacuation planning.

WRL (2016) undertook a literature review of loss of life estimation methods. These are primarily divided into empirical methods and agent-based modelling, with the empirical methods having the largest literature base. A detailed review of the different methods is provided in WRL (2016).

WRL (2016) found that the different methods tended to result in relatively large variance in the loss of life estimates. Priest (2009) in a review of applicability of UK methods to Europe noted that there is a tendency with most of the loss of life models to use catastrophic and extreme flood events (or dam break) for the establishment of the models. This can lead to some bias in the models.

Four potential loss of life models were reviewed as a part of this project:

- Jonkman (2008) – this method builds on previous work by Jonkman (2007) and uses data from hurricane Katrina in New Orleans. It proposed mortality functions for both breach zones (i.e., behind levee failure locations) and remaining areas. The remaining areas correlates the mortality rate with flood depth. It is understood that the mortality rate applies to the non-evacuated population
- Asselman and Jonkman (2003) – this method relates mortality for non-breach zones (i.e., behind a levee) with flood depth. The method was based on flooding from the 1953 floods in the Netherlands. As with Jonkman (2008), it is understood that this applies to the non-evacuated population.
- Graham (1999) – this method was derived for dam breach. However, WRL (2016) identified that it performed relatively well for floodplains as well. It relates several key factors such as warning time, flood severity and the relative understanding of flooding in the community and provides broad ranges of mortality.
- Wade et al. (2005) – this method, out of the UK (and is suggested in the UK MCM (2013) as well), was derived and is applied to studies in the UK. Unlike the above methods, it incorporates factors for vulnerable people (e.g., disabled and elderly), the type of flooding (warning times, rate of rise etc) and flood hazard (related to depth and velocity). This method was derived more specifically for floodplains and has been assessed across a range of floods. It also has the advantage of providing an estimate of the injuries rather than mortality alone.

To provide a comparison between the methods, they were estimated against the typical flood hazard zones within the AIDR (2017). These are shown in Figure 5. Mid-range values for each of the hazard categories were adopted, and conservative estimates (such as longer warning times) were assumed for each of the methods.

A comparison of the different methods is provided in Figure 6. Asselman and Jonkman (2003) and Jonkman (2008) both provide high mortality estimates, but as noted it is understood that the population at risk should be estimated on the remaining population (those who did not evacuate). Wade et al (2005) and Graham (1999) show some agreement at low levels of flood hazard, but Graham (1999) increases significantly for high hazard flows.

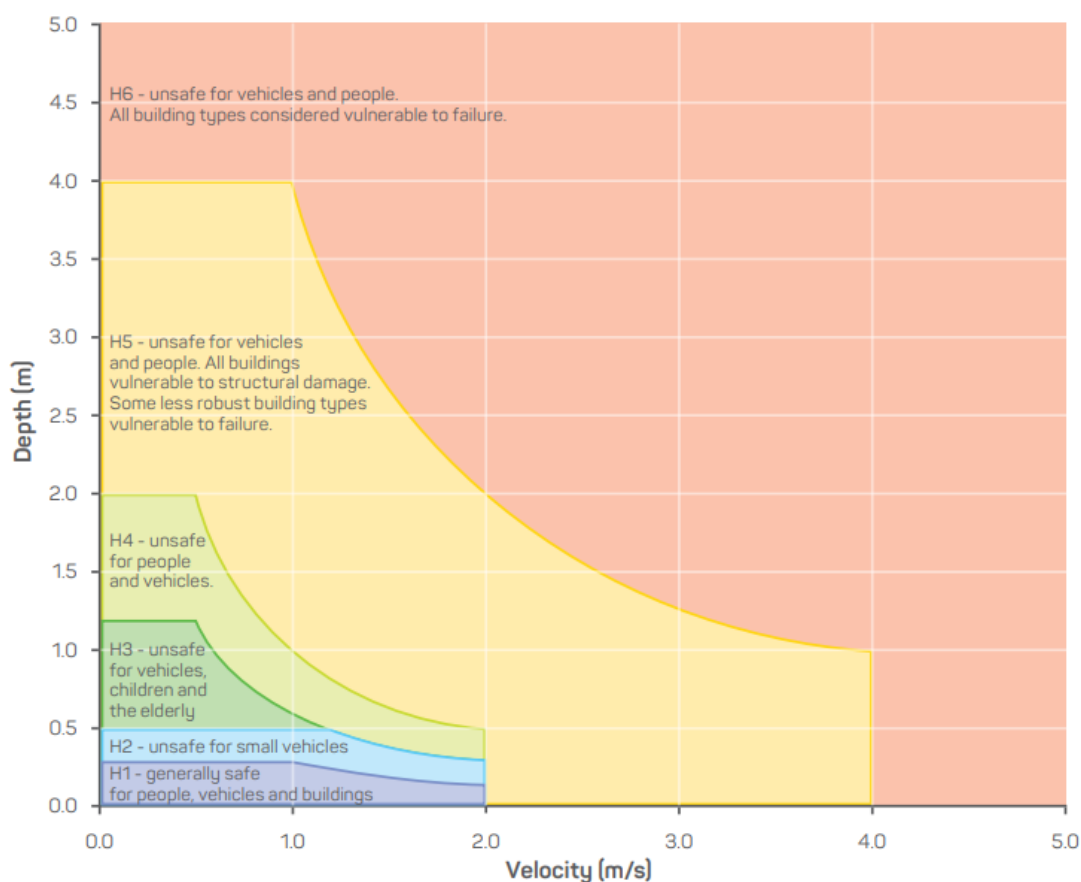


Figure 5. Flood Hazard

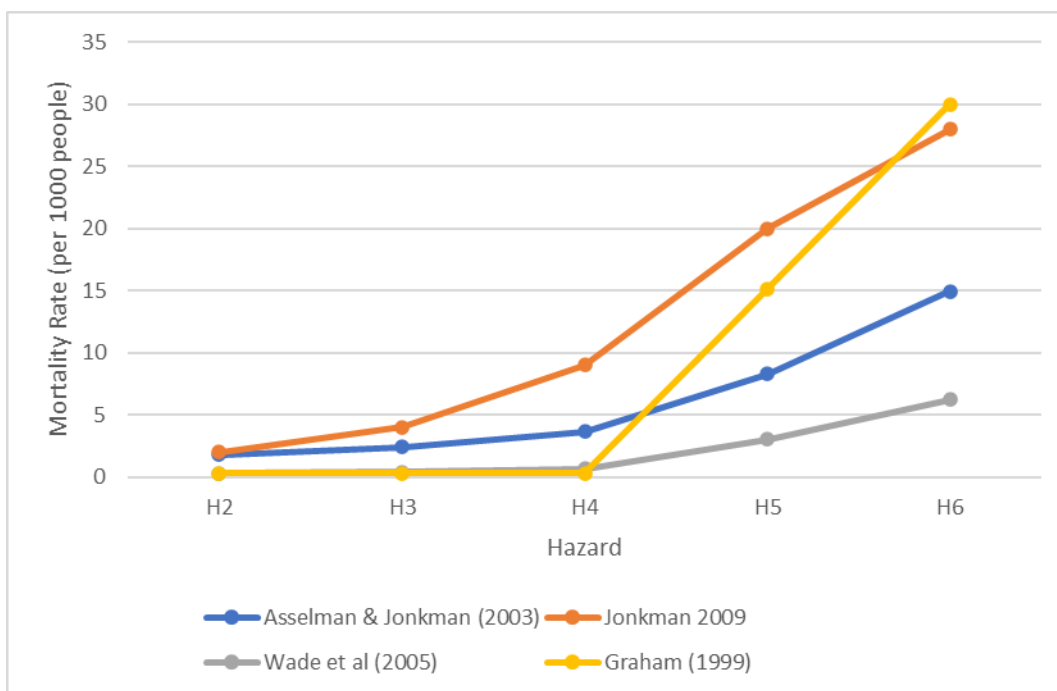


Figure 6. Comparison of Risk to Life Methods

Thomson et al (2021), in undertaking a review for NSW DPIE in the preparation of updated NSW guidelines, suggested the adoption of the Wade et al (2005) methodology. Given that this method would appear to provide a conservative estimate of the risk to life, as well as estimating injuries, this method has been adopted for this project.

Information available for each study area varies. The following approach was adopted:

- Estimate the approximate average flood hazard for each mesh block, based on either flood hazard mapping or depths, depending on availability of mapping, for the 1 in 100 AEP. In some cases, such as Katherine, flood depth information was relatively coarse and conservative methods were applied.
- Estimate the population at risk, adopting a population of 2.6 per household and estimating the number of households (based on the dwellings in the IAG database) impacted by flooding in the 1 in 100 AEP.
- Assume that there is no loss of life or injuries in events more frequent than a 1 in 20 AEP.
- Estimate the annual average value of lost life and injury assuming a linear increase in loss of life between 1 in 20 AEP and 1 in 100 AEP and assume no increase beyond that.

4.3 Other Intangibles

DEFRA (2004) undertook a research project into intangible damages from flood events in the UK. This involved national level willingness-to-pay surveys to recently flooded and ‘at-risk’ properties and focused on the intangible health impacts following the flood event. The results of the national survey confirmed “that flooding caused physical effects in the short term and psychological effects in the short and longer terms. Psychological effects included memory of the stress from flooding and damage, and the stress of recovering after an event, including that arising from settling claims with insurers and dealing with builders and repairers”.

The research identified that the value of avoiding these intangible damages was roughly £200 per year per household (in 2004). There was no clear relationship between different types of households etc and this overall weighted value.

Using this information, and the survey results, the research established relationships between the value of avoiding impacts and the reduction in likelihood of being flooded.

To adapt this for Australian assessments, the following was undertaken:

- Conversion of all values into 2019 values, and conversion from UK pounds to Australian Dollars.
- Conversion of this information to reflect the willingness to pay to avoid overfloor flooding at different recurrence intervals.

The estimated damages per household per year is provided in Table 6. This shows the annual cost per household per year based on the threshold at which overfloor flooding occurs.

More recent work by Joseph et al (2015), also in the UK, undertook willingness-to-pay surveys as well, and focused on experience from flooding in the 2007 floods in the UK. Their survey was also more expansive, taking into consideration both health related as well as other intangibles at the household level. They estimated that the willingness-to-pay for households was approximately £650 per year per household in 2015. They also estimated the WTP to reduce psychological effects of flooding, which was

approximately £260 per year per household, and not dissimilar to the DEFRA (2004) estimate. This suggests that the total willingness to pay was roughly 2.6 times just the health impacts.

Applying this ratio, the values in Table 6 were adjusted to account for these wider intangible damages. These have been adopted in this study. It is noted that overfloor flooding is not necessarily known, so instead the dwellings affected in each range of AEP event have been adopted as a proxy.

Table 6. Intangible Damage Estimate based on threshold event where overfloor flooding occurs – 2020 AUD values

Event ARI (years)	Event Probability (AEP)	Cost per Household per Year (based on Defra (2004))	Cost per Household per Year (adjusted based on Joseph et al (2015))
150	0.67%	\$0	\$0
125	0.8%	\$8	\$20
100	1%	\$49	\$123
75	1.33%	\$175	\$439
50	2%	\$391	\$981
30	3.33%	\$520	\$1,304
20	5%	\$555	\$1,392
10	10%	\$574	\$1,439
1	100%	\$587	\$1,472

4.4 Adopted Approach

Our estimate from the above explicit techniques for estimating intangibles suggests a lower estimate compared with the BMT WBM (2018) or the Deloitte (2021) studies.

Given the overall uncertainties, three intangible estimates have been provided in this study:

- Low Estimate – this estimate is based on explicit estimates as shown in the following sections. Given it is potentially conservative, this has been used for cost benefit analysis of the mitigation options for each short listed area.
- Mid-Level Estimate – based on the factors provided in the Brisbane River Flood Study (BMT WBM, 2018) and approximating the uplift factor based on the dwellings.
- High Estimate – based on the Deloitte (2021) estimate, adopting a 75% uplift factor.

Both the mid-level and high-level estimate have been used for comparative purposes when estimating the base case or existing damages for each of the short-listed study areas, to provide an understanding of the potential range and uncertainty associated with the intangible damages.

5 Climate Change

Three climate change scenarios were provided by IAG with their residential damage database:

- 0 degree warming, assumed to be representative of 2020 conditions.
- 2 degrees of warming. Based on advice from IAG, this scenario has a horizon of around 2040 to 2060, based on RCP4.5 and RCP8.5 (refer Figure 7). For this project, 2050 was adopted as representative.
- 3 degrees of warming. Similar to the above, this is representative of 2065 or later, depending on the RCP adopted. For this project, it was assumed to be representative of 2100.

The assumptions behind the methodology for estimating the residential damages and AAD that was undertaken by IAG for these scenarios is summarised in Dyer et al (2019). Further discussion on IAG's investigation of climate change influences in general are provided in Bruyere et al (2020).

For the economic assessment, a linear change in AAD was assumed between these periods for the residential data provided by IAG.

While the information was provided for the residential damages only, it was assumed that other damages estimated would increase at a similar rate.

This has been applied to both the base case and mitigation scenarios.

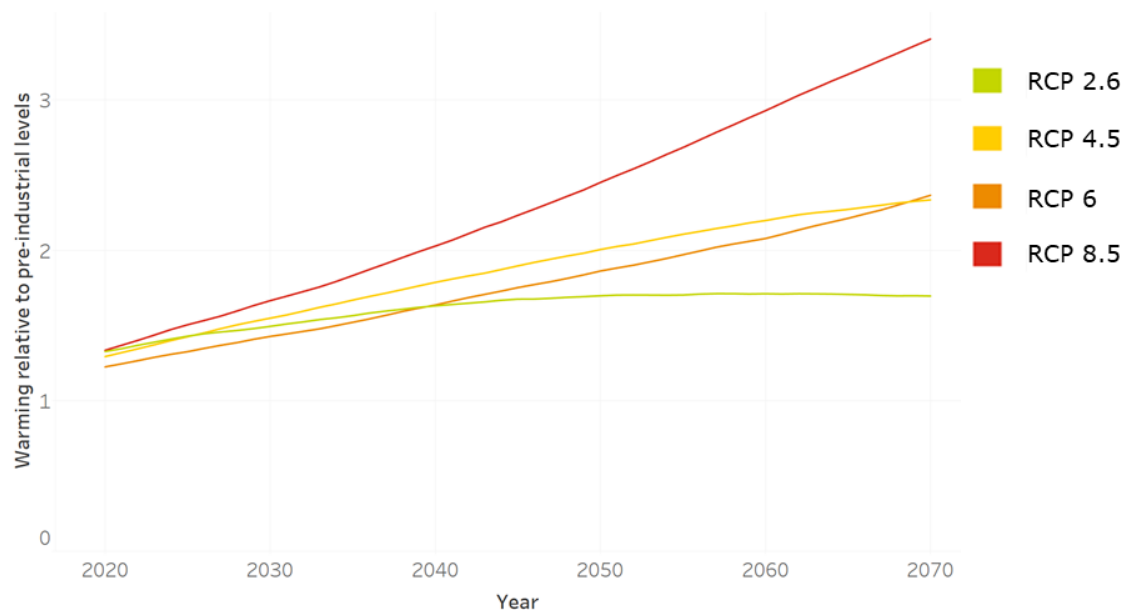


Figure 7. Forecast Warming based on Global Averages (Deloitte, 2021)

6 Comparison of Flood Damage Estimates

There are a number of assumptions that have been made as a part of the economic assessment for the different study areas. A comparison was undertaken on the estimates from this study, against available estimates from previous studies undertaken.

A comparison was undertaken with the recent study undertaken in Lismore by Engeny (2020). Engeny (2020) estimated the AAD for commercial and residential properties, and these were compared with the estimates for the current study. Engeny (2020) estimated their AAD values based on \$0 damage in the 1 in 2 AEP. This is a relatively small event for damages to commence, and so this was recalculated based on a 1 in 5 AEP. The recalculated values, and the values from the current study, are shown in Table 7. The overall totals between the studies align fairly closely, although there are some differences between the residential and commercial damages.

Table 7. Lismore Study Area Verification - AAD

Source	Residential	Commercial	Total
Engeny (2020)	\$14.8	\$42.0	\$56.8
Current Study	\$30.0	\$24.6	\$54.6

Seymour had a flood assessment undertaken in 2001 (WBM, 2001) that quantified the annual average damages using both the RAM and ANUFLOOD. This appeared to quantify damages to residential and commercial/ industrial damages. A comparison of the 2001 study and the current estimate property damages is provided in Table 8. It shows a reasonable level of agreement, particularly between the RAM and the current estimate.

A further comparison was undertaken between the properties affected estimate from WBM (2001) and the current estimate. This is shown in Table 9. This shows reasonable consistency at the 1 in 100 AEP flood, although the current study would appear to have a lower estimate to the WBM (2001) study. However, this is expected to be due to the use of more up to date information or data.

Table 8. Seymour Verification - AAD Estimates⁹

Source	AAD Estimate
WBM (2001) – ANUFLOOD	\$1.4M
WBM (2001) – RAM	\$3.2M
Current Study	\$3.6M

⁹ Adjustment from 2001 to 2020 based on Average Weekly Earnings increases.

Table 9. Comparison of Number of Properties Affected

AEP	WBM (2001)	Current Study
1 in 100	288	301
1 in 50	282	253
1 in 20	277	155

7 Further Considerations

7.1 Unquantified Economic Impacts of Flooding

The focus of this assessment has been on the inclusion of readily identifiable and measurable economic impacts of flooding.

There are numerous economic impacts that have not been included within this analysis. Examples of these include:

- **Agricultural impacts.** Largely, the focus of this project has been on flood-affected townships and urban areas, rather than focusing on rural impacts. Therefore, these have not been included within the analysis.
- **Environmental Impacts.** The environmental impacts of flooding have not been included, as they are often complex and difficult to cost. Some impacts can be positive (inundation of wetland areas) while others can be negative (pollution of waterways). It has also been assumed that any negative impacts of any mitigation measures would be mitigated where possible.
- **Indirect impacts on utilities and public infrastructure.** While an allowance has been made for direct impacts on public infrastructure, indirect impacts (such as power outages) are not included. Similarly, traffic disruption both during and after the flood event are not included.

7.2 Limitations

The approaches adopted in this assessment are appropriate for strategic level economic estimation. Further detail and refinement would be required should the identified potential mitigation measures progress further.

The methodology adopted places a large degree of reliance on the underlying damages dataset provided by IAG. It has been assumed that this data is fit for purpose and representative of the damages for each area.

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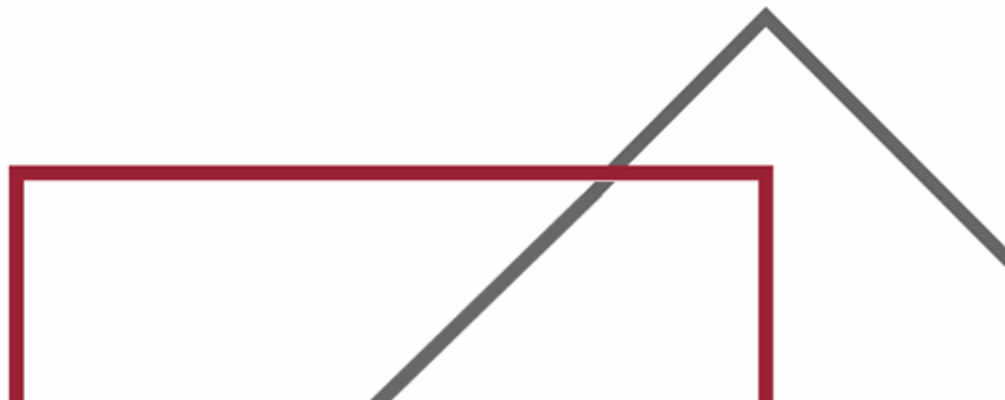
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Appendix C

Cost Estimates



Location	Name	General Description	Proposed Protection	Cost	Management Cost (10%)	Final Option Cost	Cost (\$m)	Contingency Cost (\$m)	Total with Contingency Cost (\$m)
Shepparton	South Shepparton Levee	Earth levee, ~2m in height. One major road crossing. Levee length of around 4.3km long.	1 in 50 AEP	\$ 8,850,000	\$ 885,000	\$ 9,735,000	\$9.7		
	South Mooroopna Levee	Has two major road crossings. ~1.5m in height, total length around 2.5km long.	1 in 50 AEP	\$ 3,502,500	\$ 350,250	\$ 3,852,750	\$3.9		
	Kialla Levee	Open land, less constraints for construction. ~1.5m height. 0.6km long.	1 in 50 AEP	\$ 630,000	\$ 63,000	\$ 693,000	\$0.7		
	Boulevard levee	Reasonably open earth levee, 1 major road crossing. ~1.5-2m in height, 4.9km long.	1 in 50 AEP	\$ 7,167,000	\$ 716,700	\$ 7,883,700	\$7.9		
	Kialla Lakes	Low levee ~1.5m in height, required road redesign. 1.3km long.	1 in 50 AEP	\$ 3,172,500	\$ 317,250	\$ 3,489,750	\$3.5		
	Riverside / Shopping Centre	~1m in height, 0.5km in length.	1 in 50 AEP	\$ 240,000	\$ 24,000	\$ 264,000	\$0.3		
	East Mooroopna Floodway	Roughly 64,000 m3 to be excavated and a large bridge widening on a major road. Identified in the SKM (2002) study to offset impacts of levees.	Increased conveyance of floodway	\$ 2,718,000	\$ 271,800	\$ 2,989,800	\$3.0		
		Total		\$ 26,280,000		\$ 28,908,000	\$28.9	\$18.8	\$47.7
Narrabri	SE Levee	Earth levee ~2m in height, linking to the railway line, 1 road crossing, 1.8km	1 in 20 AEP	\$ 4,539,443	\$ 453,944	\$ 4,993,387	\$5.0		
	East Levee	Earth levee with some complicated sections, linking to rail line. ~2m high and 3 road crossings, 3.9km	1 in 20 AEP	\$ 10,078,194	\$ 1,007,819	\$ 11,086,013	\$11.1		
	Central Levee	Earth levee, ~1.5m high and 1 road crossing, 0.7km	1 in 20 AEP	\$ 2,558,241	\$ 255,824	\$ 2,814,065	\$2.8		
	Central Floodway Sth	Earth levee, ~1.5m high and 3 road crossings, 2.3km	1 in 20 AEP	\$ 5,192,070	\$ 519,207	\$ 5,711,277	\$5.7		
	Central Floodway Nth	Earth levee, ~1.5m high and 2 road crossings, 0.85km	1 in 20 AEP	\$ 2,474,411	\$ 247,441	\$ 2,721,852	\$2.7		
	West Levee	Earth levee, ~1.5m high and 2 road crossings (this levee may be difficult to implement), 1.6km	1 in 10 AEP	\$ 3,625,473	\$ 362,547	\$ 3,988,020	\$4.0		
	Industrial Levee	Earth levee, ~1.5m high and 2 road crossings (this levee may be difficult to implement), 1.9km	1 in 10 AEP	\$ 4,089,288	\$ 408,929	\$ 4,498,217	\$4.5		
		Total		\$ 32,557,119		\$ 35,812,831	\$35.8	\$23.3	\$59.1

Location	Name	General Description	Proposed Protection	Cost	Management Cost (10%)	Final Option Cost	Cost (\$m)	Contingency Cost (\$m)	Total with Contingency Cost (\$m)
Innisfail	South Innisfail	Earth levee, 0.5km long, requires a flood gate.	1 in 50 AEP	\$ 1,581,577	\$ 158,158	\$ 1,739,734	\$1.7		
	Goondi Hill Levee	Earth levee, 3.3km long, 2 road crossings.	1 in 50 AEP	\$ 5,913,673	\$ 591,367	\$ 6,505,040	\$6.5		
	Innisfail levee	Earth and concrete levee, 1.5km. Major road crossing and a flood gate.	1 in 50 AEP	\$ 6,378,860	\$ 637,886	\$ 7,016,746	\$7.0		
	Cullinane Levee	Earth levee, 3.1km long, includes a flood gate and multiple road crossings.	1 in 50 AEP	\$ 5,642,416	\$ 564,242	\$ 6,206,658	\$6.2		
	Dredging of Johnstone River - Large Scenario	Dredging of the river, not well scoped but may offset the increases due to levees.	Improved conveyance to off-set proposed levees	\$ 9,500,000	\$ 950,000	\$ 10,450,000	\$10.5		
		Total		\$ 29,016,526		\$ 31,918,178	\$31.9	\$20.7	\$52.7
Rockhampton	South Rockhampton Levee	Large levee ~8.8km long, has an EAR completed (2019)	1 in 100 AEP	\$ 80,360,000	\$ -	\$ 80,360,000	\$80.4		
		Total		\$ 80,360,000		\$ 80,360,000	\$80.4	\$0.0	\$80.4
Tweed	South Tweed Levee	Earth bank, 2 road crossings, Raise from 2mAHD to 2.8mAHD, 4.4km in length	1 in 100	\$ 11,011,315	\$ 1,101,132	\$ 12,112,447	\$12.1		
	Phillip Parade Ext	Earth bank, road crossings, one flood gate, build to 2.8mAHD, 1.4km in length	1 in 100 AEP	\$ 6,030,495	\$ 603,050	\$ 6,633,545	\$6.6		
		Total		\$ 17,041,810		\$ 18,745,991	\$18.7	\$12.2	\$30.9
Dalby	Levee Ashmore Street	Earth bank levee, 3 road crossings, 8.8km, ~1-2m in height	1 in 100 AEP	\$ 9,776,100	\$ 977,610	\$ 10,753,710	\$10.8		
	Southern Flow Bypass	Large bypass, multiple properties impacted. Approximately 1m of earth excavated. Potential alternative lower capacity floodway.	Unknown	\$ 48,993,119	\$ 4,899,312	\$ 53,892,431	\$53.9		
		Total		\$ 58,769,219		\$ 64,646,141	\$64.6	\$42.0	\$107
Seymour	Seymour Levee	Earth levee with large urban sections, 4.2km long, requires a multiple road crossings.	1 in 100 AEP	\$ 20,000,000	\$ -	\$ 20,000,000	\$20.0		
		Total		\$ 20,000,000		\$ 20,000,000	\$20.0	\$5.0	\$25.0



Rhelm Pty Ltd

ABN 55 616 964 517

ACN 616 964 517

Head Office

50 Yeo Street

Neutral Bay NSW 2089

contact@rhelm.com.au

+61 2 9098 6998

www.rhelm.com.au



Strengthening resilience

Managing national disasters after
the 2019-20 bushfire season





Message from IAG Managing Director and Chief Executive Officer – Peter Harmer:

As Australia's largest insurer, we witness firsthand the devastation natural disasters bring to people and communities and have long been advocating for mitigation to better protect Australians.

The 2019–2020 'Black Summer' bushfire season, which devastated so many of our customers, once again highlighted the importance of increased investment to make our communities safer and more resilient.

It's important that we learn how to best do that by reflecting on recent experience, and so IAG, has commissioned the Menzies Research Centre, to develop Strengthening Resilience: *Managing natural disasters after the 2019-20 bushfire season*. This timely analysis demonstrates how Australia can prevent and respond to bushfires and other natural perils based on what has been learned so far. Importantly, we highlight what we need to change to better protect Australian lives, livelihoods and communities.

We commend the positive steps taken by governments to reduce Australia's risk to natural perils including the Natural Disaster Risk Reduction Framework released in 2018. IAG supported the development and early implementation of this framework and will continue to work constructively with Government and other organisations to finalise and implement the National Action Plan.

In addition to the recommendations outlined in the attached report; IAG urges governments at all levels to increase funding for mitigation works to make communities safer and more resilient for the long term. We look forward to working collaboratively with governments and community organisations to support our customers, our people and the community remain safe from natural perils.

A handwritten signature in black ink, appearing to read 'Harmer'.

Peter Harmer

Managing Director and Chief Executive Officer, IAG.

Introduction

After almost three decades of steady economic growth, Australia has been hit by a sudden series of exogenous shocks that tested our national resilience.

The 2019-20 Black Summer bushfires, COVID-19 pandemic and forecast recession each present wicked policy challenges. They are riddled with complexity and conflicting aims and no clear stopping point.

The onset of each shock was so rapid that novel policy solutions are required, often on the run. Each follow a similar pattern. The first priority is emergency relief and the second is recovery. The third is the task of strengthening resilience, a challenge which will be addressed by this series of policy papers.

The resilience challenge applies in almost every domain of public policy. Economic and fiscal policy, defence, energy, the environment, health, agriculture, education, workplace relations and training, immigration, social policy and more each have a role in building national, community and individual resilience.

The political temptation to tame complex problems by dealing with the noisiest cog in isolation must be resisted. Silencing the growl does not solve the problem and can actually increase the risk if the wicked problem no longer shows its teeth before it bites.¹

The risk of future exogenous shocks cannot be avoided. On the contrary; experience suggests there will be more, each one unexpected in form and timing. Yet the risk can be lowered through mitigation, adaptation and prudential measures to ensure we have the resources to deal with the next shock when it comes.

Natural Disaster Management

This paper was commissioned by Insurance Australia Group (IAG) in response to the 2019-20 bushfires that consumed more than 18 million hectares of land, destroyed over 5,900 buildings and killed at least 33 people.

Many of its findings and recommendations apply to natural disaster management more broadly. It should therefore be seen as a template for the improved management of floods, storms and other environmental disasters.

The role of climate change in bushfires has been the subject of considerable recent debate and discussion. Climatic variations are inextricably linked to the likelihood of bushfires and their intensity. Mitigating climate change by reducing emissions of greenhouse gases is a global challenge to which both sides of Australian politics have pledged to play a part.

Research and discussion about the quantum and pace of emissions reduction is to be encouraged. That debate, however, falls outside the scope of this paper. Instead we focus on a series of practical steps that will reduce the risk of catastrophic bushfires and increase our capacity to control the impacts of these disasters should they arrive.

We call for government funding and priorities to be recalibrated to address the imbalance between recovery and mitigation. The low death toll in 2019-20 relative to the extent of the destruction of land and property was a tribute to our improvements in containing fires and the application of safe practices for those in bushfire zones.

We call for the introduction of a National Bushfire Risk Rating (NBRR) for communities, individual properties and structures.

An NBRR will facilitate a nationally consistent approach to land use and building codes. It will offer coherent and consistent guidelines as to how existing properties and structures can be made safer. It will also inform the regulations that apply to new developments.

An NBRR will provide consistency when measuring risk which will be useful to insurers pricing risk and provide a benchmark for individuals, businesses and communities that take steps to reduce risk.

1 Churchman, C. West (December 1967). "Wicked Problems". *Management Science*. 14 (4): B-141-B-146.

Technology will be a key to improving outcomes following a natural disaster. We call for an open platform for risk data to be collated that can be used to build resilience in decision-making and facilitate private use of the risk information.

Strengthening Resilience

The practice of building resilience has been underway on this continent for thousands of years. The first Australians demonstrated this by developing burn-off skills that remain highly effective today.

The continual progress made by science has given us a better understanding of bushfires and other natural disasters. We acknowledge the important role the CSIRO, James Cook Universities Cyclone Testing Station, Bushfire and Natural Hazard CRC, and many other researchers and universities across Australia have played in this regard over many years.

Technology and innovation will continue to play an important part in strengthening resilience.

So too will be our ability to learn from experience and to correct mistakes. We welcome the establishment of the Royal Commission into National Natural Disaster Arrangements, to which we are submitting this Paper.

Nick Cater

Executive Director, Menzies Research Centre

April 2020

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Key Recommendations

1. Government funding should prioritise risk reduction which will reduce the need to spend on disaster recovery.
2. Introduction of a National Bushfire Risk Rating (NBRR) system for all bushfire-prone communities, properties and structures.
3. Introduction of a national approach to land use and building codes.
4. Creation of an open access information platform comprising all data required for natural hazard management.
5. Tax reform to improve affordability and increase uptake of insurance.

1. Policy context

The 2019-20 bushfires were neither the most deadly nor the most extensive in Australia's history. Those grim honours belong to the Black Saturday bushfires of 2009 in which 173 people perished, and the [1974-75 bushfires in which 117 million hectares burned](#), compared with [33 people and 17 million hectares](#) which burned in the 2019-20 bushfire season, which has been called the [Black Summer](#).

However, unlike other bushfires, the impact of the Black Summer Fires could be felt in Australia's largest capital cities, casting a [pall of toxic smoke](#) over Sydney, Melbourne and Canberra for many days over a number of weeks.

The 2019-2020 bushfires also came at the end of Australia's [hottest and driest year](#) raising fears that this would become the new normal. This provoked a polarising debate about the extent to which the ferocity of the fires was due to a failure to reduce fuel loads, whether it was possible to reduce fuel loads as fire seasons lengthened, the role of indigenous practices in mitigating bushfires, the impact that climate change was having on the severity of natural disasters and the extent to which Australia could reduce global warming through its national reduction of carbon emissions. The whole debate played out in the international arena with heart wrenching images of Australian wildlife and vulnerable people stranded on the beach in Mallacoota playing in news broadcasts around the world.

All of this culminated in the establishment, on 20 February 2020, of the [Royal Commission in National Natural Disaster Arrangements](#) and an expert advisory panel chaired by CSIRO'S Chief Scientist to bring forward recommendations to Australian Governments on practical resilience measures to strengthen buildings, public infrastructure, industries such as agriculture and to protect the nation's natural assets.

The Prime Minister also flagged the discussions of resilience measures with the States & Territories Premiers and Chief Ministers to ensure the Australian Government's investment through the National Bushfire Recovery Agency will be in assets that are built to survive longer, hotter, drier summers.

He explained the three elements of the government's response to climate change – emissions reduction, short to mid-term **resilience** and long-term **adaptation**.

“The first one, which is most talked about, is emissions reduction, and Australia is taking action on emissions reduction,” Morrison said. “We are a signatory to the Paris agreement.”

“The second one, is our climate change action in relation to resilience. Our emissions reduction targets can be higher or lower, but the fact is the next ten years, and beyond, we are going to be living in a very different climate and we need to improve ... in a range of measures.”

“The third is the climate change adaptation. These are the areas of climate change action that I think need greater attention because they're the things that are practically affecting people's daily lives here in Australia, where we can do practical things that will make us more resilient and ensure that we're safer.”

Australia's deadliest bushfires in recorded history were:²

- Black Saturday in Victoria in 2009 (173 people died);
- Black Friday in Victoria in 1939 (71 people died);
- Black Tuesday in Tasmania in 1967 (62 people died)
- Ash Wednesday in South Australia in 1983 (47 people died).

² Blanchi R, Leonard J, Haynes K, Opie K, James M, Kilinc M, Dimer de Oliveira F, Van den Hornet R (2012). Life and house loss database description and analysis. CSIRO, Bushfire CRC report to the Attorney-General's Department. CSIRO EP-129645

The focus of the Royal Commission on improving resilience and mitigating risk is a welcome point of difference with previous inquiries, in particular the commitment to:

- examine the coordination, preparedness, response to, and recovery from disasters
- improve resilience and adaptation to changing climatic conditions
- mitigate the impacts of natural disasters.

Royal Commission into National Natural Disaster Arrangements

The Royal Commission provides the opportunity to develop **a national, long-term approach to managing natural disasters**, through a co-ordinated, collaborative response which focuses on prevention. A more **balanced approach to spending** is essential. Too much money is spent on disaster recovery because **not enough money is spent on disaster prevention** and preparedness.

A paper commissioned by the Australian Business Roundtable for Disaster Resilience & Safer Communities estimated that expenditure of \$5.3 billion over the period to 2050 (in present value) would generate budget savings of \$12.2 billion for all levels of government including \$9.8 billion for the Commonwealth government for the Commonwealth Government. With targeted mitigation spending Commonwealth and State and Territory government expenditure on natural disaster could be reduced more than 50 per cent by 2050.³

Governments at all levels need to **increase funding for pre-disaster resilience** that reduces community vulnerability to extreme weather, taking into account future climate change, through:

- fit for purpose building codes,
- land use planning
- preventative infrastructure investment
- community education

Initiatives should be subjected to rigorous cost-benefit analysis and demonstrate clear positive outcomes.

Prioritisation should be informed by research and based on national data sets. This allows key investment decisions made at all levels to be guided by government incentives and price signals from the private sector such as the cost of insurance premiums.

Individuals can take steps to protect their assets, but there is also a need for a coordinated approach by all levels of government. Options available to address the risk of damage posed by extreme weather events include land-use planning, development controls and infrastructure resilience. Robust cost-benefit analysis of these options which takes into account the impact on insurance premiums is vital to allow decision-makers and communities to make an informed choice and to understand the trade-offs involved in living in disaster-prone areas.

Insurance benefits individuals, the community, government and the economy because it:

- manages risk efficiently by allowing it to be shared or transferred
- encourages those who are insured to reduce the threat of loss through risk-weighted premiums;
- enhances peace of mind
- reduces the demand on governments to meet the cost of rebuilding after disaster strikes;
- promotes financial stability by pooling the cost of risk and spreading it over time
- mobilises domestic savings;
- facilitates trade and commerce through risk mitigation
- supports economic growth through the efficient allocation of capital and the development of financial services

³ Australian Business Roundtable (January 2014). Building our nations resilience to natural disasters. Accessed April 2020 at <http://australianbusinessroundtable.com.au/assets/Natural%20Disaster%20Roundtable%20Paper%20Web%20version%20January%202014.pdf>

Insurance plays a key role in identifying, assessing and communicating risk. Insurance premiums provide a vital signal to individuals, businesses and communities by quantifying their exposure to risk and provides an incentive to implement preventative and protective measures to reduce vulnerability.

Insurance allows **individuals** to maintain financial stability while decreasing the need for precautionary savings. These savings alone may not be sufficient to cover losses following an insurable event. This frees up savings for consumption or investment. Insurance also facilitates trade and commerce, through risk mitigation which supports **business** and fuels economic growth. On the contrary, non-insurance and underinsurance can put political pressure on **governments** to rebuild communities following natural disasters.

Private insurance market is the most effective and economically sustainable way of ensuring the maximum number of Australians cover themselves for risk. The Australian insurance sector is well regulated, capitalised and highly competitive despite an unprecedented number of natural disasters in recent years.

The insurance industry has a responsibility to play a role in building national resilience beyond its primary role of financial risk management. The sector has already co-created the Australian Business Roundtable for Disaster Resilience & Safer Communities, which is a cross sector collaboration of business and community organisations. The Australian Business Roundtable is committed to supporting actions that make Australian communities safer by improving disaster resilience and climate change preparedness. Investment in disaster resilience and preventative activities is the most effective way to protect communities and reduce the impact of disasters.

Significant improvements in data availability and interpretation capability now allow insurers to assess an individual customer's circumstances to ensure their premium reflects the risk. This takes into consideration a property's exposure to events like cyclones, flood and bushfire. Household pricing recognises customers as individuals, each with their own risk profile, instead of treating them as a postcode, demographic group or risk factor. This means pricing is increasingly more granular and accurate. Insurance premiums therefore send a price signal (at times the only sign) to property holders regarding the level of risk they are exposed to.

Understanding weather events and a changing climate is core business for the insurance industry. General insurers underwrite weather-related catastrophes by calculating, pricing and spreading the risk and meeting claims when they arise. Extreme weather events and climate volatility have a significant impact on the sector. Research shows that the impacts of a changing climate are already being felt and that bushfire risk, as measured by the trends in fire danger indices, is likely to increase in almost all locations in Australia, leading to more frequent and extreme events and fire seasons.⁴ This is a key concern for insurers and threatens the viability of the industry.

4 Severe Weather in a Changing Climate, C. Bruyere, G. Holland, A. Prein, J. Done, B. Buckley, P. Chan, M. Leplastrier, A. Dyer, November 2019.

2. The cost of catastrophes

Economic cost of bushfires

In Australia, there has been an upward trend in natural disaster costs, particularly since 2000. In 2013, the total economic costs of natural disasters in Australia was estimated to average around \$6.3 billion per year.⁵ By 2015, that the cost had risen to \$9.6 billion with the inclusion of social impacts of disasters.⁵ By 2017, the cost of natural disasters had risen to \$18.2 billion per year, equivalent to 1.2% of GDP, and was forecast to grow by 3.4 per cent per rising to \$39 billion by 2050 per year in real terms, even without considering the future impact of climate change.⁶ These rising costs reflect increased population growth, the increasing density of infrastructure and continuing migration to more vulnerable parts of the country. Local government areas (LGAs) with high and extreme risk of bushfire generated \$175 billion (10.8 per cent) of GDP and are home to 2.2 million people (9.2 per cent of the population). For example, in Victoria, 17.5 per cent of the population live in LGAs which contain communities at high to extreme risk of bushfire.⁷ The increasing value of building households and contents and sub-par building standards also contribute to a rise in the cost of natural disasters.⁸

The impacts of severe fire (and other extreme weather events) on the economy in urban, regional, rural and remote areas can be related to the economic output of each area. Increasingly, Australia's economic activity is taking place in locations with high risk of natural perils.

Major capital cities, such as Brisbane and Melbourne, are at high risk of flooding and climate change will likely exacerbate this risk. Brisbane and its fast-growing LGAs on the Gold Coast and Moreton Bay are also at high risk of cyclones. There are also LGAs with high economic value and high exposure to bushfires located in Western Australia — East Pilbara, Ashburton and Roebourne.⁷ While the September 2016 storm in regional South Australia caused an extensive blackout that affected high-value activity not just in Adelaide but at the Port Pirie smelter, the Whyalla steelworks and at BHP Billiton's Olympic Dam mines, this one event reducing the GDP of South Australia by as much as \$200 million.⁷

This means that economic activity and taxation on revenue are at greater risk of disruption or delay. Further, some rural and remote at-risk communities do not have the economic resources to independently prepare for and recover from a natural disaster, this increases reliance on government funds to recover. In 2016, LGAs with high and extreme risk of bushfire generated more than 10 per cent of GDP and were home to 2.2 million people — 9.2 per cent of the population.⁷

Ensuring areas with the highest level of economic activity are protected from natural perils by wise infrastructure investments and mitigation measures will help to maintain economic growth. This requires government to understand the distribution of economic activity and the risk of natural perils.

5 Australian Business Roundtable. (March 2016). The economic cost of the social impact of natural disasters. Accessed April 2020 at <http://australianbusinessroundtable.com.au/assets/documents/Report%20-%20Social%20costs/Report%20-%20The%20economic%20cost%20of%20the%20social%20impact%20of%20natural%20disasters.pdf>

6 Australian Business Roundtable. (November 2017) Building resilience to natural disasters in our states and territories. Accessed April 2020 at http://australianbusinessroundtable.com.au/assets/documents/ABR_building-resilience-in-our-states-and-territories.pdf

7 SGS Economics and Planning. At what cost? Mapping where natural perils impact on economic growth and communities, IAG, November 2016. Accessed April 2020 at <https://www.sgsep.com.au/assets/main/SGS-Economics-and-Planning-at-what-cost-IAG-mapping-where-natural-perils.pdf>

Understanding the capacity of communities to deal with risk is also an important consideration for government. For example, Hepburn, Central Goldfields and Hindmarsh in Victoria are at high risk of bushfire yet low on economic resources which may undermine their ability to prepare for and recover after a disaster. As a result, the economic burden will primarily fall on government and these communities will probably take longer to recover and rebuild.⁷ Local and state governments can use planning laws to prevent individuals and communities from being exposed to unacceptable risk.

Small businesses that suffer major loss due to a natural disaster are at a greater risk of failure because it can take weeks or months to return a business to full operation after an event such as a fire or flood while expenses such as rent and wages need to keep being paid. In order to understand their exposure to risk, businesses need to conduct a business impact analysis and develop a disaster recovery plan.

Social cost of bushfires

The social costs of natural disasters repeatedly exceed the tangible economic costs.⁵ They include deaths, injuries, impacts on health and wellbeing, community connectedness, as well lost wages and from not working or lost leisure time.⁵ More than nine million Australians have been impacted by a natural disaster or extreme weather event in the past 30 years.⁶ While it is difficult to put a dollar value on these tragic and devastating events, it is estimated that the total economic cost of natural disasters in Australia over the 10 years to 2016 had averaged \$18.2 billion. This is forecast to rise to \$39 billion per year on average by 2050 (in present value terms) without including additional costs to due to the increased frequency of extreme weather events due to climate change.⁵

As Australian Red Cross CEO Judy Slatyer said, 'Natural disasters have a deep social impact on individuals and communities that can last for years.' For example, the 2009 Black Saturday bushfires in Victoria was one of the worst natural disasters in Australian history. The intangible costs associated with these bushfires were estimated to be significantly higher than the tangible costs, at \$3.9 billion compared to \$3.1 billion respectively. This means the ratio of intangible costs to tangible costs was around 1.3.⁸

To reduce the costs of social impacts of natural disasters, the Australian Business Roundtable made four key recommendations:

1. Pre- and post-disaster funding should better reflect the long-term nature of social impacts.
2. A collaborative approach involving government, business, not-for-profits and community is needed to address the medium- and long-term economic costs of the social impacts of natural disasters.
3. Governments, businesses and communities need to further invest in community resilience programs that drive learning and sustained behaviour change.
4. Further research must be done into ways of quantifying the medium- and long-term costs of the social impacts of natural disasters.

5 Australian Business Roundtable. (March 2016). The economic cost of the social impact of natural disasters. Accessed April 2020 at <http://australianbusinessroundtable.com.au/assets/documents/Report%20-%20Social%20costs/Report%20-%20The%20economic%20cost%20of%20the%20social%20impact%20of%20natural%20disasters.pdf>

6 Australian Business Roundtable. (November 2017) Building resilience to natural disasters in our states and territories. Accessed April 2020 at http://australianbusinessroundtable.com.au/assets/documents/ABR_building-resilience-in-our-states-and-territories.pdf

7 SGS Economics and Planning. At what cost? Mapping where natural perils impact on economic growth and communities, IAG, November 2016. Accessed April 2020 at <https://www.sgsep.com.au/assets/main/SGS-Economics-and-Planning-at-what-cost-IAG-mapping-where-natural-perils.pdf>

8 The economic cost of the social impact of natural disasters, Australian Business Roundtable for Disaster Resilience & Safer Communities, March 2016, p. 38

3. Prevention is better than cure

There have been 57 formal public inquiries, reviews and Royal Commissions related to bushfires and fire management since 1939.⁹ These inquiries tend to focus on how to respond to an active bushfire and post-disaster relief. Insufficient attention has been paid to the use of data and planning to mitigate the threat posed by bushfires and most mitigation is focused on fuel loads, the key theme common to all the inquiries.

Despite this relentless commitment to inquiries, in 2014, a report released by the Productivity Commission into Natural Disaster Funding Arrangements found that government natural disaster funding arrangements had been inefficient, inequitable and unsustainable. ‘They are prone to cost shifting, ad hoc responses and short term political opportunism.’

The Productivity Commission lamented that the funding mix was disproportionately recovery-based and did not promote mitigation. It observed that the political incentives for mitigation were weak, ‘since mitigation provides public benefits that accrue over a long-time horizon,’ and that over time this would create entitlement dependency and undermines individual responsibility for natural disaster risk management.’

At that time, it said, mitigation funding amounted to only three per cent of what is spent on post-disaster recovery and recommended that the Australian Government should gradually increase the amount of annual mitigation funding it provides to state and territory governments to \$200 million.

It was therefore very welcome when the Senate voted in October 2019 to increase mitigation funding by \$50 million. The Insurance Council of Australia called it a ‘leap in the right direction.’ It was a timely decision as it came at the start of the bush-fire season. It is to be hoped that the Government continues in this direction and increases its funding to the State and Territory Governments for mitigation to \$200 million per year. Generally, one dollar spent on mitigation can save at least two dollars in recovery costs.¹⁰

Committing additional mitigation funding makes economic sense. A report by the Australian Business Roundtable for Disaster Resilience & Safer Communities suggests that a mitigation expenditure in the order of \$5.3 billion over the period from 2020 to 2050 (in present value terms) could generate budget savings in the order of \$12.2 billion for all levels of government, or \$9.8 billion when looking at the Commonwealth government budget only. If successfully implemented, it could see Australian and State Government expenditure on natural disaster response fall by more than 50 per cent by 2050.

In order to lock in this focus on risk reduction rather than recovery, the Australian Government should treat natural disaster contingent liabilities more transparently by quantifying the size of these liabilities and disclosing the estimates and their confidence ranges in the budget’s Statement of Risks. Funds should also be allocated for future natural disaster recovery costs in the forward estimates. This would promote incentive neutrality and reduce the systemic bias against mitigation.

The Australian Government should also develop a formula for allocating mitigation based on where such funding is likely to achieve the greatest net benefits, rather than on an ad hoc basis. Many government-sponsored and community programs place heavy emphasis on emergency response and civilian response-preparedness, and these should include concrete risk reduction strategies that can be adopted. But to be fully effective and efficient, these efforts should take place at, and be targeted to, every level of society—individual, business, community, and government.

Building an open access platform with all the relevant data required to assess and analyse the risk posed by natural disasters and the best strategies to reduce that risk is a key plank in developing more resilient societies.¹¹

9 Kevin Tolhurst, *The Conversation*, 16 January 2020.

10 McClelland, R. (2011) Address on climate change to the James Cook University School of Law, available at: www.austlii.edu.au/au/journals/JCULawRw/2011/1.pdf

11 Australian Business Roundtable. (July 2014). *Building an Open Platform for Natural Disaster Resilience Decisions*. Access April 2020 at <http://australianbusinessroundtable.com.au/assets/Building%20an%20Open%20Platform%20for%20Natural%20Disaster%20Resilience%20Decisions%20CLEAN.pdf> ABR recommendation

4. Adapting to a changing climate

Every year we are confronted with extreme weather events that too often become natural disasters. Climate change is altering and exacerbating these events, increasing the threats that they pose. Fortunately, Australia, as a prosperous flourishing democracy, is better placed than most societies to reduce weather-related risks. To do that it is important to understand how Australia's climate is changing and how that is augmenting the risk of natural disasters. This information then needs to be made available to all stakeholders and decision-makers via an open access national platform to inform risk reduction strategies and disaster preparedness planning at all levels of governments, in businesses, community organisations and individuals to reduce the impact of extreme events and the physical, economic and social costs of disaster recovery.¹¹

The level of scientific knowledge has reached the stage where it is possible to make assessments, with some confidence about the impacts of climate change at larger scales and longer time frames but many decisions require information at more local scales, such as states, cities and towns.

The key point for this paper is that: 'Bushfire risk, as measured by the trends in fire danger indices, is likely to increase in almost all locations nationally, leading to more frequent and extreme events, and longer fire seasons. The rate of increase varies by location and will depend on weather system changes and site-specific factors at regional scales.'¹²

Bushfires are the result of complex interactions between weather, climate, vegetation and people and are challenging to simulate because most global fire activity is directly attributable to people.¹⁷ Nonetheless, an observational study from 1979 to 2013 showed that fire weather seasons have lengthened by almost 20 per cent globally, resulting in a doubling of the global burnable area affected by long fire weather seasons.¹²

The McArthur Forest Fire Danger Index is a measure of the atmospheric conditions that drive bushfires, but other factors are critical including biomass, fuel moisture, land use and demographics, bushfire prevention and combat activities. The FFDI monitors fire weather in Australia, based on daily temperature, wind speed, humidity and a drought factor. It shows increases at almost all sites and significant increases at 42 per cent of sites in the period from 1974-2015. The increase is particularly strong in south-east Australia and is primarily related to temperature increases. Severe fire conditions can lead to extreme bushfires with a very high risk of house destruction. Historical records suggest an increasing occurrence of extreme bushfires in recent decades.¹³

There is high confidence that climate change will lead to a higher frequency of days with severe fire danger in southern and eastern Australia. This will result in reduced intervals between fire events, a higher fire intensity, lower fire extinguishments and an increase in fire spread with an estimate that by 2050, the frequency of extreme fire danger will increase by 15-70 per cent in south-east Australia. Very little work has been done on changes in extreme bushfires, but it is highly likely that they will significantly increase in frequency in the future too. The length of the fire season is also expected to increase which would reduce opportunity for fuel-reduction burning to winter. This has happened due to increasing temperatures and drying in these regions. Little change in fire hazard is expected in the tropical and monsoonal north Australian regions.

11 Australian Business Roundtable. (July 2014). Building an Open Platform for Natural Disaster Resilience Decisions. Access April 2020 at <http://australianbusinessroundtable.com.au/assets/Building%20an%20Open%20Platform%20for%20Natural%20Disaster%20Resilience%20Decisions%20CLEAN.pdf> ABR recommendation

12 Severe Weather in a Changing Climate, C. Bruyère, G. Holland, A. Prein, J. Done, B. Buckley, P. Chan, M. Leplastrier, A. Dyer, IAG, November 2019, P.3

13 Severe Weather in a Changing Climate, C. Bruyère, G. Holland, A. Prein, J. Done, B. Buckley, P. Chan, M. Leplastrier, A. Dyer, IAG, November 2019, P. 45

5. The danger of underinsurance – rebuilding self-reliance

The impacts of natural disasters are becoming more devastating due to the increasing concentration of populations and their insured assets in locations with exposures to natural disasters. Insurance plays a significant role in mitigating adverse outcomes and helping to restore normal economic activities following disasters regardless of their size. Insurance payouts help to stabilise the local economy and offset the initial impact to the economy following the disaster. Over time, the economic stimulus from claims payouts and recovery activity encourages a faster return to normal economic activity.

This is particularly the case in regional areas which have a high reliance on capital intensive sectors like resources, agriculture, and tourism. The value of insurance is clear for areas that have limited employment opportunities, or a narrower economic base compared to urban areas that can absorb the economic losses of a disaster more easily.

With large parts of Australia at growing risk from tropical cyclones, bushfires, storms and floods, the importance of insurance is increasing. Unfortunately, the increasing costs of claims reduces the affordability and accessibility of insurance.

Studies show that Australia is significantly uninsured and underinsured²⁰. At the same time as an ever-greater percentage of the population rely on taxpayer-funded largesse rather than their own savings or insurance policies²¹ to provide for themselves in adversity, governments are failing to collect sufficient revenue to pay for their promises. In these circumstances, fiscal deficit and debt is inevitable.

In the event of a natural disaster, the Commonwealth contributes from 50 to 75 per cent of the cost of replacing essential public assets such as roads. Regrettably, this has tended to encourage States and Territories not to spend their own revenue on mitigation efforts, including by insuring or reinsuring assets.

Separating those responsible for mitigating the risk of natural disasters from those who pay for the damage creates a dangerous moral hazard, putting lives in danger and increasing costs for the community. Yet, spending as little as \$250 million per annum on mitigation could reduce the cost of natural disasters by up to 50 per cent and generate budget savings of as much as \$12.2 billion for all levels of government.¹⁴

Whether such savings could be realized would depend on how wisely the mitigation funds were spent. Relevant local knowledge should inform those decisions if state and local governments, which are primarily responsible for responding to disasters, also managed disaster mitigation and covered the cost of disasters.

Government intervention should not reduce the incentive for individuals to insure themselves or increase the incentive to be a free rider. For example; in the devastating floods in Grantham, Queensland January 2011, individuals who had insured their houses saw that others who had not received government funding to assist in a return to normal life. The funding for this government largesse came out of the Queensland Flood Levy. Hence a costly government intervention delivered a double whammy, discouraging responsible behaviour and encouraging irresponsible behaviour at the same time.

The failure of governments to intervene can also have disastrous consequences. Australians living in flood or bush-fire zones who do not take out insurance maybe dangerously ignorant of the perils they face. Indeed, non-insurance may have the perverse effect of encouraging more people to live in these areas than would do so if they paid risk-rated insurance premiums commensurate with living in a dangerous area. Not only does this increase the burden on the taxpayer it puts lives at risk.

14 Building our Nation's Resilience to Natural Disasters, [Australian Business Roundtable for Disaster Resilience and Safer Communities](#), 20 June 2013.

Unfortunately, at present governments actively discourage people from insuring themselves by imposing levies on insurance premiums. For example, in NSW and Tasmania insurance companies have to partially fund fire brigades, a cost which is passed on through increased premiums.

Insurance taxes in Australia are considerably higher. Out of ten comparable OECD countries, Australia was the only one with double digit insurance tax rates and one of only three that impose a consumption tax (GST) on insurance.

A study by the Insurance Council of Australia in 2008 found that Victoria and NSW had the highest rate of insurance taxes of some 30 countries or states surpassing Germany, Finland, Denmark, Switzerland, the UK, California and Japan. Although Victoria has rescinded its fire levy, NSW continues to punish self-reliance. Taxing insurance is particularly short-sighted. In 2008 IPART concluded that these levies and the fire services charges were the most inefficient of all State taxes. More importantly, they increase the incentive not to insure and by decreasing the size of the insurance pool, they push up premiums even further.

As if all this were not enough, insurance taxes are inequitable. As premiums rise fewer people from lower socio-economic groups take out insurance and thus are exposed to greater risk and hardship when adversity strikes. But by increasing the incentive not to insure, governments create a greater fiscal burden for themselves.

The Henry Tax Review found that Australia had high taxes on insurance not just in comparison to other countries but compared with taxes on other products and industries in Australia.

In view of the fact that this deterred people, especially low-income earners, from insuring themselves, it recommended that all taxes on insurance products, including the fire services levy, should be abolished and that insurance products be subject, like most other services, only to the GST.

But even this does not go far enough. The government should not impose a GST on disaster insurance since such insurance will directly reduce the quantum the government may be pressured to spend on recovery. Moreover, the government should provide a direct incentive to property holders to take out insurance for disasters by making it fully tax deductible.

That would be fairer to all when misfortune strikes and would rebuild the spirit of self-reliance on which Australia was built.

6. Building blocks

In February 2011 the Council of Australian Governments endorsed the National Strategy for Disaster Resilience and agreed to actions to implement priority outcomes. In 2018 the National Disaster Risk Reduction Framework was released by the Department of Home Affairs. Although these commendable documents guide proactive efforts to reduce disaster risk and minimise loss and suffering caused by disasters, we continue to see the Government's relationship with these issues oscillating between a lack of ownership and possessiveness.

We require strategic leadership and co-operation at all levels of government as we need to prioritise and plan in a coordinated way. The following building blocks are a good place for this work to start.

Open data platform for disaster resilience decisions

Accurate Hazard Information is critical to understanding natural disaster risk and informing state and local land use planning.

Information is fundamental to natural hazards management to ensure that communities, planners, emergency services, individuals, property owners and insurers understand the risks they face, and devise and implement effective risk reduction.

Without access to critical data inputs and research findings, communities, business and government cannot make informed decisions on how to target these investments to achieve the greatest impact.

Yet too often councils and other authorities are reluctant to provide detailed information about risks such as flood or fire to owners or prospective purchasers because they fear litigation if the information that they provide has adverse consequences such as reducing the market value of a property.

A new national platform with mandatory reporting requirements would provide a circuit breaker to the collation, co-ordination and analysis of natural disaster information. The key inputs required by end-users are:

- Foundational data — locational information including the characteristics of assets at risk, community demographics, topography and weather details
- Hazard data — hazard-specific information on the risks of different disaster types, including history of events and the risk profile of the location
- Impact data — potential and actual impacts associated with natural disasters, including historical costs and damage, and current and future value at risk
- Research data — seeks to answer specific questions across a range of areas building on the existing stock of data¹¹

The value of a standardised data portal is that public and private organizations can access information to create value.

The Insurance Council of Australia has developed 'DataGlobe' ²²¹⁵ which provides visualisations of natural hazard data that provides insights into natural perils, risk-based insurance premiums and mitigation measures that may reduce the impacts of disaster in specific locations. Unfortunately, the credibility of natural hazard data is often questioned because of the variations between individual insurers and local councils.

Natural hazard data produced by governments and agencies remains the most relevant source of data for the insurance industry and the Government should provide accurate hazard information via a national centralised platform to ensure consistency, reliability and public trust in the information.

11 Australian Business Roundtable. (July 2014). Building an Open Platform for Natural Disaster Resilience Decisions. Access April 2020 at <http://australianbusinessroundtable.com.au/assets/Building%20an%20Open%20Platform%20for%20Natural%20Disaster%20Resilience%20Decisions%20CLEAN.pdf> ABR recommendation

15 <https://www.icadataglobe.com/>

Access to such information will

- better enable local governments to undertake effective public mitigation works such as fire breaks and enhanced monitoring, emergency warning and evacuation procedures in geographical areas that are subject to bushfire risk, reducing the risk exposure of properties situated in those areas
- reduce public expenditure on rebuilding communities after fires
- allow insurers to underwrite the risks with maximum certainty putting downward pressure on premiums in those areas that have benefited from public mitigation works
- ensure communities are less exposed to the social and economic disruption caused by fire

Accurate Hazard Information can also be used to amend/strengthen regulatory building standards. Once accurate data can show 'at risk' areas, the building code could be amended to require new builds (or alterations to existing buildings) in these areas to withstand the relevant hazards.

One insurer IAG also believes Accurate Hazard Information should be readily accessible by householders and businesses, helping them understand the flood risk in their location. It also has significant economic value, as it reduces risk, will benefit planning authorities, banks, financiers and developers, and allow insurers to underwrite the risks with maximum certainty.

Land use planning

Learnings from the 2019/2020 bushfires should evolve our understanding on the appropriate development and risk reduction opportunities in bushfire prone land. Bushfire datasets should be nationally coordinated and consistent best-practice methodologies should be made available to government, banks, insurers, engineers to make decisions about risk, land use and planning.

The *At what cost?* report highlights that as our population increases, governments will face more pressure to release low-cost land in higher risk areas, putting more lives in danger. Development of this land should be informed by accurate data on natural perils risks and accompanied by appropriate mitigation measures to minimise the risks.

Current requirements do not reflect the level of risk communities will face in the future. A thorough review needs to be undertaken to ensure they are changed to reflect the range of scenarios and forecasts in risk exposure that will occur with climate change. Current land planning and zoning requirements are misaligned with insurance risk, this dynamic in particular creates an affordability challenge for insurance and will only worsen as the risk increases with climate change. Additionally, there are no requirements in infrastructure, planning or zoning for the consideration of building with resilience. This most recent research completed by the Australian Business Roundtable (ABR) in 2016 found that:

- A major share of the costs associated with natural disasters arises from damage to critical infrastructure including roads, bridges, railways and hospitals.
- More than \$450 million per financial year was spent by Australian governments on restoring essential public infrastructure assets following extreme weather events between 2002-03 and 2010-11 which equates to about 1.6 per cent of total public infrastructure spending. With no requirement to build back better or to consider the future risks of an area when planning or zoning; individuals, communities, businesses and governments are left more vulnerable to widespread disruption and higher costs post disaster

With a changing climate resulting in increased extreme weather events, the case for prevention and planning with a range of forecasts is even stronger and more cost effective than trying to retrofit solutions in the future.

Government has a crucial role to play in risk-appropriate land use planning and zoning. Land that is, or becomes, an unacceptable risk from hazards such as tropical cyclones, severe storms, hailstorms, bushfires and flood should not be zoned for residential or commercial use. Without sound and consistent government controls, there is little to prevent ongoing building in locations of extreme vulnerability. Improved land-use planning will involve a commitment by Government to develop national land use planning criteria that prohibits inappropriate land-use in Australia.

7 SGS Economics and Planning. *At what cost? Mapping where natural perils impact on economic growth and communities*, IAG, November 2016. Accessed April 2020 at <https://www.sgsep.com.au/assets/main/SGS-Economics-and-Planning-at-what-cost-IAG-mapping-where-natural-perils.pdf>

Some of the strategies focusing on protecting life and built property are achieved through land use planning and zoning instruments. Strategies include deep setback of buildings from rivers/shorelines; relocation of buildings or infrastructure (including capacity for emergency relocation of demountable buildings); and enhanced monitoring, emergency warning and evacuation procedures. Additional measures available include investment in permanent engineering structures such as flood barriers, canals, dykes, pumps, levees, and importation of fill; plantings (such as dune grasses, mangroves) to absorb water and/or stabilise erosion-prone surfaces; sacrifice of land and land buyback schemes.

Building codes

Current buildings codes may not be adequate to meet the risks of future extreme weather events. While the objectives of the building code are centered on life safety, which is unquestionably vital, they do not focus on reducing the associated costs of damage from major disasters. This is an important aspect in ensuring that communities are more resilient in the future. It is important that research is conducted into both the drivers of damage to buildings as well as improved understanding of the potential changes to extreme weather events so that building codes are more effective in managing future community risk. Providing upfront protection of assets, buildings and infrastructure minimizes the impact to community post disaster. This is an issue now and will only increase in its impact to communities as we see an increase in more extreme weather events.

There is a crucial role for government to support community resilience by ensuring that new buildings in “at-risk” areas are constructed to withstand hazards such as tropical cyclones, storm surge, severe storms, hailstorms, bushfires, earthquake and flood. While land use planning is critical to managing natural disaster risk, building codes are an essential component of an effective multi-faceted, integrated approach to reducing the risk of natural hazards in the Australian community.

Given changing weather conditions and exposure as well as technological developments in construction, design and materials it is important to keep these codes under regular review to ensure they remain effective.

Cross-sector collaboration is essential for a resilient nation. Insurers should be routinely included in planning, mitigation and other flood management related decisions which will directly impact the pricing of risk. The potential insurance premiums generated by various levels of exposure should be part of the calculation of what is tolerable before new development takes place. This will help the community make an informed choice, understanding the trade-offs for living in particular areas.

The Government should collaborate with insurers to provide greater guidance to households of the risks they face. Informing households about the probable hazards that they may face remains a core government responsibility that should continue to be pursued through national or, at a minimum, consistent State-based initiatives.

The role of insurers should be to support and complement government activities by disseminating relevant information to their customers, not to be the sole or central source of that information.

Insurers need to be empowered to do this with access to accurate and up to date data to provide a nationally consistent view of risk. Where insurers have access to the same data as those who are responsible for mapping and managing the impact of natural hazards they can help educate the community on the risk they have. When insurers are not able to use the most up to date and accurate information available there is greater potential for confusion and scepticism in the community about the impact of natural disasters. The Insurance Council of Australia is working closely with several states and local governments to address these matters.

Building codes need to be extended beyond the normal principal place of residence and commercial buildings to include all forms of outbuildings and structures above an agreed size, such as garages, pergolas, sheds and anything else that could turn into a projectile in a tropical cyclone or other severe storm. Externally fitted structures such as air conditioners and solar panels should also have a building code to ensure at least a basic level of structural integrity in the event of a major storm – including hailstorm.

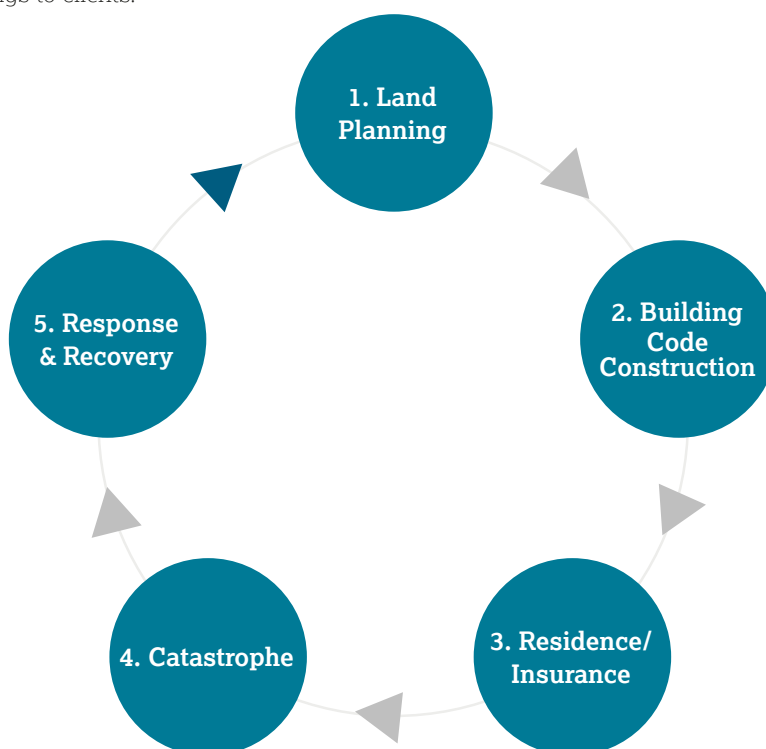
Further, future uncertainty over the changing climate has the potential to increase the frequency and severity of weather-related losses in Australia. Without appropriate risk assessment, mitigation and adaptation measures to offset these uncertainties the cost of insurance is very likely to rise, with some locations becoming too expensive for consumers to bear the cost of insurance or leading to some insurers withdrawing in part or totally from providing home and strata title insurance in certain geographic markets. As the affordability of insurance decreases and some

insurers withdraw from the market it is governments who will be called upon to fill the economic void and cover the cost of repair and reconstruction currently met by insurers.

It is also important that policy and funding decisions around extreme weather resilience measures are based upon the most likely changes in climate and severe weather. From an infrastructure perspective, the designs utilised should reflect the climate change projections relevant to the lifecycle of the structures/infrastructure being planned.

Resilience ratings

A resilience rating needs to be developed and awarded to buildings which is similar to the star ratings systems used for energy efficiency and water use. Once resilience ratings are widely in use there would be scope for the insurance industry to offer lower premiums to those people in more resilient buildings compared to those in unrated buildings, thereby providing a financial incentive for individuals to try to self-protect and for the construction industry to offer more resilient buildings to clients.



Bushfire Attack Level – BAL

Following the 2009 Victorian bushfires, the Australian Building Council Board adopted a national bushfire standard for residential buildings. The new Standard A53959-2009 Construction in bushfire-prone areas aims to improve the ability of a building to withstand bushfire attack. The standard sets out the building requirements for house design and construction according to the bush fire attack level (BAL) that a development falls into.

The BAL is a way of measuring the severity of bushfire attack a house may experience during a bushfire.

BAL takes into consideration: type of vegetation, proximity to vegetation, slope of land, Fire Danger Index in region

- BAL Low: There is insufficient risk to warrant specific construction requirements
- BAL 12.5: Ember attack. (BAL 12.5 Construction Requirements)
- BAL 19: Increasing levels of ember attack and burning debris ignited by windborne embers, together with increasing heat flux. (BAL 19 Construction Requirements)
- BAL 29: Increasing levels of ember attack and burning debris ignited by windborne embers, together with increasing heat flux. (BAL 29 Construction Requirements)

- BAL 40: Increasing levels of ember attack and burning debris ignited by windborne embers, together with increasing heat flux and with the increased likelihood of exposure to flames. (BAL 40 Construction Requirements)
- BAL FZ: Direct exposure to flames from fire, in addition to heat flux and ember attack. (BAL FZ Construction Requirements)

The building requirements for house design and construction vary according to the BAL. Importantly the majority of buildings in bush fire prone areas pre-date the current bush fire regulations. If you live in a bushfire prone area it may now cost significantly more to rebuild your home under the new standards.

A typical four-bedroom home in a high-risk bushfire area can cost more than \$100,000 extra to rebuild due to new standards to fire-proof homes.

A BAL not only helps identify bushfire risk, but also identifies specific construction standards required to improve the performance of buildings subjected to bushfire attack (construction standards listed in AS3959-2018).

Certain Local Governments may not approve a development or subdivision if your BAL is deemed 'too high' (e.g. BAL-40 or BAL-FZ), so understanding your building or sites BAL is very important.

In some states new building work is required to comply with the requirements of the Building Code of Australia (BCA). The BCA, amongst other things, provides specific construction requirements for building in designated bushfire prone areas.

The Australian Standard AS3959-2018 Construction of Buildings in Bushfire Prone Areas specifies the construction requirements for buildings in bushfire prone areas. It aims to improve a buildings resistance to bushfire attack from burning embers, radiant heat, flame contact and combinations of all three attack forms.

Construction requirements are determined by a building determined BAL. BAL methodology and BAL specific requirements are all listed within the AS3959-2018

Retrofitting risk reduction

Information is fundamental to natural hazards management. Ultimately, the goal is to ensure that communities, planners, emergency services, individuals, property owners and insurers understand the natural peril risks that they face, and that effective risk mitigation measures can be undertaken. Without access to critical data inputs and research findings, communities, business and government cannot make informed decisions on how to target these investments to achieve the greatest impact. Yet often councils and other authorities suggest that they are reluctant to provide specific information about risks such as flood or fire risk, to property owners or prospective purchasers. This reluctance arises from a fear of litigation that may arise if that information has adverse consequences, for example by reducing the market value of the affected property.

In recent years, State and Federal agencies and stakeholder industries have begun investing in state and national information sharing systems for natural hazards to provide wider public access and consistent data sets. The Victorian Draft Floodplain Management Strategy includes a commitment to streamline and improve their existing flood hazard databases and share all information with insurers. However, more needs to be done.

As above, we need a national platform for foundational data covering demographic, weather, topography and geological, and assets data. The responsibility for the provision of such risk information in an accessible and usable way lies primarily with government. Much of the information needed to address natural hazards understanding is common across many sectors. It is efficient to coordinate the production and dissemination of this information centrally to ensure consistency and avoid duplicated effort across jurisdictions and industry sectors as natural disasters do not respect artificial jurisdictional boundaries. The credibility of hazard information is often questioned because of the variations between individual insurers and local councils. A centralised, independent single point of access is required to ensure consistency, reliability and public trust in the risk information provided.

Currently insufficient funding is allocated to collecting and sharing risk information to increase the capability of communities to respond to risks appropriately. Inaccurate or incomplete data on natural perils risks can limit the ability of a community to manage its risk in a number of ways. To improve personal responsibility and accountability for risk management, the public needs to be able to access and understand risk information.

Many property owners are reluctant to invest in private mitigation in circumstances where the cost is ultimately borne by them. For this reason, governments, insurers and business should work together to incentivise property owners to undertake mitigation works. Government could directly subsidise mitigation works; insurers then provide premium discounts according to the level of mitigation works and the building industry provides an expand range of cost-effective and acceptable retrofit options. The Queensland government's \$20 million Household resilience program¹⁶ is an example of this in action. The program has seen premiums for those in the program reduce. Any program would need to include a database of the resilience measures undertaken, this database would need to be openly available so future residents, builders and insurers would have a record of the works completed on the property.

¹⁶ <https://www.qld.gov.au/housing/buying-owning-home/financial-help-concessions/household-resilience-program>

7. Solutions

The 2019/2020 bushfires demonstrated the urgent need for a nationally coordinated approach to bushfires and natural disasters. Political, business and community leaders all have a shared responsibility to improve emergency management and ensure integrated disaster resilience. This calls for an integrated, whole-of-nation effort encompassing enhanced partnerships, shared responsibility, a better understanding of the risk environment and disaster impacts, and an adaptive and empowered community that acts on this understanding.

Governments at all levels must increase funding for mitigation works that make communities safer and more resilient for the long-term and focus on effective risk reduction to reduce the need for recovery funding.

Government funding should be structured to support—not undermine—the contribution of the private and non-for-profit sector in risk management.

Governments must harness the expertise of the insurance industry to inform decision-making on avoiding, mitigating or transferring risk.

What is required is a common framework for land use planning and risk assessment to enable the private insurance market to accurately price risk and for consumers to understand that risk.

Governments, planners, developers, architects and home purchasers all make decisions that contribute to the cost of insurance and disaster recovery that is passed on to the consumer. To avoid this, all sectors of the community need to work together to provide information, advice and cues to communities, households and individuals so that they can ensure their safety before, during and after a disaster.

Prioritising risk reduction rather than recovery funding

- Current government funding is disproportionately focused on recovery and does not promote mitigation.
- Increase funding for mitigation including and distribute it based on an economic value and risk assessment.
- Government policy should not undermine or create barriers to individual and business risk management.
- Expectations of government intervention post-disaster have a detrimental impact on private insurance penetration.
- Government funding should be structured to support the contribution of the private and not-for-profit sector in risk management.

National Bushfire risk rating system

- A nationally consistent bushfire risk assessment standard for both communities and for individual properties and structures.
- The risk rating system will be similar to the star-rating system for energy-consumption of electrical goods.
- This should be developed jointly by government and the private sector, in consultation with community leaders and informed by the expertise of the insurance industry in assessing risk.
- To develop this risk rating we need to develop a common national agreement on climate-related risk in relation to bushfires and their impact on property. It should be science-based and integrate the best scientific data available to determine current and future assessments of bushfire risk over a 50-year timeframe—the relevant timeframe for land use and building codes.
- It will ensure that risk measurement approaches used by government do not lag behind risk measurement approaches used by insurers, leading to misalignment of risk signals.
- It will signal risk to property owners through higher premiums in higher risk areas. Premiums can be reduced if scientifically backed mitigation strategies are put in place.

- To develop this risk rating system, we need common national standards, reporting requirements and open access to all information collected and relevant to assessing bushfire risk.

National approach to land use and building codes

- The national bushfire risk assessment standard should inform regulations that govern land use and building codes.
- Unlike current practices, it should require explicit consideration of the compounding risk of multiple disasters.
- Building code risk reduction measures should be science-based and demonstrably reduce risk in order to qualify for insurance discounts. At present, BAL-based bushfire building codes may be ineffective in catastrophic fire weather conditions which contribute the majority of insurance losses and therefore to premiums.
- Any retrofit or risk reduction measures must demonstrably reduce risk in order to qualify for insurance discounts.
- Risk reduction measures should be tracked in a national register.
- Governments and business need to pool land use planning data, hazard datasets and information sources on a national open data platform.
- Land use planning must be science-based, up to date, align with measured risk, consider future risk the compounding of multiple perils.
- Building code risk reduction measures must be science-based and measurably reduce risk in order to qualify for insurance discounts. All risk reduction measures should be tracked in a national register.

Risk reduction strategies

- Fuel reduction policies must be guided by a rigorous approach to risk reduction and need to be considered alongside land use policies and building codes.
- Annual fuel reduction requirements for all land that interfaces with human habitat should be included in an open national register.
- Indigenous land management techniques that are scientifically validated should be integrated into risk management wherever possible.
- Given the lengthening fire season and the poor health outcomes associated with bushfire smoke, mechanical fuel reduction should be undertaken by forest industries in areas where smoke would affect communities. This should be done on a commercial basis so that sale of the timber can cover the costs.
- The introduction of a bio-fuel industry should also be used to reduce fuel loads.
- State and territory and local governments should be required to regularly undertake risk assessments to the land within their jurisdictions to ensure that bushfire prone areas are accurately identified and appropriately managed including the prohibition where necessary of development in these areas with just compensation for affected landholders.

Tax Reform to improve affordability and increase uptake of insurance

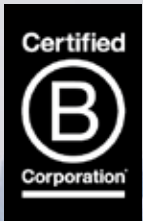
- The free-rider incentive that flows from post-disaster government assistance should be countered with the introduction incentives to promote self-reliance. To this end, all taxes (including GST) and levies should be removed from disaster insurance, and premiums should be fully tax-deductible.
- At present the Federal Government discourages people from insuring themselves by imposing the GST on insurance premiums. Some state governments also penalise self-reliance by imposing levies on insurance companies to fund fire brigades, a cost which is passed on through increased premiums.
- Insurance taxes in Australia are considerably higher. Out of ten comparable OECD countries, Australia was the only one with double digit insurance tax rates and one of only three that impose a consumption tax (GST) on insurance.
- Emergency services levies should be decoupled from insurance premiums in NSW. Ideally, they should be abolished. If not, they should be attached to Local Government rates as in Victoria.
- Disaster insurance premiums should be weighted according to risk according to the National Bushfire risk rating system, with regards to location, building type and construction materials and mitigation measures within the radius of the property. This mechanism would offer property owners and communities an incentive to reduce risk.



RG Menzies House
Cnr Blackall & Macquarie Streets
Barton ACT 2600

PO Box 6091, Kingston ACT 2604

www.menziesrc.org



The backbone of regional and rural economies: Small business and community resilience

A REPORT FOR IAG

November 2021



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CEO Foreward

IAG – through our leading brands NRMA Insurance, CGU, WFI, SGIO and SGIC – has been providing insurance protection to people and businesses around Australia for more than 160 years.

Helping our customers when a natural disaster strikes – from bushfires and cyclones to storms and flooding – is what we do best. We see firsthand the devastating impact these events have on Australians, their businesses and communities, and this is why we have been studying the changing climate for nearly two decades.

We use our data and expertise to contribute to climate science, advocate for greater investment in disaster resilience and help people and communities prepare and adapt for extreme weather.

Natural disasters impact small business acutely – especially those in our regional and rural areas – and this can have lasting effects on the economic and social wellbeing of the communities in these areas.

In this report, we look at how natural disasters affect small business and the critical role insurance plays in supporting their recovery – and the community's recovery. We know that small business took the biggest economic hit following the Townsville floods and Black Summer bushfires in 2019 and 2020, but we also know that small businesses with insurance were able to recover faster.

We're always on the ground after a disaster to support customers face-to-face and we also try to support those communities impacted beyond insurance claims by using local tradespeople and suppliers, where we can, to carry out repairs and help rebuild.

Severe weather is becoming more frequent and intense, and this report demonstrates how important it is for business to prepare and become more resilient. Small business plays a vital role in Australia's economy and is essential to the health and prosperity of our regional and rural areas.



Nick Hawkins

Managing Director and CEO

IAG

Executive summary



Bushfires, floods, and storms are a part of the Australian experience. In recent years they have become more common and the impacts, more intense. Moreover, in the future, climate change will mean that extreme events will become more frequent and intense. This presents a challenge to communities that are exposed to natural hazards.

Insurance is key for individuals, businesses, and communities to enable a rapid process of recovery after disaster strikes. However, a large portion of businesses located in hazardous zones are not adequately insured and in some cases without insurance. This poses an economic threat to regional communities as their underinsurance may leave businesses and the wider economy struggling to recover.

This report focuses on the impacts of natural disasters on small businesses and the role insurance plays in economic recovery.

Small businesses are a vital part of the Australian economy. In 2018-19, small businesses contributed \$418 billion to GDP, making up just short of a third of total GDP. Furthermore, employing over 4.7 million people, small businesses are Australia's largest employer. Small businesses play an even more vital role in regional and remote communities within Australia, making up the largest portion of businesses. They contribute economically in terms of goods and services, employment opportunities, the local tax base, opportunities for local investment, and

entrepreneurship. Furthermore, small businesses play a role in social and community cohesion as they promote community activity and local identity, and support neighbouring businesses.

This report focusses on the Townsville floods in 2019 and the 'Black Summer' Bushfires in 2019-20 to assess the impact of natural disasters to small businesses as well as the role that insurance plays in the economic recovery of the regions. Both disasters caused immense damage to the Australian economy. Townsville experienced monsoonal rainfall declaring many parts of Queensland as disaster zones. Similarly, the 2019-20 bushfires saw unprecedented levels of bushfires spanning multiple states across Australia.

With the help of insurance payouts, the affected economies as well as small businesses were able to recover at a faster rate and return to previous levels of economic activity. SGS has modelled two scenarios to demonstrate this. The first scenario assumes the stimulus of insurance claims and recovery activity flowed through the economy and the second scenario assumes there was no stimulus. This approach allows the impact of insurance to be isolated for each case study. By comparing the two cases, it shows the importance of small business insurance in terms of speed of recovery and the depth of economic impact.

Small business impacts and the role that small businesses have in the local economy and impact of

disaster is determined using a combination of ABS datasets on Australian businesses and industry value add, and regional GDP data along with insurance claims payout data to determine the impact of insurance on recovery of small businesses and the local economy.

On average, between 65% and 72% of total economic impact on businesses from the floods and bushfires is attributed to small businesses. This highlights the importance of small businesses having adequate insurance cover. Furthermore, insurance payouts enabled hard hit areas including Townsville, Gippsland East and Shoalhaven to shorten the period needed to return to pre-disaster levels of economic activity by years.

The analysis shows that households and businesses should acquire an adequate level of insurance. Businesses need to have a comprehensive understanding of the risks they face under their individual circumstances. For small businesses this is especially important as they often do not have the means to withstand periods of reduced customers or staff unavailability.

Small businesses are often un- or under-insured, and aren't always aware of their risk exposure. Also, they do not always realise that apart from direct damages, the costs of business interruption may be as high or even higher than the direct damages.

Being prepared for extreme events is increasingly important. For Government it is a priority to inform and educate businesses and households about present day and future risk exposure to natural hazards, and what they can do to protect themselves. In addition, and this was also highlighted as part of the Royal Commission into the 2019-20 bushfires, there is a need to ramp up investment in risk mitigation. This helps in reducing the exposure of businesses and households to natural hazards and helps in reducing and preventing damages and interruption.

With a changing climate and growing population, more Australian communities are being exposed to more intense and more frequent extreme events. Insurance plays a vital role but investing in preparedness will be essential. Overall, reducing emissions will contribute to reducing risk in the very long term.



01 Introduction

01 Introduction

1.1 Background

Bushfires, floods, storms, and tropical cyclones are part of the Australian experience. But natural disasters are happening more frequently and with more intensity. With climate change and population growth, this exposure will only increase if nothing is done to manage these risks.

Regional communities can be particularly exposed to natural disasters. The typically smaller rural and regional councils often have limited ability to adequately protect against natural hazards without external support.

Small businesses form the backbone of rural and regional communities. In 2018-19, small businesses contributed \$418 billion to GDP, making up just short of a third of Australia's GDP. Employing over 4.7 million people, small businesses are Australia's largest employer. In regional and remote communities, small business is even more prevalent.

Natural disasters can have a devastating impact on regional and remote communities, and their ability to recover may be jeopardised.

Insurance payouts play a vital role in the economic recovery after disaster strikes. Small businesses are not always appropriately insured for the risks they are exposed to.

However, small businesses often do not have insurance or have incomplete coverage. For example, a survey of Townsville small business in June 2019 found that 9 per cent of small businesses did not have any of the insurance types to deal with the flooding event. Of the small businesses without flood cover insurance, two thirds believed their business was not in a flood zone, while another 20 per cent chose not to have it because the business did not operate out of the ground floor or basement. 27 per cent said it was too expensive to obtain the insurance. Furthermore, a report by the Victorian Government found that only 46% of Victorian households were adequately insured against the potential impacts of disasters, with 28% being underinsured and 26% uninsured.

Using two case studies, the Townsville floods of 2019 and the 'Black Summer' Bushfires of 2019-20, this study assesses the impact of natural disasters to small businesses, as well as the role that insurance plays in the economic recovery of the regions.

1.2 Method

In modelling the impacts that insurance has had on the affected economies, SGS has created two scenarios of GDP for the regions impacted by these disasters in its analysis. The first scenario assumes the stimulus of insurance claims and recovery activity flowed through the economy and the second scenario assumes there was no stimulus. This approach allows the impact

of insurance to be isolated for each case study. By comparing the two cases, the importance for small businesses in having adequate insurance is made clear through the differences in recovery speed and depth of damage following a natural disaster.

Small business impacts from natural disasters and the role that small businesses have in the local economy are determined using a combination of ABS datasets on counts of Australian businesses by industry, regions, and grouped by the number of employees, and using ABS industry value added data by business size and industry.

For small businesses, the analysis focuses on the year the natural disaster occurred, which is 2019 for the Townsville floods and 2020 for the 'Black Summer' bushfires. The reason for this is that the months immediately following the disaster are when small businesses will bear the greatest economic loss from damage caused by the natural disaster.



02 The importance of small business in regional communities

02 The importance of small business in regional communities

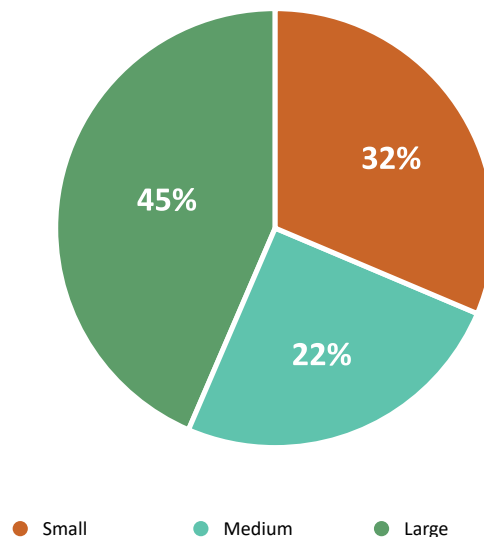
2.1 Economic contribution of small business

Small businesses are a key component in the Australian economy, with a greater role in sustaining regional and remote communities. The Australian Bureau of Statistics (ABS) defines small businesses as ‘all entities that are independent and privately owned, are managed by an individual or a small number of persons and have less than 20 employees’. SGS has applied this definition of small business throughout this report.

SMALL BUSINESSES IN AUSTRALIA

Small businesses make a significant contribution to the Australian economy. In 2018-19 small businesses contributed almost \$418 billion to Australia's GDP, making up just short of a third of total GDP in that financial year – as shown in Figure 1.

FIGURE 1: CONTRIBUTION TO GDP BY BUSINESS SIZE, 2018-19



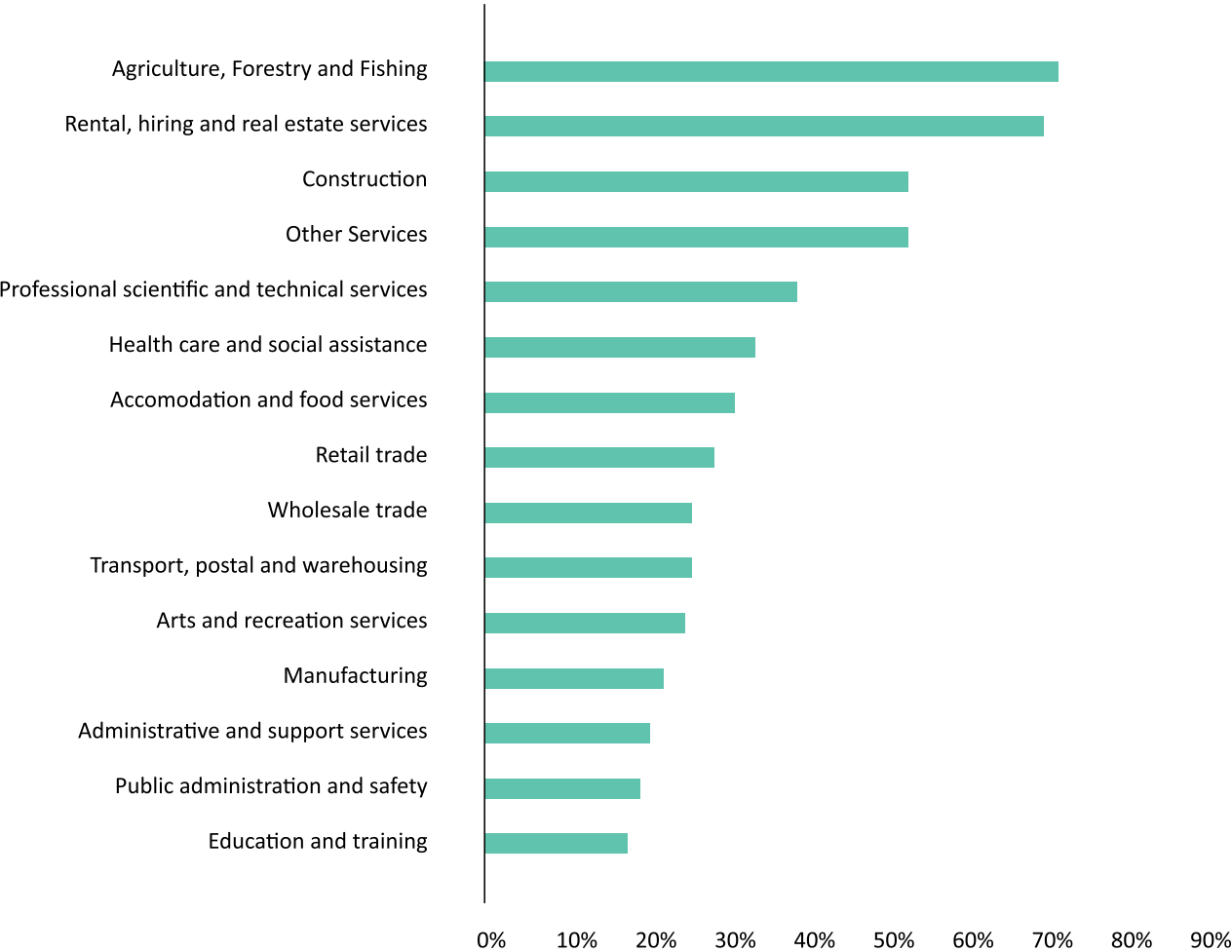
Source: Australian Small business and Family Enterprise Ombudsman - Small Business Counts 2020¹

¹ Australian Small business and Family Enterprise Ombudsman – Small Business Counts 2020, <https://www.asbfeo.gov.au/sites/default/files/ASBFE0%20Small%20Business%20Counts%20Dec%202020%20v2.pdf>

In certain industries, small businesses also contribute significantly more to GDP relative to other business sizes. There were greater contributions in 2018-19 from the Agriculture, Forestry and Fishing sector, as well as the Rental, Hiring and Real estate services, and the Construction sector. Other services and Professional Scientific and Technical services also have a higher than average representation of small business. Their contributions, along with other industries, are shown below in Figure 2.

Small businesses also make up a significant portion of Australia’s employment, employing over 4.7 million people, making it Australia’s largest employer. A similar pattern is observed when looking at employment numbers, with the same industries as mentioned above also having high employment in the small business segment. The proportion of employment in each industry that is made up by small businesses is presented in Figure 3.

FIGURE 2: SMALL BUSINESS CONTRIBUTION TO GDP BY INDUSTRY - 2018-2019



Source: Australian Small business and Family Enterprise Ombudsman – Small Business Counts 2020

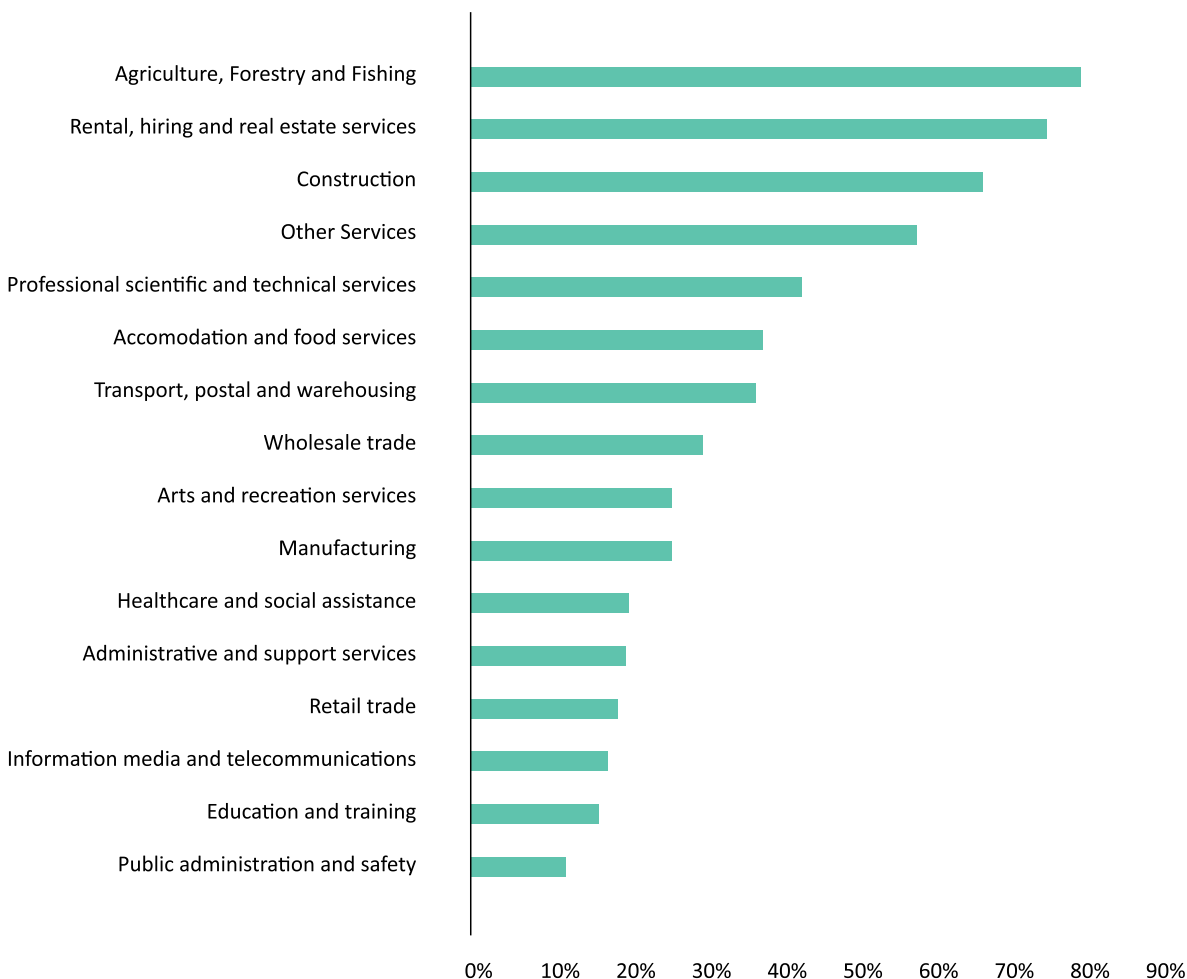
SMALL BUSINESS IN REGIONAL AUSTRALIA

The 2016 Australian Census provides data regarding small businesses in Australia. SGS uses includes the following ABS classifications in our definition of 'regional Australia':

- Inner Regional Australia²
- Outer Regional Australia³
- Remote Australia⁴
- Very Remote Australia⁵

Small businesses in regional Australia are dominated by two sectors: Construction, and Agriculture, Forestry and Fishing. These two industries together make up close to 40% of all small businesses in regional Australia – as shown in Figure 4. In addition, Other services, and Professional, Scientific, and Technical services are relatively important. Industries with a very low share of small business employment (i.e. less than five per cent) have been excluded from this figure⁶.

FIGURE 3: PORTION OF EMPLOYMENT MADE UP BY SMALL BUSINESS BY INDUSTRY – 2018-19



Source: Australian Small business and Family Enterprise Ombudsman – Small Business Counts 2020

² Inner Regional Australia is defined in the remoteness structure as those areas where geographic distance imposes some restriction upon accessibility to the widest range of goods, services and opportunities for social interaction e.g. Tamworth, Ballarat, Rockhampton

³ Outer Regional Australia is defined in the remoteness structure as those areas where geographic distance imposes a moderate restriction upon accessibility to the widest range of goods, services and opportunities for social interaction e.g. Broken Hill, Horsham, Cairns

⁴ Remote Australia is defined in the remoteness structure as those areas where geographic distance imposes a high restriction upon accessibility to the widest range of goods, services and opportunities for social interaction e.g. Cobar, Cooktown, Port Lincoln

⁵ Very Remote Australia is defined in the remoteness structure as those areas where geographic distance imposes the highest restriction upon accessibility to the widest range of goods, services and opportunities for social interaction. Parts of Australia classified to Very Remote include the far west parts of New South Wales and Queensland, northern South Australia and Western Australia, most of the Northern Territory and Flinders and King Islands in Bass Strait (Tasmania)

Figure 5 on the next page illustrates the occupational breakdown of small regional businesses in 2016. The most common types of occupations are managers, technicians and trades workers, and professionals in that order. Other categories had a similar level of employment and were relatively lower than the top three occupations.

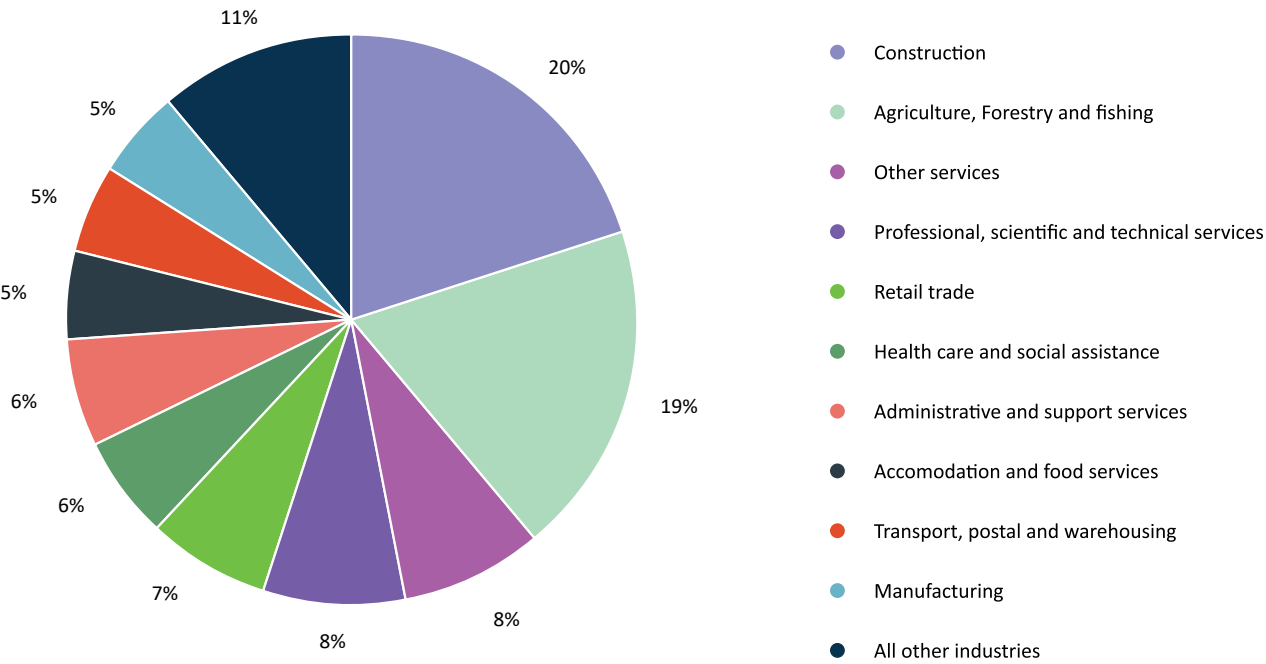
IMPORTANCE OF SMALL BUSINESSES IN REGIONAL AUSTRALIA

Small businesses are a vital part of Australia’s regional communities. They are essential to the local economy and contribute in the following ways:

- Providing goods and services
- Providing employment opportunities
- Sustainable local investment cycle
- Increasing the local tax base
- Encouraging entrepreneurship

The importance of small businesses in the regional economy is reflected in their role in providing goods and services to those rural and remote areas where it may not be so feasible for large businesses to do so due to logistical reasons. For example, a large supermarket such as a Coles or Woolworths is unlikely to open to service a low-density neighbourhood whereas a small business can meet this demand more efficiently. For this reason, small businesses tend to make up the largest portion of businesses in regional and remote areas – reflected in Figure 6.

FIGURE 4: SMALL REGIONAL BUSINESS EMPLOYMENT BREAKDOWN BY INDUSTRY 2016



Source: ABS Census, 2016

As a significant portion of regional businesses are made of small businesses (as reflected in Figure 6), much of the local employment is made up by this business size. In this way small businesses play a vital role in their local economies by providing employment opportunities to the local economy. In that regard, regional small businesses help prevent families moving to cities and support the long-term sustainability of regional communities.

Small business investment in regional areas is typically part of a sustainable economic cycle where profits and income are reinvested. This is because small businesses are typically owned and operated by local people, and therefore investment and the returns of investment remain in regional communities. Research by US firm Civic Economics found that 48% of each purchase at local independent stores was reinvested into the local economy as opposed to only 14% of purchases at larger chain stores⁸. The spending from local workers to local businesses translates into revenue. This revenue is used to pay wages of local people, cover inputs which could be sourced from other local businesses, and is reinvested back into the business to expand and enhance operations. It is clear that small, locally owned businesses have a stake and incentive in the success of their local communities.

Locally owned businesses pay local taxes, thereby increasing the ability of communities to afford public spending on community infrastructure such as roads, community services, waste collection and public spaces. Small businesses act as a medium to transfer part of the expenditure from local residents into the benefit of public goods and services.

FIGURE 5: OCCUPATION BREAKDOWN OF SMALL REGIONAL BUSINESSES 2016



2.2 Social and community contribution

Apart from the economic contributions, small businesses in regional areas also play a vital role in community building, relationship strengthening, and local identity. Examples of how small businesses make this social contribution include:

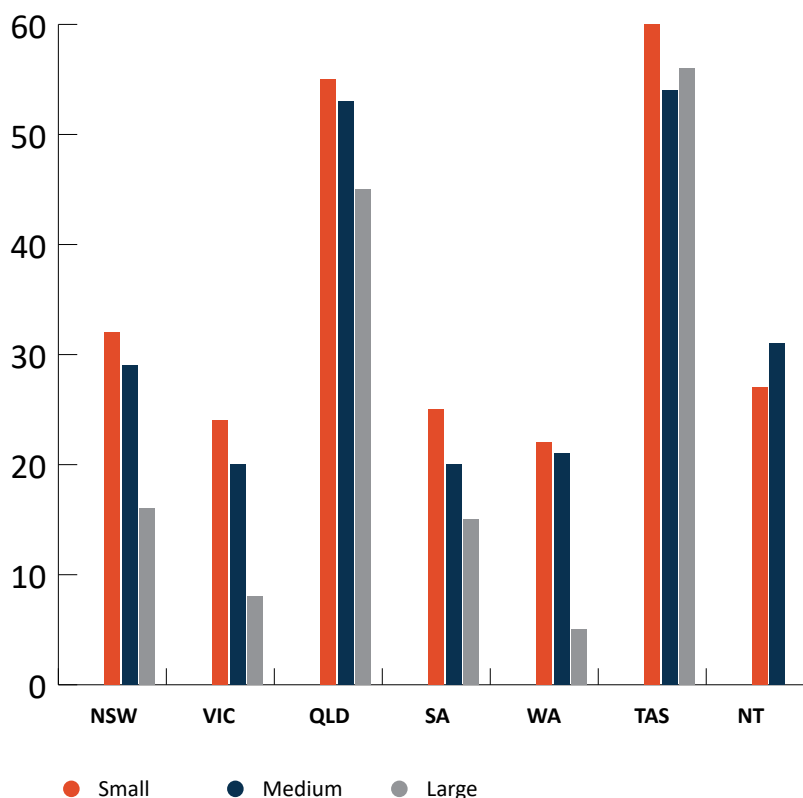
- Participating in community activity,
- Establishing a local identity, and
- Mutual support among businesses

Small businesses are often interested and active participants and supporters of a local community. For example, local businesses sponsor local sporting and community groups which help to strengthen the social capital of communities. This social capital helps to enhance the resilience of the communities when disasters strike.

Small business owners live and work in their community and have a stake in community improvements. Supporting local communities is a mutually beneficial act as it provides support to local community members while at the same time promoting their own business.

Locally owned small businesses contribute to the local identity through the types of stores, products and services sold and designed. For example, communities are identified by the types of crops and meat they produce and this in turn can attract visitors (vineyards in the Barossa Valley, apples and cherries in the Huon Valley and dairy from Gippsland). Owners are proud to sell local products and to showcase local talent and

FIGURE 6: SHARE OF BUSINESSES IN REGIONAL AREAS (BY SIZE, AS AT JUNE 2013)



Source: Australian Bureau of Statistics, 2015⁷

⁷ Australian Bureau of Statistics, 2015, accessible at <https://www.rba.gov.au/publications/confs/2015/nicholls-orsmond.html>

⁸ The Local Multiplier Effect (2012), How independent local businesses help your community thrive – American Independent Business Alliance – available at: <https://amiba.net/wp-content/uploads/2020/08/Local-multiplier-effect-whitepaper.pdf>

craft. In this way the personality of a community and their skills can be showcased to the neighbouring locals and visitors. This means small businesses act as an expression of a local area's identity.

Small businesses in regional areas often aim to support other neighbouring businesses. For example, a restaurant may require cleaning services, legal assistance, or an accountant. Recommending friends and neighbouring businesses creates a strong community bond that provides a sense of mutual support amongst businesses. Research conducted by NMSC regarding the recovery process from COVID-19 revealed that those businesses which were located in close proximity were able to co-ordinate and support each other and subsequently, deal with the crisis more effectively⁹. Ensuring that businesses maintain this relationship is important during down times as this can be the difference between small businesses continuing or going out of business.

2.3 Vulnerability of Small Businesses

Small business often run on slim profit margins and modest cash reserves. As a result, they are vulnerable to changing conditions and often not able to withstand periods of slower economic activity. The business impacts of a COVID-19 survey conducted by the ABS found that small businesses were almost twice as likely to report that they found it very difficult to meet financial commitments compared to large businesses¹⁰. This means they are especially reliant on insurance payouts following a disaster to get their business back into operation. Without insurance support they would be more likely to cease operation.

The ACCC conducted a survey¹¹ in June 2019 on the extent of non-insurance for small businesses in the flood affected areas of Townsville. The results revealed that forty percent of businesses did not have any flood cover. As small businesses operate on small profit margins, the cost and affordability of insurance may be a particular concern for small businesses. As a result, many small businesses are underinsured or in some cases, uninsured.

Additionally, small business might not fully understand the risk they face from natural perils and how to select the most appropriate insurance coverage. The inquiry conducted by the Royal Commission into Australia's natural disasters found that insurance is a cause for confusion amongst Australians. Individuals responded that they did not understand what their insurance policies covered or what they were able to do to reduce their premiums¹².

This places them at greater risk of natural peril. Support from Government and the industry can be useful in helping small business to understand these issues.

In comparison, larger businesses are often less vulnerable as a result of;

- Operating across locations and types of activities and services, their risk exposure is diversified and distributed. The chance of all their operations being exposed to the same extreme events is lower (COVID-19 may be an exception to this)
- Reserves are more significant and therefore better able to withstand negative shocks
- Business governance is more professional (large businesses are often directed by a professional board with non-executive directors) and this ensures better decision-making, risk management and compliance

⁹ Proximity doesn't benefit just big cities – it's helping rural communities weather the economic crisis too, Powe, M & Love, H. (2020) – available at: <https://www.brookings.edu/blog/the-avenue/2020/10/08/proximity-doesnt-benefit-just-big-cities-its-helping-rural-communities>

¹⁰ A third of businesses will face challenges paying bills (2020) – ABS Media Release – available at: <https://www.abs.gov.au/media-centre/media-releases/third-businesses-will-face-challenges-paying-bills>

¹¹ Northern Australia Insurance Inquiry report (2019) – ACCC – available at: https://www.accc.gov.au/system/files/Northern%20Australia%20Insurance%20Inquiry%20second%20interim%20report%202019_0.PDF

¹² The Royal Commission into National Natural Disaster Arrangements Report (2020) – Royal Commission – available at: <https://naturaldisaster.royalcommission.gov.au/publications/royal-commission-national-natural-disaster-arrangements-report>



03 The impact of natural disasters on regional communities

03 The impact of natural disasters on regional communities

Natural disasters are a part of the Australian experience. In recent years we have seen the devastating impacts that these have had on our communities through bushfires and floods. The following section explores the 2019 Townsville floods and the 2019-20 'Black Summer' bushfires. There is discussion surrounding the human and broader community impacts as well as the economic impact that these events had on Australian communities.

3.1 Townsville Floods

OVERVIEW

Between the 27th of January to the 8th of February 2019, Townsville saw one year's worth of rain inundating the town. Rainfalls hit a record high of 1,391mm at the Townsville Airport weather station. Townsville is located on natural floodplains of the lower reaches of Bohle and Ross River and is an area which has experienced 20 major events since the 1860s. However, the 2019 flooding has been regarded as the worst natural disaster event to impact the region to-date. The event was labelled as a once in one hundred years event (1% AEP¹³).

This was not an isolated monsoonal event as 39 local government areas (LGAs) across Queensland experienced sustained monsoonal rainfall. The 1-in-100-year flood event saw many parts of Queensland declared as disaster zones with thousands of residents evacuated.

During the monsoonal rain event, the Ross River Dam (RRD) received 850,000 mega litres of rainfall. The RRD capacity peaked at 43m at 247 per cent capacity, which was determined through a hydrological analysis to be a one-in- 1,000-year event. Authorities were required to urgently discharge water from the dam into the Ross River at the rate of 1,900 m³/s to prevent the dam from failing. This large and quick expulsion of water inundated Townsville's suburban area with significant damage particularly in Rosslea, Hermit Park and Idalia.

HUMAN AND BROADER COMMUNITY IMPACTS OF DISASTERS

The floods resulted in four fatalities, with two bodies discovered in floodwaters, and two lives lost from melioidosis (a bacterial infection). One person remains

missing since this event transpired. In addition, there were at least ten people hospitalised due to bacterial infections.

An estimated 3,300 properties were damaged. Around 2,000 properties had minor damage and 1,100 properties experiencing moderate damage, and the remaining 135 suffered severe damages. A total of 30,000 insurance claims were filed, equating to an estimated \$1.24 billion of damages¹⁴. Roughly 75 per cent of total claims were residential properties, 15 per cent were domestic motor claims, with commercial claims making up the remaining 10 per cent. There were also impacts on local infrastructure. There was severe erosion along the banks of the Ross River, with structural damage to pathways and boardwalks. The extent of flooding was substantial and extended across the regions surrounding Townsville such as Ayr, Charters Towers, Cairns, Whitsundays, Mackay and Outback QLD. This impacted day to day business activities, destroyed crops and it was estimated that 500,000 cattle perished in the floodwater in the areas to the west of Townsville.

¹³ AEP = annual exceedance probability

¹⁴ <https://disasters.org.au/current-catastrophes/2019/11/19/townsville>

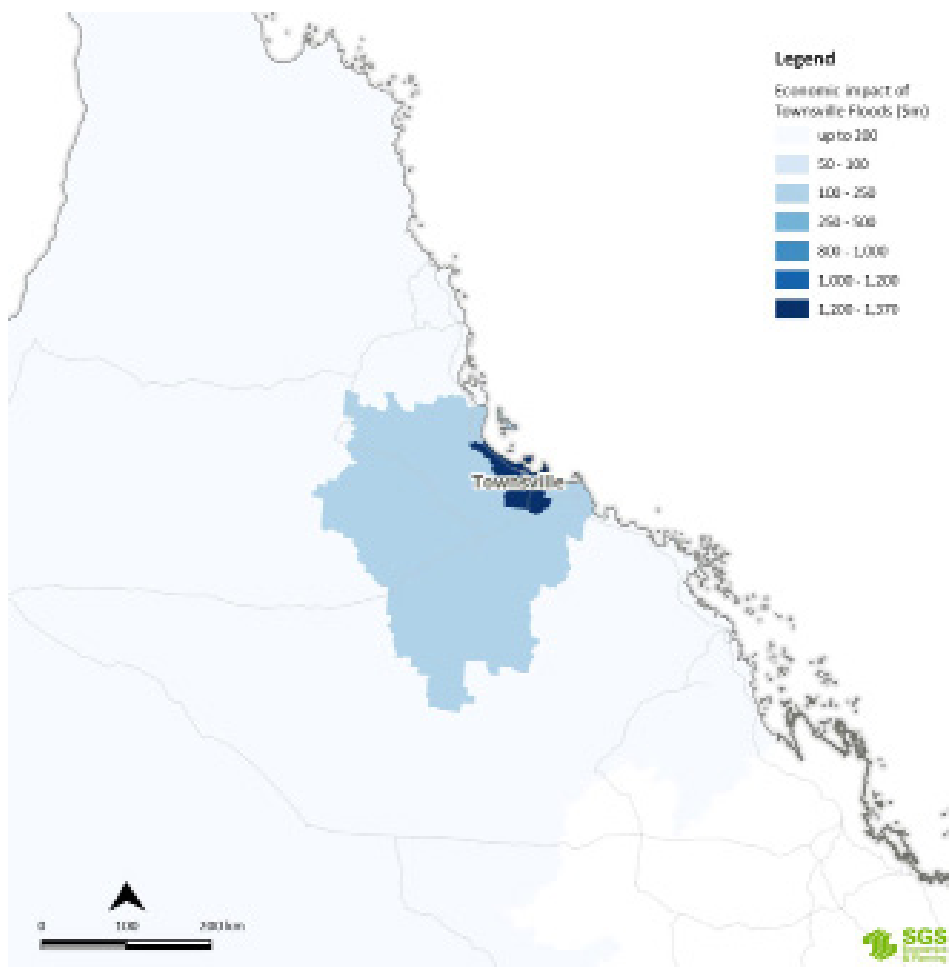
IMPACT ON ECONOMIC ACTIVITY

In 2019, the economic impact of the Townsville floods was estimated to be a \$2.5 billion reduction in GDP¹⁵. This represents a 0.8 per cent decrease in GDP of the areas impacted by the Townsville floods, including the surrounding regions. The impact felt by small businesses was estimated to be a \$1.5 billion reduction in GDP. This is the result of disruption of normal economic production, loss of crops and delayed mineral exports, transfer of household and business expenditure from other uses to disaster recovery and the loss of economic infrastructure.

The majority of this economic impact occurred in the Townsville urban area (SA3), where the economic impact amounted to a 22 per cent decrease in GDP in 2019, with small businesses making up 61% of this impact. Figure 7 shows the economic impact of the Townsville floods by SA3 for small businesses, highlighting the impacts felt across QLD.

The ACCC conducted a survey¹⁶ in June 2019 on extent of non-insurance for small businesses in the flood affected areas of Townsville and the reasons for this. A survey of 75 small businesses within a 100-kilometre radius of Townsville was commissioned.

FIGURE 7: ECONOMIC IMPACT OF TOWNSVILLE FLOODS ON GROSS DOMESTIC PRODUCT FROM SMALL BUSINESSES IN 2019 (\$ MILLION)



Source: SGS Economics and Planning, 2021

¹⁵ Calculated by SGS Economics & Planning, using IAG claims data for the event benchmarked to Industry wide insurance data, and SGS Small Area GDP

¹⁶ Northern Australia Insurance Inquiry report- ACCC (2019) – available at: https://www.accc.gov.au/system/files/Northern%20Australia%20Insurance%20Inquiry%20second%20interim%20report%202019_0.PDF

While noting the sample size of the survey was small, there are some important findings:

- Forty per cent of businesses did not have flood cover
- Only forty-four per cent of businesses with flood cover for damages, also had cover for business interruption
- Sixty eight per cent of businesses were impacted by the floods
- The most important impact was business interruption
- The cost of insurance is an important barrier

Of the small businesses with insurance but not flood cover, most explained they believed their business was not in a flood zone (67 per cent), while another 20 per

cent chose not to have it because the business did not operate out of the ground floor or basement. More than one-quarter (27 per cent) said it was too expensive.

The survey found that 68 per cent of small businesses in the Townsville area were impacted by the floods. The most common impact was business interruption. Over 60 per cent of those businesses impacted needed to close or reduce operation, and 28 per cent had to close for over three months. A third of small businesses reported physical damage to their building or contents. 60 per cent of affected small businesses with insurance reported having flood cover, however only 44 per cent of these businesses had business interruption insurance, though most of those affected by the floods were impacted in just this way. Almost two-thirds of businesses said they had never considered business

interruption insurance.

The floods had quite an impact on affected businesses, with 44 per cent of affected businesses saying they found it very or extremely difficult to recover financially from their loss, regardless of whether they held insurance or not. A breakdown of the small businesses affected by industry is shown below in Figure 8. Construction and Agriculture were the most common, with the two industries making up just under 20% and 15% respectively of small businesses affected.

TABLE 1: TOWNSVILLE SMALL BUSINESS' DURATION OF BUSINESS INTERRUPTION

DURATION OF CLOSURE/REDUCTION IN TRADING	%
Interrupted for less than 2 weeks	28
Interrupted for 2 to 4 weeks	17
Interrupted for 1 to 3 months	28
Interrupted for 3 to 6 months	2
Will remain interrupted for further 3 to 6 months (approx. Sept. 2019 to Dec. 2019)	2
Will remain interrupted for further 6 to 12 months (approx. Dec. 2019 to June 2020)	20
Will remain interrupted for further 12 months or more (approx. June 2020)	4

Source: ACCC Commissioned Research, June 2019
Base: Respondents who suffered business interruption (N=46)

A picture of the location of impacted businesses can be seen through Figure 9 which presents the number of small businesses affected by the Townsville floods, broken down by ABS Statistical Area Level 2 (SA2). SA2's along the Queensland coast were impacted more heavily with some SA2's having up to over 1,000 businesses impacted. Moving further inland saw a reduction in the number of impacted businesses.

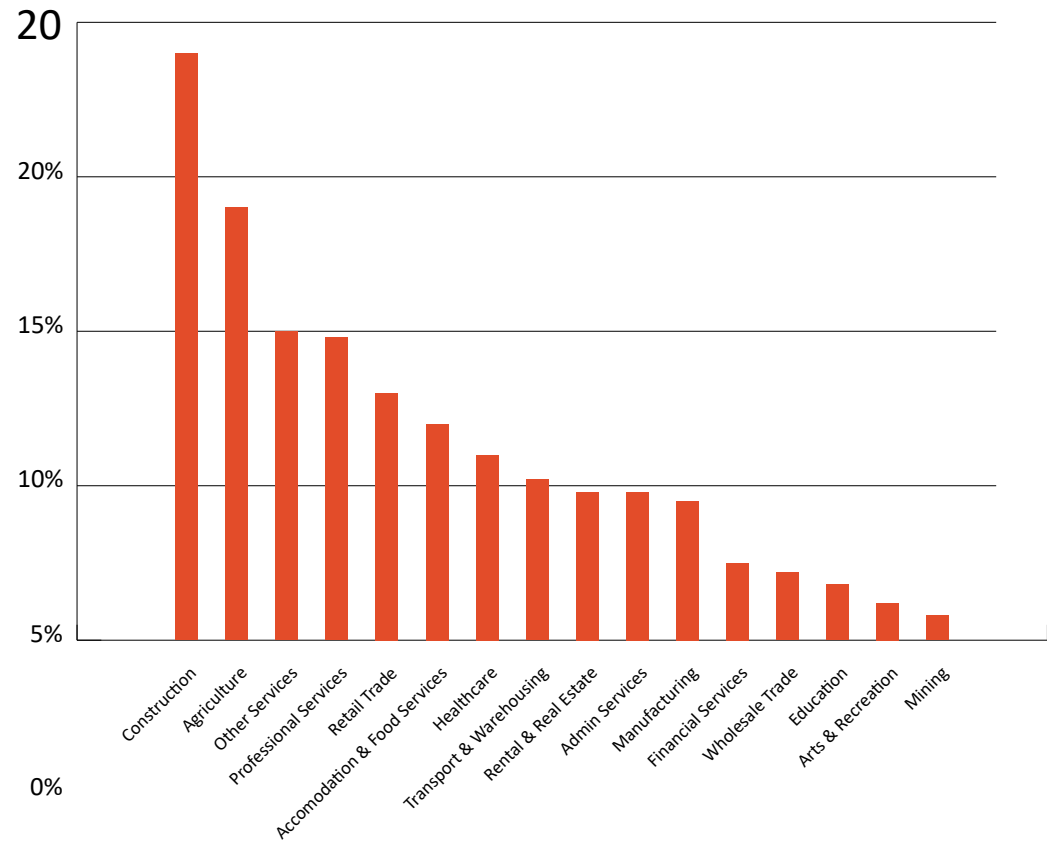
3.2 Black Summer Bushfires

OVERVIEW

The 2019-20 Australian bushfire season was a period of unprecedented and intense bushfires across large parts of Australia. Leading into the 2019-20 bushfire season there were already many warning signs. In fact, leading bushfire experts had written a letter to the Prime Minister in April 2019 to raise awareness about the upcoming disastrous season and the need to increase preparedness¹⁷. The experts were largely ignored. 2019 was classified as Australia's warmest year on record, and broke records for average mean temperature and mean maximum temperatures. Spring was also the driest spring in Australia's record and the fifth warmest.

95 per cent of the country had a Forest Fire Danger Index (FFDI) that was much higher than average. 60 per cent of the country showed a record high in the FFDI, which indicated a high risk of fire danger in Australia's forests. A combination of high temperature, rainfall deficits and prolonged drought increased fuel availability which triggered a series of bushfires around Australia. The bushfire season started in September 2019 and by March 2020, the black summer fires had burnt almost 19 million hectares and destroyed over 3,000 houses and took the lives of 33 people. The bushfire season peaked during December 2019 to January 2020.

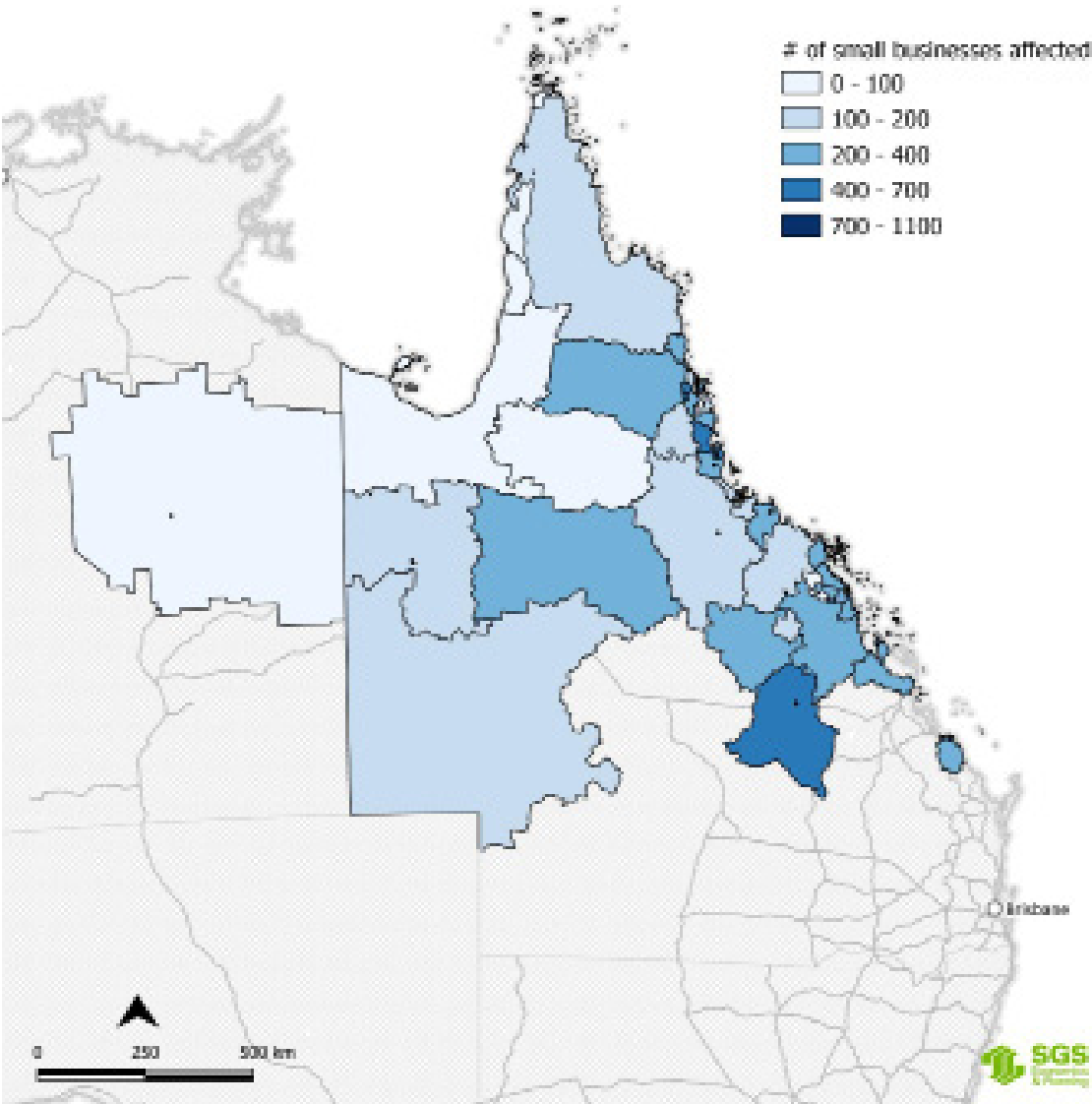
FIGURE 8: INDUSTRY BREAKDOWN OF SMALL BUSINESSES IN SA2S AFFECTED BY FLOODING, TOWNSVILLE FLOODS (2019)



Source: SGS based on ABS Counts of Australian Businesses, 2021.

¹⁷ <https://www.theguardian.com/australia-news/2019/apr/09/former-fire-chiefs-warn-australia-unprepared-for-escalating-climate-threat>

FIGURE 9: NUMBER OF SMALL BUSINESSES
AFFECTED BY FLOODING BY SA2



Source: SGS Economics and Planning, 2021.

HUMAN AND BROADER COMMUNITY IMPACTS OF DISASTERS

New South Wales bushfires burnt through the largest area of any fire season within the last 20 years. There were a total of 10,520 fires across the state, burning a total of 5.5 million hectares, with 2,475 houses and 25 lives lost. Two mega-blazes were created in New South Wales, which included the Gospers Mountain fire. The Gospers Mountain fires burned through approximately 512,626 hectares of land and were recorded as one of the largest fires in Australia's history. The second mega-fire burned through 895,744 hectares and was created by three fires on the border of New South Wales and Victoria.

In Victoria, there were a total of 3,500 fires recorded during the Black Summer bushfires which contributed to 1.5 million hectares of land burnt, 396 houses destroyed, and five lives lost. The most destructive fire was the Mallacoota fire which transpired from a small fire 30km east of town on the 29th of December.

An iconic tourist destination, by Christmas, Mallacoota's population of 1,000 residents had increased by 8-fold due to an influx of tourists. Emergency Management Victoria announced that it was too late for the tourists and residents to evacuate on the 30th December. By the 31st of December, the fire was burning the outskirts of Mallacoota. On the 2nd of January, Victoria declared a state of disaster for the first time in history. The roads to Mallacoota were blocked for over a month due to bushfires and fallen trees, which required the people to be evacuated on naval vessels. There were at least 300 homes lost to these fires.

Sydney and Melbourne were also affected indirectly by the bushfires. In Sydney, there were 81 days of poor or hazardous air quality in 2019. From the shutdowns and the disruptions caused by the smoke, Sydney lost approximately \$12-50 million of GDP each day¹⁸.

South Australia had 1,324 bushfires that saw 286,845 hectares of land burned, 186 homes destroyed, and three lives lost. The worst bushfires started from a succession of lightning strikes. Three days after the fires were announced as contained, a further cycle of lightning caused additional fires. This merged with existing fires and created the catastrophic Kangaroo Island Fires.

The Kangaroo Island Fires burned for more than three weeks and burned more than 210,000 hectares. There was a significant loss of livestock and the fires burned between \$100-900 million worth of plantation timber. This saw the loss of 89 homes and hundreds of buildings, most with links to tourism such as the world-renowned Southern Ocean Lodge. The Adelaide Hills fires also destroyed valuable infrastructure and stock. These fires burnt through world-famous viticulture and winery areas and reached the capital city.

Not only did the bushfires impact Australia, but confronted the world with the accelerating danger of climate change, with the smoke travelling to other countries and continents through a full circumnavigation around the globe. This signalled significant concerns from the effects of more frequent and intense bushfires in the future, not only for Australia but globally.

Case Study

A woman who lost her home in Kinglake, northeast of Melbourne, in the 2009 Black Saturday fires explained that although she believed she was adequately insured, the actual costs of rebuilding were no match to what she was insured for. The woman had roughly half a million dollars' worth of insurance on her house and \$120,000 for contents. However, following the reconstruction of her home she was left with a \$700,000 mortgage. Construction costs spiking following disasters as well as banks claiming insurance payments as mortgage payments contributed to this woman's additional costs.

Having a proper assessment of the risks and costs that homes and businesses located in potential disaster areas may face is of great importance as highlighted by the Kinglake resident.

Key Takeaway

The Kinglake resident's example highlights the importance for households and businesses to have a proper assessment of the risks that they face and subsequently, a wide-ranging insurance policy. Businesses should ensure that their insurance is able to cover them under a variety of unforeseen circumstances.

Source: ABC News, 2020¹⁹

¹⁸ The economic cost of bushfires on Sydney revealed up to \$50 million a day and rising, Sydney Morning Herald (2019) – available at: <https://www.smh.com.au/national/nsw/the-economic-cost-of-bushfires-on-sydney-revealed-up-to-50-million-a-day-and-rising-20191212-p53jbq.html#:~:text=%22Sydney%20generates%20around%20%241.2%20billion,%2D%2450%20million%20each%20day.%22>

¹⁹ A crisis of underinsurance threatens to scar rural Australia permanently (2020 – ABC News – available at: <https://www.abc.net.au/news/2020-01-07/crisis-of-underinsurance-threatens-to-scar-rural-australia/11844992>

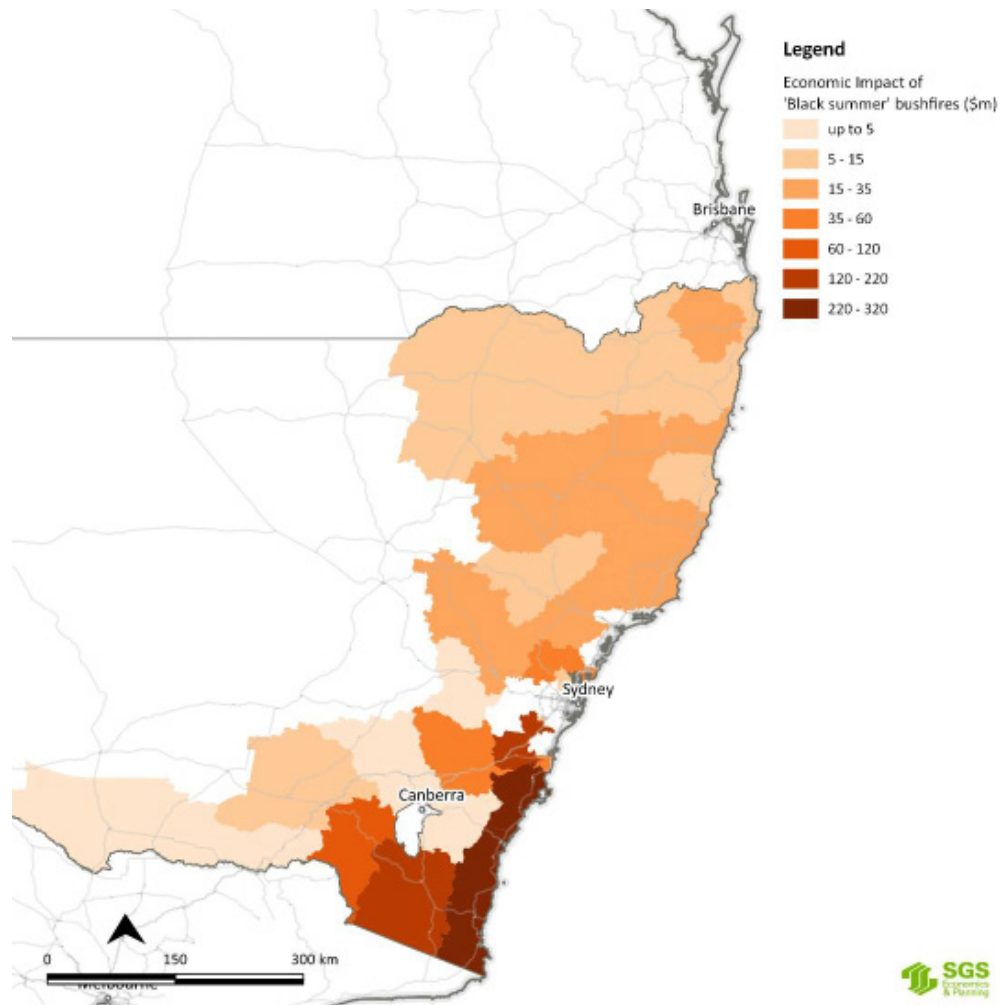
IMPACT ON ECONOMIC ACTIVITY

In 2020, the economic impact of the summer bushfires was estimated to be a \$2.7 billion reduction in GDP in NSW²⁰. This represents a 1.8 per cent decrease in GDP of the areas impacted by the bushfire. The impact felt by small businesses was estimated to be a \$1.8 billion reduction in GDP. The effect on local economies varied across the state, with greater impacts felt in southern NSW. Figure 10 maps out the economic impact for small businesses by different regions.

South Eastern NSW was the hardest hit area in NSW with the economic impact totalling to up to \$1.15 billion in those regions. Much of the heavily affected regions in the North Eastern parts of Victoria and South Eastern parts of NSW are dominated by small tourist towns. The bushfires saw dire circumstances for these businesses as the state of emergency meant that little to no visitors came to those areas over the new year, a time when business is usually booming.

A survey released by NAB indicated that two in three small to medium sized businesses had been either directly or indirectly affected by the 2019-20 Australian bushfires²¹. The impacts have not been limited to 2020 as recovery to previous levels of economic activity is expected to take multiple years. More than 60% of affected small businesses stated that it would affect them throughout 2021.

FIGURE 10: ECONOMIC IMPACT OF 'BLACK SUMMER' BUSHFIRES ON GROSS DOMESTIC PRODUCT FROM SMALL BUSINESSES IN 2020, NSW (\$ MILLION)

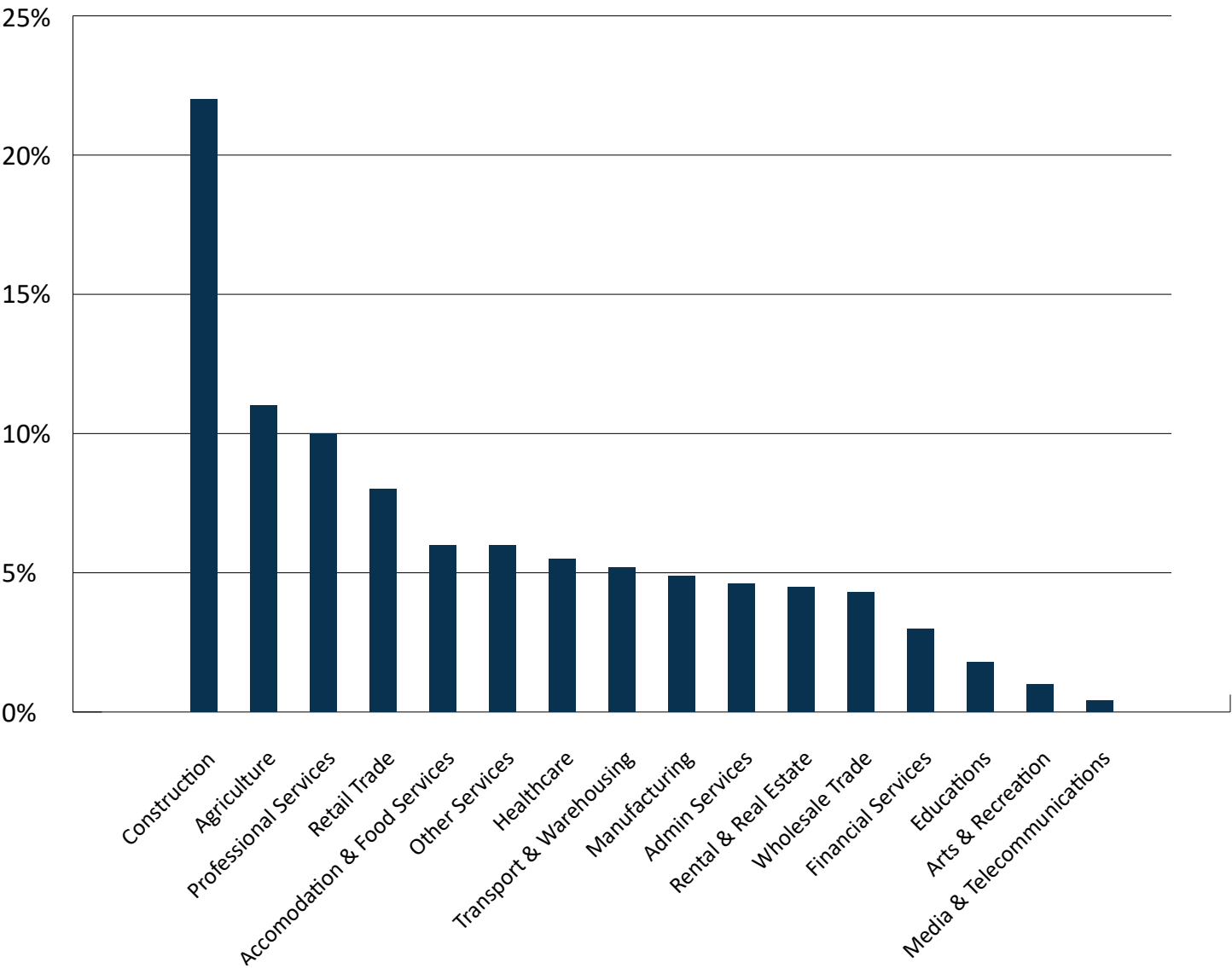


Source: SGS Economics and Planning, 2021

²⁰ Calculated by SGS Economics & Planning, using IAG claims data for the event benchmarked to Industry wide insurance data, and SGS Small Area GDP

²¹ NAB SME Bushfire Impact Survey – Part 1 – Impact of Bushfires on business to date and potential to impact going forward (2020) – NAB – Available at: <https://business.nab.com.au/wp-content/uploads/2020/03/NAB-SME-Bushfire-Impact-Survey-Part-1.pdf>

FIGURE 11: INDUSTRY BREAKDOWN OF SMALL BUSINESSES IN SA2S AFFECTED BY BUSHFIRES, 2019-20

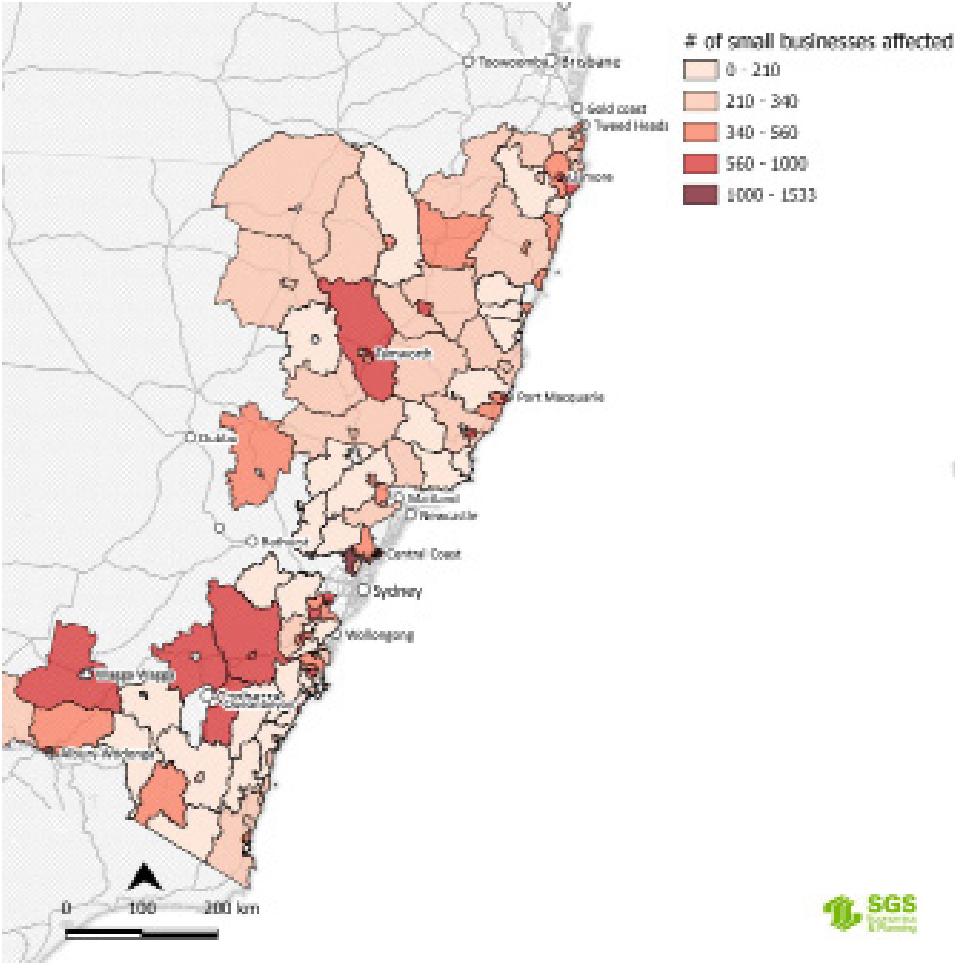


Source: SGS, 2021, based on ABS Counts of Australian Businesses, 2019

Figure 11 on page 24 illustrates the breakdown by industry of those small businesses impacted by the bushfires. Construction businesses were the most heavily impacted by the bushfires, representing over 20% of all affected small businesses. Agriculture and Professional services followed, each representing over ten per cent of all small businesses affected.

Figure 12 below illustrates where the 2019-20 bushfires impacted small businesses the hardest, presenting the number of small businesses affected by SA2. The South Eastern parts of New South Wales felt the extent of the impacts the most, with some SA2s having over 1500 businesses affected.

**FIGURE 12: NUMBER OF SMALL BUSINESSES
AFFECTED BY BUSHFIRES BY SA2**



Source: SGS Economics and Planning, 2021.



04 The role of insurance in helping communities rebuild

04 The role of insurance in helping communities rebuild

Insurance is an important component in helping regional communities' recover from a natural disaster. Natural disasters destroy the productive capacity of economies, which in turn can force residents and businesses to leave impacted regions.

A successful recovery is measured by the ability of communities to rapidly regain what they have lost and catch up to where they could have progressed to. Insurance payouts for claims and recovery activity provide an economic stimulus that speeds up the rate of recovery for regional economies and limits further losses of economic activity.

Small businesses play an important role in regional economies, with an average contribution to GDP of 75% in the 'Black summer' bushfire affected areas, and 65% in the Townsville flood affected areas. In terms of insurance claims, they represent the majority of the commercial claims. This highlights the heavy impact natural disaster can have on the local economy, the important role insurance can play to help rebuild small businesses following natural disasters, and how important this is for the overall regional economy on the road to recovery.

4.1 Disaster recovery

Natural disasters are a traumatic experience for the affected community. A community's recovery pathway following a natural disaster depends on the scale of the natural disaster, the resilience of the community and the speed of the recovery process.

Following a natural disaster, there are three main stages of recovery:

- Emergency Response – takes place immediately after the disaster.
- Restoration – work begins on the restoration of basic services and rubble and debris are cleared, buildings and the built environment are made safe. Assessments are made of the damage and insurance claims are lodged.
- Reconstruction – Management of insurance claims and associated reconstruction begins.

Insurance is an important component in natural disaster recovery. Natural disasters can destroy the productive capacity of economies and slow economic recoveries, and can drive residents and businesses to leave impacted regions. A successful recovery is measured by the ability of communities to rapidly regain what they have lost and catch up to where they could have progressed to. Insurance payouts for claims and recovery activity provide an economic stimulus that speeds up the rate of recovery for regional economies and limits further losses of economic activity.

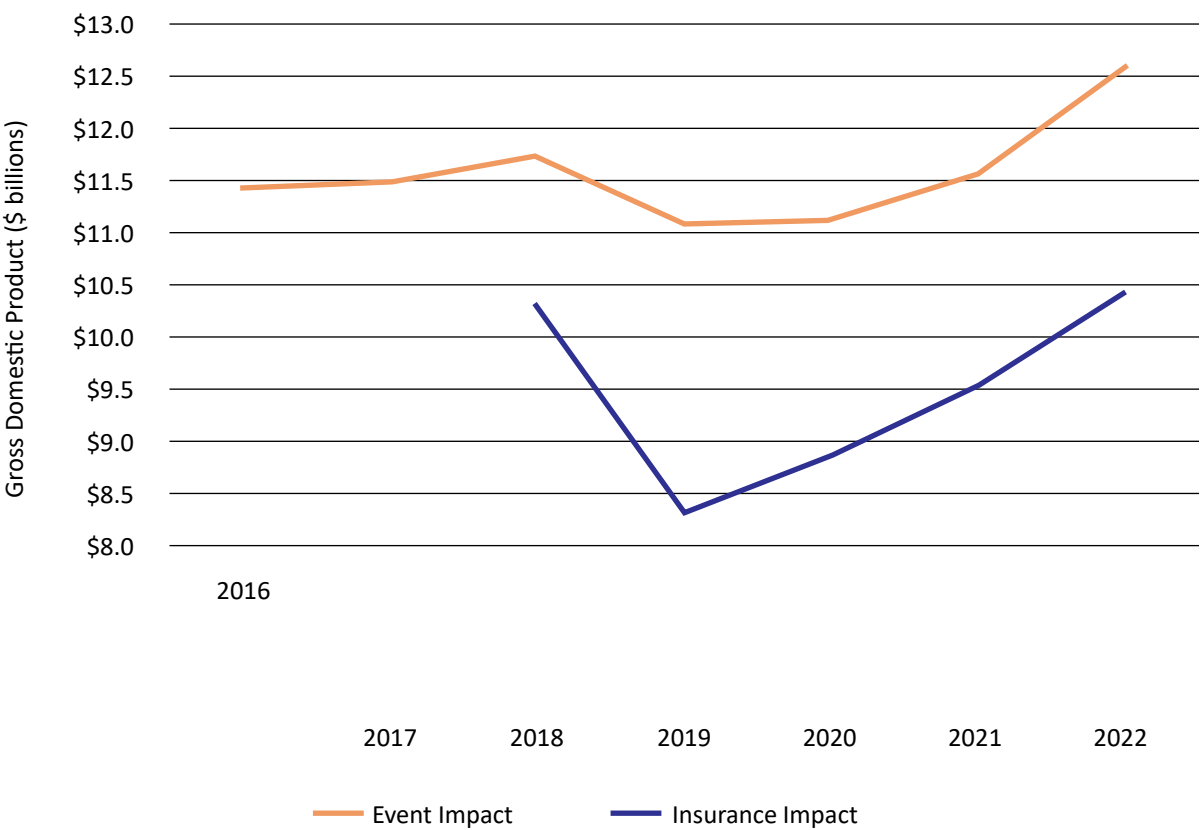
4.2 Impact of insurance

TOWNSVILLE FLOODS

In 2019, the economic impact of Townsville Floods was estimated to have caused a \$2.5 billion²² reduction in expected GDP, and of that \$1.5 billion were attributable to small businesses. This is equivalent to around 62 per cent of the impact attributable to small businesses, highlighting the significant role small businesses have in contributing to economic growth for the Townsville region. This statistic greatly reinforces the importance for small businesses to have insurance in place to help them recover faster and become more resilient to recovery following natural disasters.

Figure 13 compares Townsville’s GDP under two scenarios, one illustrating the economic impact of the event on the local economy (event impact) and the other, the economic impact of insurance (insurance impact). The comparison reveals the sharp decline in GDP that would have occurred without insurance. With insurance payouts the decline in GDP was reduced (insurance impact) and the economy is expected to return to the long-term trend by 2021/22. Whilst this analysis applies to all businesses, given the significant percentage of GDP that is attributable to small businesses, it illustrates the important role insurance payouts have on lessening the impact for local communities reliant on local businesses for employment, and in ensuring small businesses have the resources required to rebuild faster.

FIGURE 13: ECONOMIC IMPACT OF TOWNSVILLE FLOODS ON GDP – TOWNSVILLE SA3



Source: SGS Economics & Planning 2021, including claims data supplied by IAG, 2021

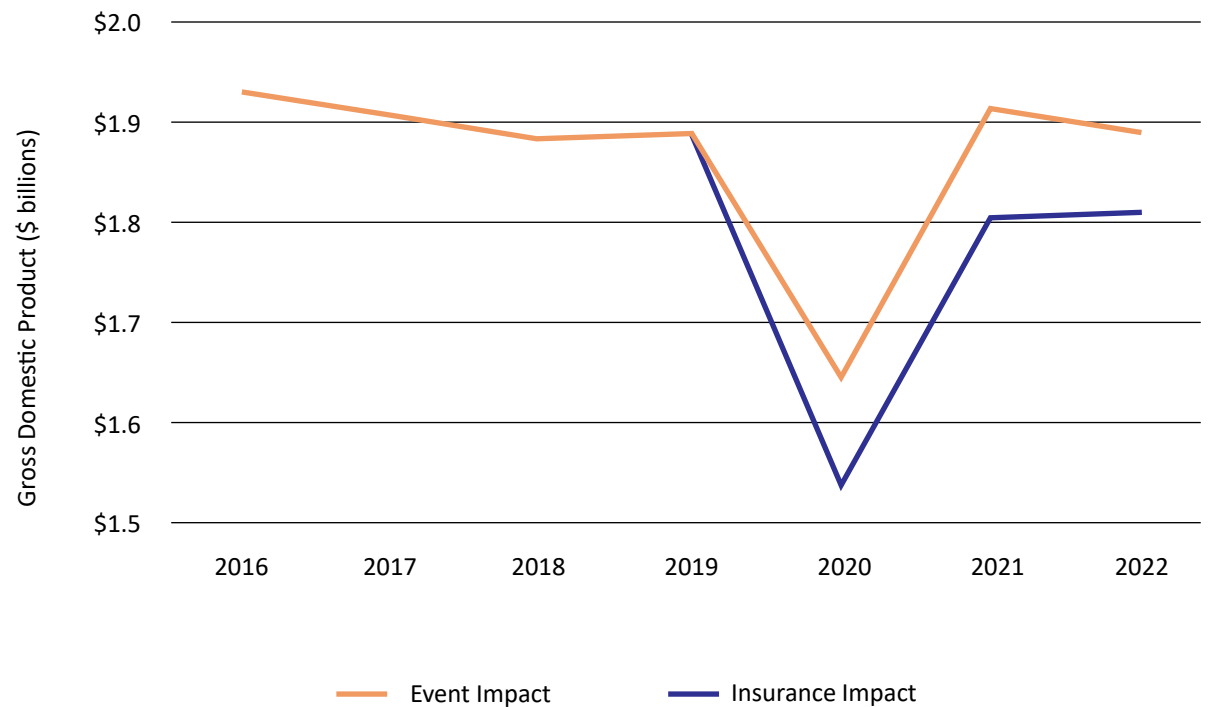
²² The GDP impact estimates in this report exclude the intangible costs, with lower and more conservative multipliers chosen for this analysis.

'Black summer' bushfires

As with the Townsville floods, the 'Black summer' bushfires have had a significant impact on the economy, and in particular on those local economies affected by the bushfires. In 2020, the total economic impact of the 'Black summer' bushfires on the NSW economy was \$2.7 billion²³ and of that \$1.8 billion was attributable to small businesses. This is equivalent to around 67 per cent of the impact attributable to small businesses, highlighting the significant role small businesses have in contributing to economic growth for these regions.

Figure 14 illustrates the sharp decline in GDP, representing the impact of the natural disaster event, that would have occurred without insurance (the event impact), for one of the hardest hit areas of eastern Gippsland. With the contribution of insurance payouts, the decline in GDP was lessened, with a softening of the sharp 'V' shown in the figure below, recovery to pre bushfire levels sooner, and the economy is expected to return to the long-term trend by 2021/22.

FIGURE 14: ECONOMIC IMPACT OF BLACK SUMMER BUSHFIRE - GIPPSLAND-EAST SA3

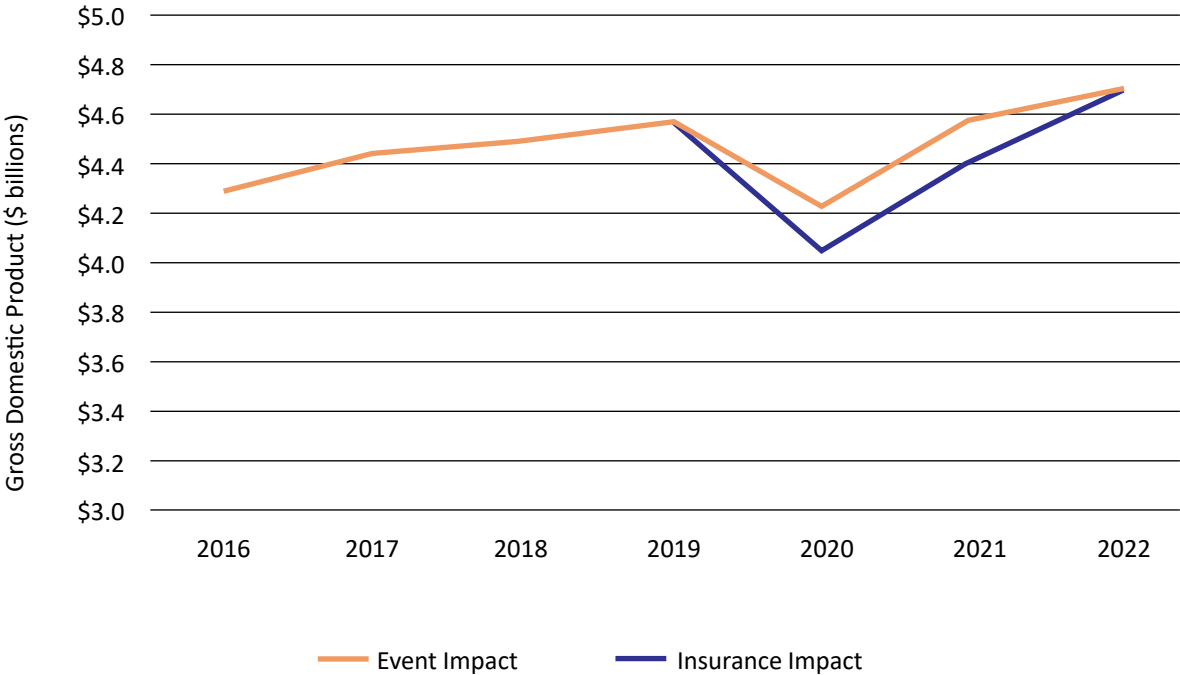


²³ The GDP impact estimates in this report exclude the intangible costs, with lower and more conservative multipliers chosen for this analysis.

In some areas such as Shoalhaven, on the NSW south coast, the economy is expected not only to recover to pre bushfire levels, but also continue to grow. Figure 15 illustrates that with insurance, the economy is expected to recover faster than without insurance.

Whilst this analysis applies to all businesses, given the significant percentage of GDP that is attributable to small businesses, with small businesses contributing to approximately 56% of GDP in the Shoalhaven region, it illustrates the important role insurance payouts have on lessening the impact for local communities reliant on local businesses for employment, and in ensuring small businesses have the resources required to rebuild

FIGURE 15: ECONOMIC IMPACT OF BLACK SUMMER BUSHFIRE - SHOALHAVEN SA3



sooner.

4.3 Case studies of the impact of natural disasters

FLOODS IN TOWNSVILLE

ACCC research and surveys²⁴ identified that during the 2019 floods in Townsville, 68 per cent of local businesses in the area were affected and more than 60 per cent were forced to close or reduce operation due to flooding. From this survey, “Forty-four per cent of affected businesses [said] they found it very or extremely difficult to recover financially from their loss, regardless of whether they held insurance or not”.

A local grocer in Townsville said an immense amount of their food stock was lost during the floods due to power outages and lack of accessibility at the time. The local grocer did not have flood insurance cover and noted that if they “Didn’t have a second store, [they] probably financially would have gone bankrupt.”

CYCLONE DEBBIE

Many local businesses in Lismore, New South Wales, were severely affected by cyclone Debbie in 2017. Like other businesses in the region, a local café owner was uninsured due to high costs, even though Lismore is in a natural flood zone. Due to a lack of insurance cover, the local business owner stated “We don’t go during floods... you need to be on site to hose the mud out, otherwise it sets like concrete”.²⁵ As a result of the cyclone “About a metre of water came into the shop [resulting in] \$30,000 to \$50,000 worth of damage” which the local business owner was forced to cover as they did not have insurance assistance. The cyclone further destroyed all food stock in the shop, which added to the costs already associated with shop damage.

FIGURE 16: LOCAL BUSINESSES CLEANING UP AFTER TOWNSVILLE FLOODS

Source: Content API, 2021²⁵



²⁴ ABC 2019, High Premiums driving uninsured homes in Northern Australia, <https://www.abc.net.au/news/2019-12-21/high-premiums-driving-uninsured-homes-in-northern-australia/11819814>

²⁵ Content api, 2021, accessible from <https://content.api.news/v3/images/bin/487aa5db0eff5228c112f9311be1f2d>

²⁶ Daily Telegraph, Cyclone Debbie Aftermath, <https://www.dailytelegraph.com.au/news/nsw/cyclone-debbie-aftermath-lismore-floods-tear-heart-out-of-city-business-zone/news-story/90b578312ce2ab830ae8fc6b3a1bd2ef>

FIGURE 17: IMPACT OF CYCLONE DEBBIE ON LOCAL BUSINESSES



Source: Content api, 2021²⁷

²⁷ Content api, 2021, accessible from <https://content.api.news/v3/images/bin/81b8a745833c0eda79faf4d9bfe98fcb>

DROUGHT IN WULGULMERANG

Farming businesses in the Victorian Wulgulmerang district, which is regularly affected by drought, have failed to reinsure assets or knowingly underinsure due to the high cost of comprehensive insurance²⁸. Reasons for this include competing priorities of feeding livestock throughout the drought compared to maintaining a high level of insurance cover. A local farmer noted that they did not insure their fences as they needed the money for feeding livestock.

The consequence of underinsurance has resulted in businesses turning to personal loans to repair damaged livelihood assets, or accepting the losses and minimising their business, which places increased pressure on households. This is comparable to the 'ratchet effect' of underinsurance which means that once businesses are impacted, there are fewer assets to insure in the future, thus a greater share of income will most likely be diverted away from households and contribute to economic disadvantage.

FIGURE 18: DROUGHT AFFECTED FARMLAND



Source: ABC, 2021²⁹

²⁸ Whittaker, J., Handmer, J. & Mercer, D. (2012). Vulnerability to bushfires in rural Australia: A case study from East Gippsland, Victoria. *Journal of Rural Studies*, 28 161-173.

²⁹ ABC news, 2021, accessible at <https://www.abc.net.au/cm/rimage/10829892-16x9-xlarge.jpg?v=4>



05 Policy implications and recommendations

05 Policy implications and recommendations

The following section discusses the policy implications and recommendations in response to natural disaster events. Based on the analysis, insurance plays a key role in the process of recovery following natural disasters. As such it is critical for households and businesses to be aware of the risks they face and acquire adequate insurance cover. Governments also play a key role in providing information about present day and future risk exposure to natural hazards. Furthermore, there is a need for government to shift the focus from recovery and reconstruction to mitigation and prevention.

5.1 Importance of mitigation

Natural disasters are events that cannot be prevented. As a result, the damaging impacts cannot be completely removed. However, they can be reduced, and this is the premise behind mitigation strategies. Mitigation acknowledges the inevitable nature of these events and focuses on ensuring that when disaster strikes, communities are in the best position to deal with its impacts.

In practice, mitigation can be actions such as relocating property located in flood plains, modifying structural components of buildings, and improving traffic access to at risk zones. At a higher level, land use planning and community education are also a part of mitigation. Identifying hazardous zones and creating policies that aim to reduce construction of homes and businesses in those areas is an effective strategy. Providing information to those who are located in hazardous zones regarding what they can do before and when a disaster strikes is also beneficial.

The analysis completed in section 4 of this report illustrates the damaging effect that natural disasters have had on the Australian economy. Adequate insurance has ensured that those communities affected have felt less of an impact from the disaster as well as to recover at a faster speed.

Mitigation takes this one step further by taking as many steps as possible to prevent damage occurring in the first place. By doing so, the potential damage

felt by those communities is drastically reduced. From an economic standpoint, this is critical as it improves the chances that those local economies can continue in operation, providing the income needed for local residents. Furthermore, this reduces the indirect costs of disasters including family violence, mental health impacts, alcohol and drug use and crime.

An important step going forward is to focus on not only ensuring that communities are adequately insured, but that mitigation strategies are a priority as well. Helping communities throughout the recovery process is extremely important, but what will become increasingly important is taking planned and thought-out steps in preventing the extent of damages.

5.2 Implications for businesses

Natural disasters can have damaging impacts to businesses. They effect almost all aspects of a business including assets and facilities, clients and customers, and supply chains. The disruption often leaves scars on businesses as some struggle to return to pre-disaster levels of activity. This is especially apparent for small businesses as they often do not have the means to recover and deal with serious disruptions to business.

Because of this potential threat, it is important for businesses to gain a complete understanding of the risks that they may be facing. In doing so, businesses can then best prepare by conducting a business impact analysis and develop a disaster recovery plan.

A key component of the disaster recovery plan includes insurance. Section 4 has demonstrated the reduced impact that insurance can create following a disaster. Ensuring that businesses understand the risks they face in their respective locations and acquiring an adequate policy for those risks is critical for businesses, especially for those that are smaller in size.

Businesses that are located in more hazardous zones are more likely to face reduced income levels due to periods of potential closure or lower number of customers. A proper understanding and acknowledgement of the likelihood of this risk is needed to take out insurance that will adequately support this business in times of disaster. There may be increased expense from the premium, but for a business that is facing those risks, it is a worthy investment.

Another consideration that businesses may also need to consider is the location of their employees' residency. If they are in a high-risk area, there is potential that a

natural disaster may prevent the workforce from being able to reach the workplace. This has the potential to cause disruptions to the business as a reduced workforce will likely mean that the business will not be able to function, which is especially the case for small businesses. Again, acquiring an adequate insurance policy to cover costs and revenue for periods of staff being unable to access the workplace would be a worthwhile investment.

An understanding and more importantly an acknowledgement of the risks that businesses located in hazardous zones face is key for continued operation following a natural disaster. This will allow businesses to take out the appropriate insurance cover. This is especially important for small businesses who generally will not be able to recover on their own due to the smaller size of their business operations.

5.3 Implications for households

Although households will have varying levels of ability to manage risks from natural disasters, there are steps that they can take. Gaining an understanding of the environment in which they live is a critical first step. This information provides households with a broader picture of the risks they face, and the options that are available to deal with them. The realisation that an individual's home is located in a hazardous zone and subsequently relocating outside of this area is an example of this.

However, this is not always practical for some households. An alternative solution would be to purchase adequate levels of insurance. A comprehensive understanding and acknowledgment of the risks that households face is key in acquiring cover that is appropriate for each individuals' circumstances. Section 4 illustrated the difference that having insurance

had by comparing GDP scenarios with and without insurance. This highlights the importance of attaining the appropriate level of insurance coverage as it not only increases the rate of recovery, but also reduces the extent of damage to GDP as well.

Households may also take into consideration the threat of natural disasters when choosing where to live and how they should build their homes. Furthermore, households may also need to regularly re-assess the dangers of their environment as rising temperatures and changing landscapes may bring risk towards areas that were previously not considered hazardous.

5.4 Implications for governments

This report has illustrated the detrimental impacts that natural disasters have on Australian communities. With a changing climate and a growing population, the impacts are likely to be more severe into the future. As a result, economic activity and taxation revenue are likely to reduce in those communities located in hazardous zones.

As natural disasters cannot be prevented, the aim for governments should be to reduce the extent of damages that these events can have. A key action for governments at all levels in doing so, is to not only look at recovery and reconstruction, but to also focus on mitigation.

The Productivity Commission Inquiry Report³⁰ stated:

“Governments overinvest in post-disaster reconstruction and underinvest in mitigation that would limit the impact of natural disasters in the first place. As such, natural disaster costs have become a growing, unfunded liability for government”

³⁰ Productivity Commission (2014) Natural Disaster Funding Arrangements Inquiry Report, page 2, available at: <http://www.pc.gov.au/inquiries/completed/disaster-funding/report>

The Australian government spend 3% of what it spends on post disaster recovery and reconstruction on mitigation, which highlights this disproportionate spending³¹. Mitigation strategies are generally not as costly as what recovery and reconstruction total to be. Research suggests that a dollar spent on mitigation can have save at least two in recovery and reconstruction costs³². Furthermore, this has been argued to be a conservative estimate.

The flood mitigation works in Lismore are an example of mitigation of being a cost saving investment. With the completion of a levee in 2005, Lismore was able to save an estimated \$15 million in recovery costs³². These savings were attributed to minimised flooding in future years and highlights the return on investment that can be achieved by focusing on mitigation and prevention.

Governments can reduce the impacts of natural disasters by supporting individuals and businesses to make informed decisions regarding disaster management. Households and businesses can be unaware of the risks that they face. The ACCC survey into non-insurance for small businesses in the flood affected areas of Townsville reported 67% of small businesses without flood cover³³. This was because they believed they were not in a flood zone. Governments may be able to provide such information on exposure to natural disaster risks in an easily accessible and understandable format.

Furthermore, the Royal Commission's report into natural disaster revealed that there is confusion from individuals regarding what insurance policies cover and what they could do to reduce their insurance premiums³⁴. Additionally, the Australian Small business and family

enterprise ombudsman found that small businesses are unaware of all commissions, fees and taxes that make up a significant portion of their insurance premiums³⁵. Again, governments can play a role in educating individuals in this regard.

A key finding from the Insurance Inquiry Report conducted by the Australian Small business and family enterprise ombudsman found that small businesses found it difficult to acquire a range of insurance policies and for the policies available these were at prohibitive prices³⁵. For example, businesses reported being unable to obtain natural disaster insurance, as well as public liability and professional indemnity insurance. Furthermore, mining, and remote areas have been unable to obtain insurance due to their industry and location.

Regulatory, geographic and industry factors have contributed to the low supply of comprehensive and affordable insurance policies. Governments have a role to play in improving the availability and affordability of insurance for small businesses.

Another form of mitigation that governments can play a role in shaping is through land use planning. Undertaking a suitability and natural disaster assessment of all land prior to commercial release will become increasingly important and has been recommended by the Australian Small Business and family Enterprise Ombudsman³⁵. As our climate changes, hazardous zones may spread to areas that were previously considered low risk. Areas previously thought of as non-risky may not remain that way in the foreseeable future as the spread of risk widens as climate and landscapes change. By introducing a

required assessment, controls are in place to prevent infrastructure as well as households and businesses from building in hazardous zones.

Governments can draw upon the National Disaster Risk Reduction Framework in their approach to mitigating the impacts of natural disasters - Figure 19 on page 38 illustrates the framework. A key takeaway from the framework is that national disaster management is not completed by any single approach. There are several components to be addressed and various organisations that are required to co-ordinate with one another. Although disaster management is a shared responsibility, it is not shared equally. Governments have a greater role in leading a co-ordinated effort in reducing the impacts of natural disasters in Australia. The co-ordinated approach has been a recommendation of the Royal Commission as well as suggesting that a national approach to disaster management will be the way forward. This will be critical as the acceleration of climate change will mean more severe and a greater number of disasters for Australia.

³¹ Australian Business RoundTable for disaster Resilience and Safer Communities (2016) Overview Investing now to reduce the future cost of recovery – available at: <http://australianbusinessroundtable.com.au/the-challenge>

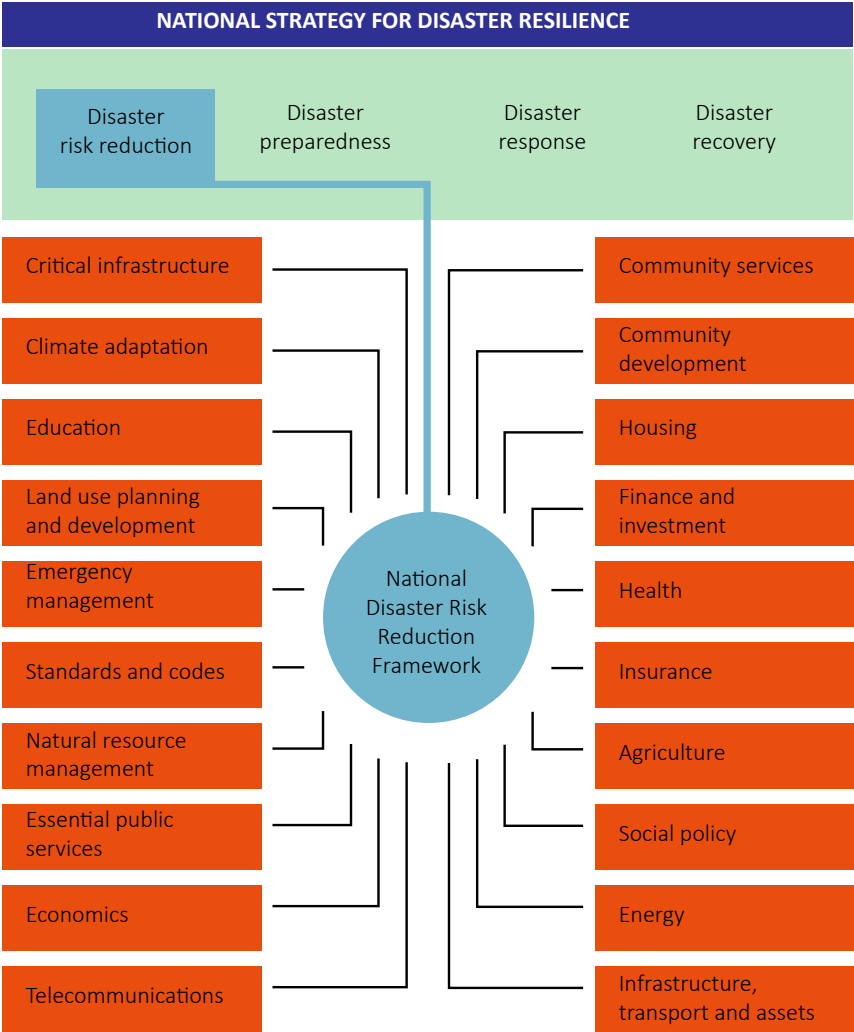
³² McClelland, R. (2011) Address on climate change to the James Cook University School of Law- available at: <http://www.austlii.edu.au/au/journals/JCULawRw/2011/1.pdf>

³³ Northern Australia Insurance Inquiry report- ACCC (2019) – available at: https://www.accc.gov.au/system/files/Northern%20Australia%20Insurance%20Inquiry%20second%20interim%20report%202019_0.PDF

³⁴ Royal Commission (2020), Royal Commission into National Natural Disaster Arrangements Report – available at <https://naturaldisaster.royalcommission.gov.au/publications/royal-commission-national-natural-disaster-arrangements-report>

³⁵ Australian Small Business and Family Enterprise Ombudsman (2020), Insurance Inquiry Report December 2020 – available at: https://www.asbfeo.gov.au/sites/default/files/Final%20Insurance%20Report_0.pdf

FIGURE 19: NATIONAL DISASTER RISK REDUCTION FRAMEWORK



Source: National Disaster Risk Reduction Framework, Home Affairs (2018)
– accessible at <https://www.homeaffairs.gov.au/emergency/files/national-disaster-risk-reduction-framework.pdf>



06 Conclusion

06 Conclusion

This report has examined two recent natural disasters in Australia: the 2019 Townsville floods, and the 2019-20 Black Summer bushfires. These disasters have caused serious disruptions to many Australians by damaging homes, businesses, and infrastructure. The 2019-20 'Black Summer' bushfires saw over 3,000 homes destroyed, over 24 million hectares burnt and tragically the loss of 33 lives.

Events of this kind are becoming increasingly common and present a real challenge for communities across the country. A warmer climate and expected population growth into the future will mean that these events will be more severe and affect a greater number of people.

As these types of events cannot be prevented, the focus is on reducing the impact that it has to our communities. Insurance provides a way to mitigate the adverse economic impact of natural disasters. The income from insurance payments helps to stabilise the economy following the initial shock from the disaster, and the economic stimulus from claims payments promotes a more rapid return to normal economic activity.

Without insurance, it is possible that economies, and especially those in regional and remote areas, may never fully recover from a natural disaster, as damage leads in some cases to a permanently impaired productive capacity in the long term.

This is particularly the case in regional areas which have a narrow economic base.

This is particularly damaging to small businesses in those regional areas as they often operate on smaller profit margins and as such may not have the means to continue operation following extended disruptions. Furthermore, it is concerning for regional communities as small businesses are a vital part of those areas as they provide income, employment, and play a social role in the community as well.

The analysis, through comparing scenarios with and without insurance, has shown the economic impact of disasters. On average, between 65% and 72% of total economic impact from the floods and bushfires is attributed to small businesses. The large percentage that small businesses make up highlights the importance for these businesses to acquire adequate insurance.

Small businesses should be aware of the risks they face under their individual circumstances. Recent events have shown that it is important to be prepared for extreme circumstances. As such, small businesses should acquire adequate insurance to cover for the risks that they face.

Governments have a role to play in addressing the impacts of natural disasters. Governments should provide clear information to businesses and households regarding their risk and exposure to natural hazards and

subsequently what they can do to protect themselves. Although the importance of insurance has been discussed extensively, it is also worth consideration of the value of mitigation. Mitigation actions are those that take place before disaster events strike and can reduce the damage significantly. It has been argued that for every dollar spent on mitigation it can save at least double that in recovery cost. Governments have a major role to play in the process of mitigation.

However, mitigation is not limited to the government, with households, businesses, insurers, and service providers having a part to play. Whether this is households relocating, insurers providing clearer information or governments implementing a co-ordinated disaster management strategy, all levels can contribute to this mitigation process and reduce the damage of future natural disasters.

As Australia becomes more at risk to these disasters, the role of insurance will become increasingly important. This is especially important for regional Australia and the small businesses that dominate this area as these locations are likely to face significant increases in the level of risk.

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Appendix: Further Detail

Small Area Gross Domestic Product Methodology

This section outlines the method used to estimate Gross Domestic Product for small areas across Australia. These estimates have been used in the two scenarios outlined in Section 4 of this report.

SGS Economics and Planning has developed estimates of economic activity for each major capital city, along with the regional balance of each state. These statistics provide improved insights into the relative economic performance of each of Australia's major capital cities (Sydney, Melbourne, Brisbane, Adelaide and Perth), the Northern Territory, Tasmania and the Australian Capital Territory.

Each major capital city, along with the regional balance of each state, is broken down into Statistical Area 2. To produce estimate of Gross Domestic Product at the Statistical Area 2 level, estimates are made for each industry. Industries are divided into five categories:

- Primary production – Agriculture, forestry & fishing and Mining. Information on the location of farms and mines is used to distribute regional totals. Head office operations in these industries are accounted for using an average hourly wage rate method;
- Capital Intensive – Manufacturing, Electricity, gas, water & waste services, Wholesale trade and Transport, Postal & Warehousing. Detailed 2-Digit industry gross

FIGURE 20: OVERVIEW OF MODELLING FRAMEWORK

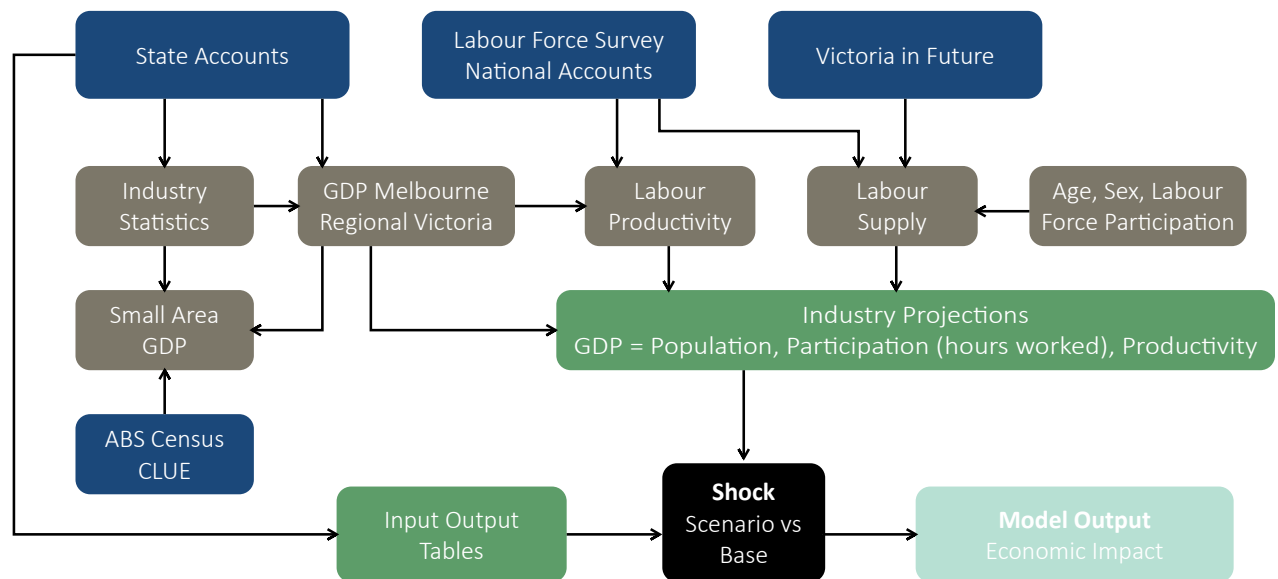
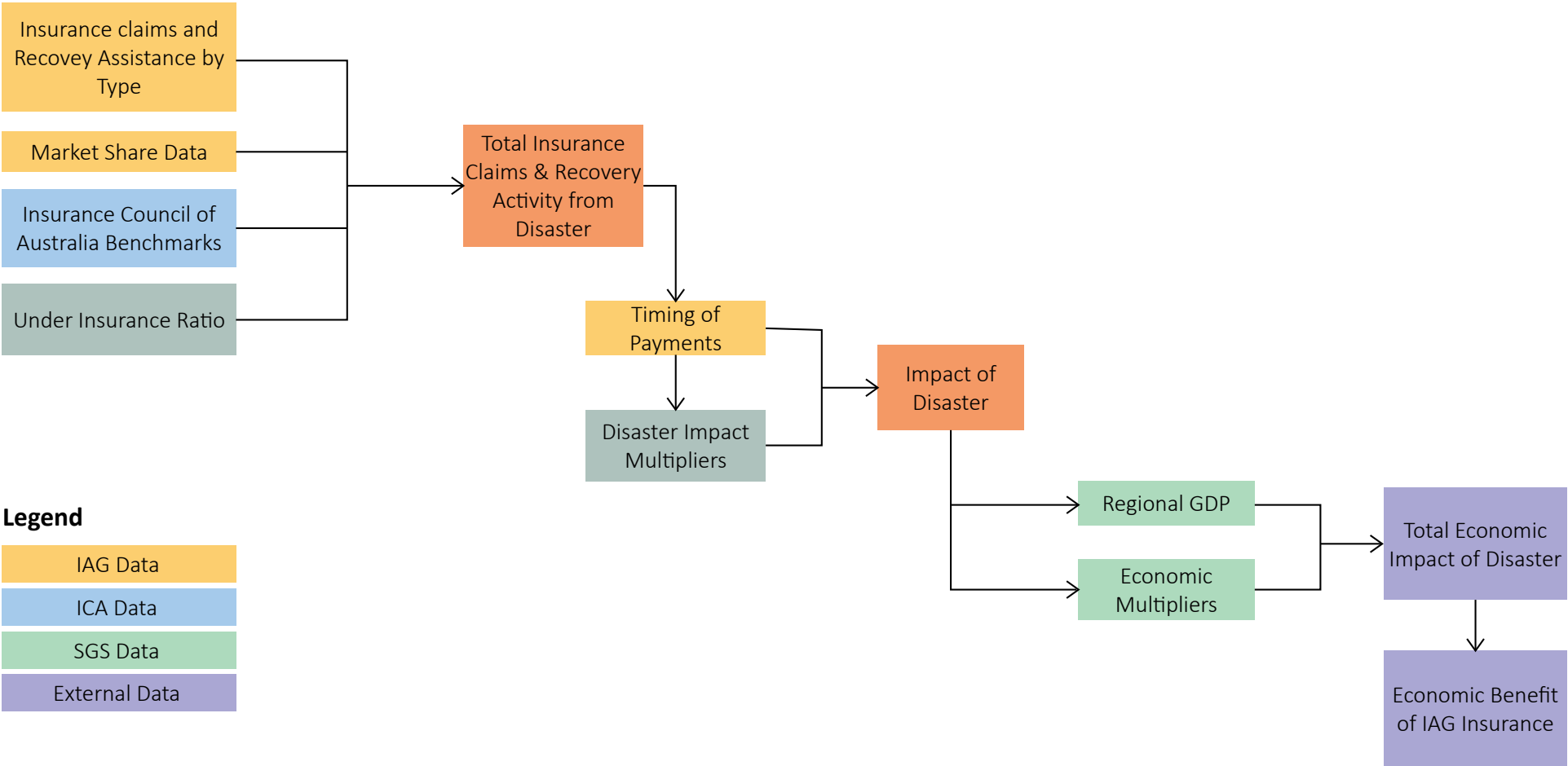


FIGURE 21: ECONOMIC MODELLING OVERVIEW



value added per worker is combined with the number of workers is used to distribute regional totals;

- Labour Intensives – All other industries. An average hourly wage rate multiplied by total hours worked in each city is used to distribute regional totals;
- Ownership of dwellings. Number of houses in the city and average rents are used to distribute State level totals to each city; and
- Taxes less subsidies. The State level total is distributed in line with the total industry gross value added for the SA2.

This is done using a range of data sources including:

- ABS Agricultural Commodities, Australia, 2018-19 (Cat. No. 7121.0);
- 2016 Census of Population and Housing, Place of Work data;
- ABS Labour Force, Australia, Detailed, Quarterly (Cat. No. 6291.0.55.003);
- ABS Australian Industry, 2018-19 (Cat. No. 8155.0); and
- ABS Australian System of National Accounts (Cat. No. 5204.0).

Economic modelling

Economic modelling has been used to estimate the size of the economic impact due to natural disasters and the economic benefit of insurance provided by IAG.

It is important to understand the difference between insurance losses and economic loss. Insurance losses related to natural disasters capture the losses accruing to insured assets (e.g. homes, motor vehicles and business premises).

Economic losses relate to the loss of economic production because of natural disasters. For example, businesses forced to close will miss out on daily takings, workers cannot reach their workplace, and factories are idle without raw materials. Depending on the scale of the natural disaster, people may choose to leave a region rather than rebuild. This loss of population then impacts the economy in the longer term.

This section briefly outlines the economic modelling used to estimate the size of the economic impact of the natural disasters and the economic benefit of insurance provided by IAG. It should be noted that other benefits such as improved mental health outcomes, reduced alcohol and drug use and changes to school academic outcomes are not included in the economic modelling. The first input is insurance claims and recovery activity data from IAG. This is provided for each disaster Case Study and broken down into the following categories:

- Home Insurance
- Motor Vehicle Insurance
- Commercial Insurance (split into motor vehicle and other commercial insurance)

The data was provided at the post code level and was then aggregated to the Statistical Area 3 level. The date at which the insurance is paid has also been provided for each disaster.

IAG's insurance claims and recovery activity data are based off actual claims data for each natural disaster period for all IAG brands. Estimates of total insurance payout for claims and recovery assistance figures for an event are based off IAG insurance and market share data combined with benchmark data from the Insurance Council of Australia for total insurance payouts. An adjustment is then made to account for households and businesses who are self-insured. There is a lack of data on the level of self-insurance. After conversations with the Insurance Council of Australia, SGS assumed that 10 per cent of households / businesses are self-insured.

Previous research undertaken by the Bureau of Infrastructure, Transport and Regional Economics³⁶ and Deloitte Access Economics³⁷ has examined the relationship between insurance payouts and the loss of economic production. This research produced disaster multipliers which can be used to convert insurance payouts to economic loss. Figure 22 describes three types of costs that make up **total economic cost** of natural disasters. Direct tangible costs related to damage to properties and infrastructure, part of which is covered by insurance. Indirect tangible costs are created from the flow on effects of the disaster, including business and network disruptions. The final cost is Intangible costs, which are those direct and indirect costs that are not easy to value, such as death and injury, and social costs.

FIGURE 22: TOTAL ECONOMIC COST OF NATURAL DISASTERS

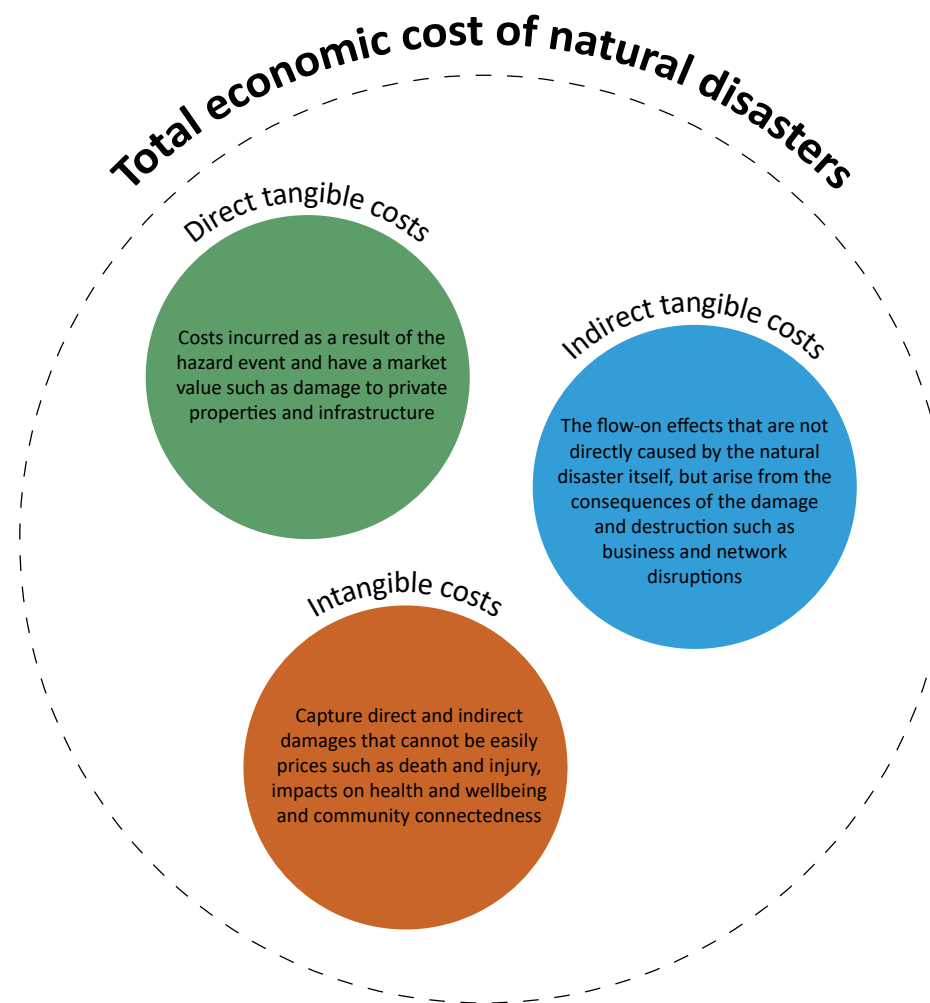


TABLE 2: DISASTER ECONOMIC MULTIPLIERS

Disaster Type	Average multiplier used	Lower Bound	Upper Bound
Townsville Flood	2	2	10
'Black Summer' bushfire	3	3	5.3

For example, if insured losses of a bushfire were estimated at \$1 million and the estimated multiplier is 3 then total economic cost would be estimated at \$3 million.

Table 1 on the next page presents the multiplier used for each of the Case Study disasters. Also presented is the upper and lower bounds provided in the previous research.

The economic stimulus from IAG's insurance claims and recovery activity categories (buildings, motor vehicle) are allocated to different expenditure categories with different economic multipliers that vary by region (as shown in Table 2).

These reflect supply chains within each region and how much expenditure is lost from the local area. Cities have higher multipliers than regional areas because they capture more stimulus and motor vehicles have multipliers below one because cars are imported from overseas and therefore have a reduced impact on an economy.

The GDP impact estimates in this report exclude the direct tangible and intangible costs, with lower and more conservative multipliers chosen for this analysis.

A Gross Domestic Product scenario without insurance was estimated for each SA3 impacted by the Case Study disasters. Given each disaster occurred roughly

in the middle of the year, the financial year estimates of Gross Domestic Product were converted to calendar year estimates. This allows the better assessment of the economic impact to be made, rather than presenting an impact for one or two months at the end of the financial year.

Based on insurance claims from ICA and IAG, the economic impact was estimated. Two scenarios, one with the stimulus of insurance claims and recovery activity flowing through the economy and the second with no stimulus, allows the impact of IAG insurance to be isolated.

TABLE 3: REGIONAL ECONOMIC MULTIPLIERS FOR EACH INSURANCE PAYMENT TYPE

Region	Building	Motor Vehicle
Greater Sydney	1.34	0.75
Rest of NSW	1.20	0.54
Greater Brisbane	1.29	0.72
Rest of QLD	1.18	0.56
Greater Hobart	1.09	0.59
Rest of Tasmania	1.09	0.59
Greater Melbourne	1.30	0.72
Rest of Victoria	1.13	0.47

Small business impact on GDP

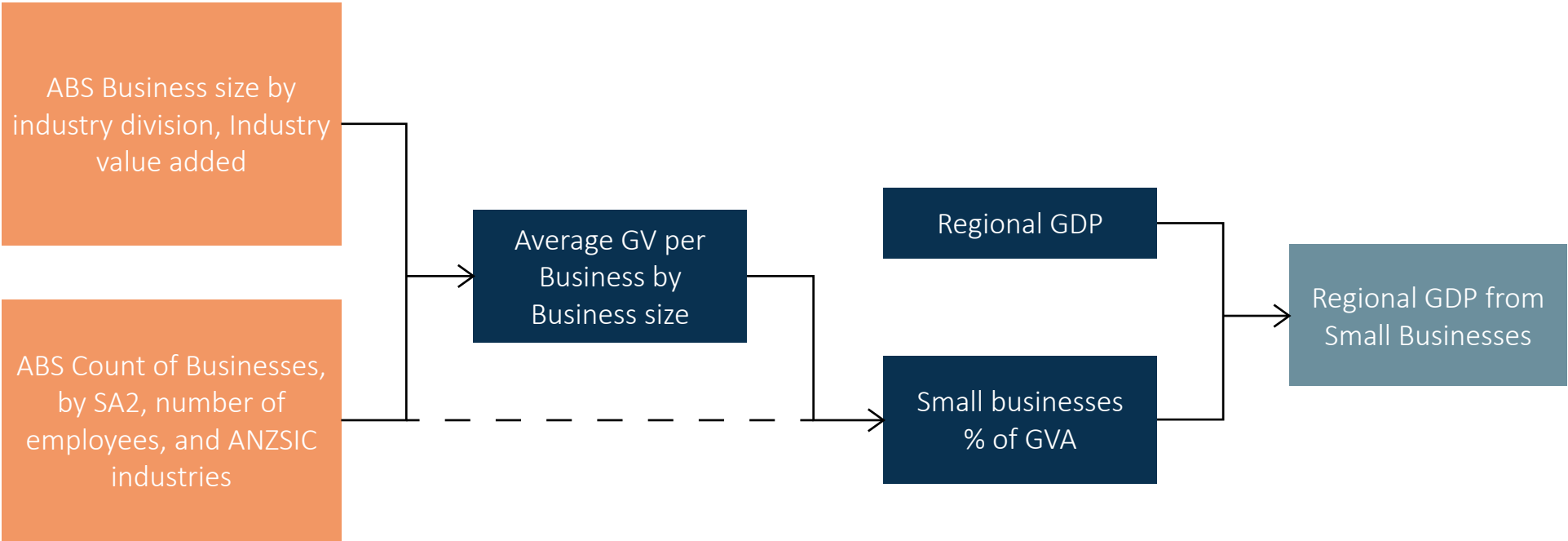
The methodology to determine the proportion of GDP that is created by small businesses in regional areas uses a combination of ABS datasets. These include:

- Counts of Australian Businesses for ANZSIC 1-digit industries, by SA2 and number of employees, 2019
- Australian Industry- Business size by industry division, Industry value added, 2018-19

Small area GDP is calculated by SA2 for 2019 base year by ANZSIC 1-digit industries in the disaster affected areas. The share of GDP that comes from small businesses, notably those with zero to four employees, and those with five to 19 employees, are calculated using those shares of GVA using the above ABS datasets. The total for all small business with zero to 19 employees are combined and aggregated to SA3 geography in disaster affected areas.

The share of gross value add to GDP from small businesses is then used to determine the impact that natural disasters cause on GDP coming from small businesses in the year following the natural disaster event.

FIGURE 23: METHODOLOGY TO PRODUCE REGIONAL SMALL BUSINESSES GDP



Legend

- SGS Data
- External Data



Independent
insight.

MELBOURNE

Level 14, 222 Exhibition Street
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au

CANBERRA

Level 2, 28-36 Ainslie Avenue
Canberra ACT 2601
+61 2 6257 4525
sgsact@sgsep.com.au

HOBART

PO Box 123
Franklin TAS 7113
+61 421 372 940
sgstas@sgsep.com.au

SYDNEY

209/50 Holt Street
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au

