



Australian Government

Australian Government response to the
Productivity Commission report:

Barriers to Effective Climate Change Adaptation

March 2013

Overview

Australia's climate is changing and will continue to do so for the foreseeable future. The unavoidable impacts of climate change will affect life in Australia and, without preventative action, could impose significant economic, social and environmental costs. Governments, businesses and households are vulnerable to projected changes in the frequency and intensity of extreme weather and other events such as intense precipitation, storms, bushfires, heatwaves and floods, as well as to incremental changes in climate such as rising temperatures and sea levels.

The Australian Government therefore welcomes the findings of the Productivity Commission's detailed inquiry report into barriers to effective climate change adaptation.

In the report's overview, the Productivity Commission notes that governments, businesses and households can all act to manage the risks associated with climate change, and that some adaptation is already taking place. The *Roles and Responsibilities for Climate Change Adaptation in Australia* paper agreed by the Select Council on Climate Change (SCCC) on 16 November 2012 states that local initiative and private responsibility will be at the forefront of climate change adaptation in Australia, with the most significant benefits flowing directly to those who plan well and adopt flexible adaptation strategies.

The Productivity Commission found that there are key roles for governments in securing adaptation to climate change, primarily by:

- managing climate change risks effectively in their own activities;
- ensuring regulatory and policy frameworks do not impede private risk management;
- correcting market failures (for example, by providing information and disaster-mitigation infrastructure) where the benefits to the community exceed the costs; and
- managing the distributional consequences of climate change for disadvantaged and vulnerable groups.

The Australian Government agrees with the Productivity Commission on the need to embed consideration of climate change in its own agencies' risk management practices. Where there is scope to improve risk management practices, the Department of Climate Change and Energy Efficiency (DCCEE) will work with relevant agencies to develop appropriate guidance. DCCEE is currently developing guidance for Australian Government agencies on managing risks to assets in the coastal zone.

The Productivity Commission's insight into the potential barriers in the uptake of climate change adaptation measures – in particular cognitive barriers beyond information provision and use – may need further development. The Government will consider whether, for example, Australian businesses and households are aware of the risks of climate change; have the decision-making tools to plan for climate change impacts such as extreme weather events in the face of uncertainty; and have the capacity and resources to translate awareness of climate change into action.

More generally, the Government will examine how it can support Australian businesses to take advantage of emerging markets as countries around the world adapt to climate change.

Australia is well placed as a nation to provide adaptation solutions, given we are likely to be significantly affected by climate change. The market has already responded, for example, through improved agricultural and water management practices – areas of expertise in which Australia can offer solutions to the rest of the world, particularly in Asia. Further opportunities exist for Australian businesses in all sectors of the economy to deliver internationally-competitive adaptation solutions, including in sustainable mining, manufacturing, architecture, business and financial services and tourism.

Noting the Productivity Commission’s recommendations to state and territory governments, the Australian Government will also continue to work with those governments to advance adaptation reforms where national action is required, for example, through reforms in relation to land-use planning, building regulation, existing settlements, emergency management and insurance. These reforms will build upon the Government’s National Urban Policy and Council of Australian Government (COAG) City Reforms.

In undertaking the adaptation task, Australia’s three levels of government will together aim to balance local knowledge and expertise against national interest considerations, taking particular account of the benefits of national coordination, existing responsibilities and accountabilities, and the diversity of impacts likely to be experienced across the nation.

Government policy has the potential to facilitate more effective adaptation to climate change and hence better community outcomes. Accordingly, the Australian Government’s response to this challenge must be cohesive and well-targeted. This will not necessarily involve new spending, but does mean demonstrating national leadership and ensuring climate change is taken into account in the design and delivery of a range of policies and programs and in how it manages public assets. It means adopting policy settings that facilitate a flexible and responsive economy, promoting efficient adaptation.

Detailed response to recommendations

Assessing reform options and identifying priority reforms

RECOMMENDATION 5.1

Reforms to address barriers to effective climate change adaptation should be assessed on a case-by-case basis to determine whether they are likely to deliver net benefits to the community. This should include consideration of any risks to their implementation.

If there is a high degree of confidence that reforms will deliver net benefits, they should be implemented without delay.

If there is uncertainty about the net benefits of reform options, there could be a case for delaying implementation or adopting a flexible approach until decision makers have better information on the factors that affect their decisions, particularly if the up-front costs are large and the benefits are likely to be distant.

Australian Government response:

Agreed in principle.

The Australian Government agrees that assessing and prioritising reform options will require rigorous analysis on a case-by-case basis, within a comprehensive and consistent assessment framework to ensure that reform options can be effectively prioritised; that any options selected support or do not hinder related activities; and that the range of consequences can be identified. This will involve consideration of the many dimensions of complex and diverse climate impact problems, and promoting risk-specific solutions.

Where there is a high degree of confidence that reforms will deliver net benefits, the Government agrees in principle that they should be implemented without delay. An example of a policy reform which is likely to deliver net benefits over a range of possible future climates is improving resilience and preparedness to natural disasters, particularly in areas where hazards are already high.

To make good decisions under uncertainty it is necessary to identify strategies that offer net benefits over a range of plausible futures. Such 'robust' strategies offer good performance in most or all plausible futures rather than optimal performance under one or two scenarios. Key features of robust strategies include: flexibility or reversibility; use of 'soft' options (for example, the institutionalisation of long-term planning horizons); incorporation of safety margins; and strategies that reduce decision-making time horizons, and that maximise the richness or diversity of decision inputs.

Where there is uncertainty about the net benefits of reform options, the Government recognises the value in flexible approaches to decision-making, and that robust adaptation strategies may involve delaying action. The Government also notes that the availability of techniques for valuing the benefits of delaying adaptation action (such as real options analysis) does not in itself mean that action should be delayed. That is, uncertainty about

whether reform options will deliver net benefits should not on its own be reason for delaying implementation. Rather, it is a consideration in prioritising reform options which will allow the merits of each option to be rigorously compared on a case-by-case basis.

The Government will support further analysis of priority reform options and recognises the need to develop increased skill and expertise in dealing with uncertainty when making decisions about adapting to climate change. Analysis will focus on areas where choices made today will strongly influence future options to manage risks from climate change impacts. For example, as part of its plan for a Clean Energy Future, the Australian Government is providing \$44 million in funding to support regional natural resource management (NRM) organisations across Australia to plan for the impacts of climate change. Regional NRM organisations engage with communities and stakeholders to effectively manage their natural resources. Ten research teams from around the country will receive over \$13 million to work closely with regional NRM organisations to undertake targeted research and ensure organisations have access to regionally-relevant climate change information and the necessary capacity to use this information effectively.

The Government also recognises that consideration of the need for forward planning and community consultation is fundamental to identifying the most beneficial adaptation reform options.

‘No regrets’ policies

RECOMMENDATION 6.1

Australian governments should implement policies that help the community deal with the current climate by improving the flexibility of the economy. This would also build adaptive capacity to deal with future climate change. This includes reforms to:

- **taxes that influence the way resources are used, such as land tax exemptions and conveyancing duty, which could inhibit the mobility of labour or capital**
- **government transfers that reduce incentives to adjust to changing circumstances, such as reforms to drought support as outlined in the Productivity Commission’s 2009 inquiry**
- **regulations that impose unnecessary costs or inhibit competition or flexibility and could impede climate change adaptation by reducing the ability of businesses, households or other entities to respond to changing circumstances, such as restrictions to water trading.**

Australian Government response:

Agreed in principle.

The Australian Government, in principle, agrees that policy settings that assist the flexibility and responsiveness of the economy should be pursued as they will assist the economy to adapt efficiently to the effects of climate change, especially in the context of uncertainty.

Tax reform

The Australian Government provides in-principle support to tax reform that reduces the distortionary effects of Australia's tax system on efficient resource allocation. The Australian Government notes, however, that land tax and conveyancing duty are state government responsibilities. It also notes the progress on tax reform recently made at the state level, including the Australian Capital Territory (ACT) Government's commitment to phase out conveyancing duty in that jurisdiction.

Drought program reform

The Australian Government has a reform agenda which aims to move the focus of government drought assistance away from crisis management to helping farmers better manage risks and prepare for future challenges such as drought and a variable climate. The reform agenda has been informed by the 2009 Productivity Commission review, *Government Drought Support*. In this regard:

- From 1 July 2010 to 30 June 2012, the Australian and Western Australian Governments together invested a total of \$81 million in a pilot of drought reform measures in parts of Western Australia.
- The Australian Government also terminated one of the largest government transfers – the Exceptional Circumstances Interest Rate Subsidy – to remove disincentives for farmers to adjust to changing circumstances.
- On 26 October 2012, the Australian, state and territory primary industries ministers agreed, subject to agreement by individual governments, to a new package of measures to better support farmers and their families prepare for future challenges. Primary industries ministers agreed that the new package should include:
 - a farm household support payment;
 - promoting Farm Management Deposits and taxation measures;
 - a national approach to farm business training;
 - a coordinated approach to social support services; and
 - tools and technologies to inform farmer decision-making.
- The Australian Government is considering this package of measures.

Regulatory reform

On 12 April 2012, the Prime Minister chaired the inaugural Business Advisory Forum (BAF). The BAF, attended by First Ministers, business CEOs, and representatives of Australia's peak business organisations provides the opportunity for business and government to engage directly on areas of common policy focus and priority. At the initial BAF, participants agreed they shared a common goal – to improve national productivity growth to boost the prosperity of all Australians – and committed to working together to secure gains in productivity.

Members of the BAF reiterated that continual improvements to regulation and competition frameworks are critical contributors to productivity growth. To support discussion at the BAF,

business leaders proposed a new competition and regulatory reform agenda, including approaches to lower costs to business and improve competition. Following discussions at the BAF, the Council of Australian Governments (COAG) agreed on 13 April 2012 to progress this ambitious reform agenda.

COAG also agreed to establish a cross-jurisdictional Taskforce to develop the policy and timetable for the new reform agenda. The BAF Taskforce is chaired by the Secretary of the Department of Finance and Deregulation, and comprises a senior Commonwealth Treasury official and Deputy Secretary level representatives from both First Ministers and Treasury departments in the states and territories. The Taskforce reports to COAG through First Ministers' senior officials.

The new agenda builds upon the deregulation and competition reforms already being implemented under COAG's *National Partnership Agreement to Deliver a Seamless National Economy*, which are delivering long-term benefits for the economy.

One of the reforms agreed by COAG as part of the BAF agenda is to prioritise the review and rationalisation of carbon reduction and energy efficiency measures that were not complementary to the carbon price, or were ineffective, inefficient, or imposed duplicative reporting requirements on business. A comprehensive program of reviews has been undertaken across all jurisdictions. To date governments have agreed to remove some 57 carbon reduction and energy efficiency measures since the introduction of the carbon price as part of the Clean Energy Future legislation. In particular, states and territories have removed or scaled back premium solar feed-in tariffs and the solar credits multiplier ended on 1 January 2013.

In December 2012, COAG welcomed the significant progress on these competition and regulatory reforms. COAG committed to streamlining regulation that delivers strong environmental outcomes and better conditions for business.

COAG also noted that the National Compact on Regulatory and Competition Reform was signed by First Ministers, the Australian Local Government Association President and representatives from key business groups. The Compact sets out for the first time how governments and business will work together and their commitments to one another.

In addition to the BAF reforms, under the *National Water Initiative* governments have agreed to move to full and open water trade.

Information provision

RECOMMENDATION 7.1

The Australian Government initiative to improve the coordination and dissemination of flood-risk information should proceed in the most cost-effective way, be regularly updated and expanded over time to encompass other natural hazards. Guidelines to improve the quality and consistency of risk information should also be regularly updated and take climate change into account where feasible.

Australian Government response:

Agreed.

The Australian Government is working with state and territory governments to improve the coordination of flood risk and other natural hazard information.

In response to the Natural Disaster Insurance Review (the Review) in November 2011, the Australian Government has recently announced the establishment of a National Insurance Affordability Council (NIAC) to coordinate flood risk management. The NIAC will complement and build on an earlier government initiative in response to the Review, the National Flood Risk Information Project (the Project), introduced in November 2011 to improve the national provision of flood risk information. The Project will be implemented in four phases and will deliver: a National Flood Risk Information Portal (the Portal) and associated guidelines on the provision of data; an updated Australian Rainfall and Runoff (AR&R) publication; and Satellite Imagery analysis.

The Portal will improve the quality, availability and accessibility of flood mapping information in Australia. This will, in turn, create opportunities to improve the communication of flood mapping information and better inform decision-making in a wide range of areas, including emergency management, land-use planning and insurance. The first phase of the Portal was launched in November 2012 and has delivered an updated Australian Flood Studies Database with a 'Google maps' style interface, and enhanced search functionality. This freely-available database now makes it easier for engineering consultants, planners, the public and insurers to access flood risk information.

The initial focus of the Project is on flood risk information, but the feasibility of expanding the Portal's scope to include a broader number of hazards will be examined.

Part 1 of the Project's Guidelines present key principles and practices concerning Australia's current knowledge and understanding of how best to develop and use flood risk information nationally. They acknowledge the importance of including consideration of climate change, given its effects on future flood risk as sea levels rise and the patterns of intense rainfall change.

Part 1 of the Guidelines can be found at www.em.gov.au. The Guidelines will be subject to revision as the nature and understanding of flood risk information change, and as relevant technologies develop.

Revision of design rainfall information (the AR&R) will improve the quality of future flood studies, including the information available through the Portal. The upgraded information will provide suitable advice on selecting appropriate planning horizons and climate change projections and the suitability of different methods when calculating the impact of climate change.

More broadly, governments should provide reliable information to support adaptation where that information has public good characteristics. Much of the information needed to adapt to climate change 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.

In some cases the Australian Government will play a lead role, such as in producing meteorological, climate or water information. In other cases, such as flood risk mapping, the Government will play a coordinating role.

The coordination and dissemination of natural hazard information, including flood risk, coastal inundation, bushfires and extreme weather elements, will continue to be a core role for the Australian Government.

Local government

RECOMMENDATION 8.1

To help clarify roles and responsibilities of local government for climate change adaptation, the state and Northern Territory governments should publish and maintain a comprehensive list of laws that delegate regulatory roles to local governments. This would assist both state and local governments assess whether local governments have the capacity to discharge their roles effectively.

Australian Government response:

Agreed in principle.

The Australian Government notes that Recommendation 8.1 is primarily a matter for state and territory governments, and will refer the recommendation to those governments for consideration.

Governments at all levels, businesses, households and the community each have important, complementary and differentiated roles in adapting to the impacts of climate change.

Identifying the roles of government in adapting to climate change is the first step in building a coordinated approach. The Productivity Commission has indicated, and the Australian Government recognises, that responsibility for a particular function should reside with the lowest level of government competent to deal with the issue. The *Roles and Responsibilities for Climate Change Adaptation in Australia* document adopted by the SCCC on 16 November 2012 sets out the principles for the management of climate change risks, and roles and responsibilities for adapting to climate change within the three tiers of government: Commonwealth, state and territory and local.

RECOMMENDATION 8.2

Local governments' uncertainty about their legal liability is a barrier to effective climate change adaptation. State governments should clarify the legal liability of councils with respect to climate change adaptation matters and the processes required to manage that liability.

Australian Government response:

Agreed in principle.

The Australian Government notes that Recommendation 8.2 is primarily a matter for state and territory governments, and will refer the recommendation to those governments for consideration.

The Australian Government acknowledges that local governments' current uncertainty about their legal liability is a potential barrier to effective climate change adaptation.

To help clarify legal liability issues of concern to local government, the Australian Government funded the report *Coastal Climate Change Risk – Legal and Policy Responses in Australia* (Blake Dawson) and provided funding to the Australian Local Government Association for the report *Local Council Risk of Liability in the Face of Climate Change – Resolving Uncertainties* (Baker and McKenzie).

Consistency of approach and measures across jurisdictions would help Defence (and other entities operating across state/territory and local government jurisdictions) to cost-effectively maintain a coherent approach and reduce the potential for conflicting or incompatible obligations deriving from federal, state/territory and local government legislation and regulations.

Land-use planning

RECOMMENDATION 9.1

As a priority, state and territory governments should ensure that land-use planning systems are sufficiently flexible to enable a risk management approach to incorporating climate change risks into planning decisions at the state, territory, regional and local government levels. Consideration should be given to:

- **transparent and rigorous community consultation processes that enable an understanding of the community's acceptable level of risk for different types of land use**
- **the timeframe of risks and the expected lifetime of proposed land use**
- **the costs and benefits of land use.**

State and territory governments should provide appropriate guidance to local governments to implement these provisions in local government schemes.

Australian Government response:

Agreed in principle.

The Australian Government recognises that the state and territory governments are primarily responsible for statutory land-use planning, with some responsibilities delegated to local governments, and will refer the recommendation to the states and territories for consideration.

The Australian Government acknowledges that there will be significant benefits from flexible land-use planning systems which incorporate the principles outlined by the Productivity Commission in Recommendation 9.1.

The Australian Government will work with the states and territories through COAG's Standing Council on Transport and Infrastructure to improve strategic land-use planning for major cities.

Building regulation

RECOMMENDATION 10.1

The Council of Australian Governments' Building Ministers' Forum should provide formal direction to the Australian Building Codes Board to:

- **monitor projections of climate risks to buildings**
- **revise the standards in the National Construction Code to take into account these projections where this delivers a net benefit to the community.**

This body of work should be transparently and formally incorporated in the Australian Building Codes Board's annual work program.

Australian Government response:

Agreed in principle.

The Building Ministers' Forum has agreed to the inclusion of climate change adaptation in the Australian Building Codes Board's forward work program.

Existing settlements

RECOMMENDATION 11.1

The Council of Australian Governments should commission an independent public inquiry to develop an appropriate response to managing the risks of climate change to existing settlements. The inquiry should:

- **explore, via extensive consultation with all levels of government and the community, in a variety of locations, the community's acceptable levels of risk for public and private assets**
- **identify the options available to manage climate change risks to these assets**
- **assess the benefits and costs of each option**
- **establish policy frameworks that can be applied by state, territory and local governments.**

State and territory governments should draw on the findings of the inquiry to:

- **manage risks to their own assets**
- **clarify roles and responsibilities for managing climate risks for each level of government and the community**
- **provide appropriate support to local governments that face capacity constraints.**

Australian Government response:

Noted.

The Australian Government agrees that managing the risks of climate change to existing settlements is a significant issue that requires cross-jurisdictional cooperation and further investigation. Early planning will reduce future costs, and there is a clear need for community engagement on the acceptable levels of risk for public and private assets.

The Australian Government will consult with state and territory governments on the best way to address this issue.

Emergency management

RECOMMENDATION 13.1

The Australian Government should commission an independent public review of disaster prevention and recovery arrangements. This should be broader than the review currently being conducted by the Attorney-General's Department. The review should cover the Natural Disaster Relief and Recovery Arrangements, as well as the funding mechanisms for disaster mitigation, including the National Partnership Agreement on Natural Disaster Resilience. This review should:

- **consider whether arrangements lead to inadequate disaster-mitigation infrastructure investments or insurance decisions, or reduce the incentives of state and territory governments to appropriately manage their risks**
- **clearly outline the process for the identification of disaster-mitigation infrastructure needs, the provision and appropriate funding of this infrastructure, and the allocation of operational responsibilities**
- **evaluate the adequacy of current arrangements for the provision of post-disaster assistance, including guidelines and processes for project evaluation and the criteria for approving and funding the betterment of essential public assets**
- **consider the balance of resources devoted to prevention and preparedness relative to response and recovery through a cost–benefit analysis of reform options**
- **involve extensive consultation with the community and all levels of government.**

Australian Government response:

Noted.

The role of insurance

RECOMMENDATION 16.1

State and territory taxes and levies on general insurance constitute a barrier to effective adaptation to climate change. State and territory governments should phase out these taxes and replace them with less distortionary taxes.

Australian Government response:

Agreed in principle.

The Government notes that this recommendation is consistent with the findings of the Australia's Future Tax System review. It agrees that state insurance taxes are distortionary and inefficient but notes that they are a state and territory government responsibility. The Government notes that the ACT Government has announced that it will phase out insurance taxes over the five years from 2012-13 to 2016-17, and encourages other state and territory governments to consider adopting a similar approach.

RECOMMENDATION 16.2

The Australian Government should only proceed with reforms that require all household insurers to offer flood cover if it can be demonstrated that the benefits to the wider community would exceed the costs.

Australian Government response:

Agreed.

The Government will not proceed with the proposal requiring all insurers to offer flood cover in home building and home contents insurance policies.

In November 2011, the Government released a consultation paper proposing that all insurers be required to offer flood cover in home building and home contents insurance policies, based on a standard definition of flood, with insurers being able to choose whether to give consumers the option to opt out of flood cover. The proposal was designed to increase the availability of flood insurance by requiring all insurers to offer flood cover. It was also designed to increase consumer awareness of flood risk and reduce confusion about whether a specific policy covered flood. Ultimately, the proposal aimed to assist consumers to make an informed choice about whether or not to purchase flood cover.

The majority of feedback received by the Government – including submissions in response to the consultation paper and meetings with stakeholders – suggested that the proposal should not be implemented. Reasons included: that the already increased availability of flood cover since the 2010-11 flood events made the proposed intervention unnecessary; increased capital and operating costs for some insurers would be passed onto policy holders; reduced competition would eventuate should insurers decide to withdraw cover in certain areas; and the proposed intervention would make some existing low-cost insurance products unviable.

The Government agrees with Productivity Commission suggestions that a more appropriate policy response to concerns about the extent of flood cover would be to address barriers in other policy areas that bear on the cost, uptake and provision of insurance. This could include phasing out taxes and levies on insurance, improving risk disclosure information to households so that they are more aware of their exposure to natural hazards, or increasing investment in flood-mitigation infrastructure where this has net benefits for the wider community.

The Government notes that the Productivity Commission considers that recently completed or proposed Government reforms, including the standard definition of flood, release of key fact sheets, the application of unfair contract terms legislation to general insurance, and reforms to financial advice regulations could improve outcomes for consumers with generally modest costs for insurers.

The Government will also be increasing expenditures for disaster mitigation infrastructure projects which would directly impact on insurance premiums. As recently announced (and referred to above), the Government will be establishing a National Insurance Affordability Council (NIAC) which will be responsible for monitoring insurance premiums and ensuring that where better information becomes available or risk is reduced by mitigation activity, the benefits flow through to policy holders quickly in the form of lower insurance premiums. The NIAC will also be responsible for assessing mitigation project proposals put forward by local councils, community organisations and the insurance industry, and recommend to Government appropriate proposals for funding mitigation infrastructure which would mitigate the risk of flooding and reduce insurance premiums. The NIAC initiative will invest \$100 million in better mitigation over 2 years.

RECOMMENDATION 16.3

Governments should not subsidise household or business property insurance, whether directly or by underwriting risks.

Australian Government response:

Agreed.

Governments should not subsidise household or business property insurance, either directly or by underwriting risks.

Following a series of extreme weather events in late 2010 and early 2011, the Australian Government commissioned the Natural Disaster Insurance Review (the Review). The Review recommended that an agency sponsored by the Australian Government be created to manage the national coordination of flood risk management and to operate a system of premium discounts and a flood risk reinsurance facility, supported by a funding guarantee from the Commonwealth. The Government has recently announced that, whilst accepting this recommendation in part by establishing a National Insurance Affordability Council (NIAC) to manage the national coordination of flood (and other disaster) risk management, it will not adopt the aspect of the recommendation related to a Government-backed flood reinsurance pool.

As noted by the Productivity Commission, it is not clear that premium subsidies would directly assist those households that are most in need. The Productivity Commission also notes that providing subsidies can be costly. For example, subsidies reduce the incentives that insurance premiums give households to reduce their exposure to risk and expose the Australian Government to large budgetary costs. Other considerations include the diversion of government expenditure from programs which may have greater net benefits for the community (such as those that will be funded by the NIAC), potential to crowd out private sector insurance products and reduced competition.

In addition, the Government has implemented recommendations from the Review that enhance consumer awareness of flood risk and flood insurance. Specifically, the Government has provided funding of \$12 million over four years to increase the quality, consistency and accessibility of flood risk information, implemented a standard definition of flood and required insurers to provide their customers with a key fact sheet for all home and home contents policies, which will improve access to key insurance information. The Government's policies announced or implemented in response to the Review, including funding of \$100 million over 2 years for mitigation works and the establishment of NIAC, broadly reflect the Productivity Commission's recommendations that phasing out taxes and levies on insurance, ensuring land-use and building regulation facilitate risk management and appropriately providing information and disaster mitigation infrastructure to reduce exposure to risks may be more appropriate ways to meet policy objectives with respect to the provision, affordability and uptake of insurance.