



24 October 2023

Sue Higginson
Chair
NSW Planning and Environment Committee

Dear Ms Higginson

The Insurance Council of Australia (**Insurance Council**) thanks the NSW Planning and Environment Committee for an opportunity to provide a submission to its inquiry into the Planning System and the Impacts of Climate Change on the Environment and Communities. We welcome the Committee's commitment to identifying what short, medium and long-term planning reforms may be necessary to ensure communities are able to mitigate and adapt to conditions caused by changing environmental and climatic conditions.

The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy, the general insurance industry employs approximately 60,000 people, generates gross written premiums of \$64.5 billion per annum and on average pays out \$147 million in claims each working day, totalling \$36.5 billion per year¹.

Summary of Recommendations

- Ensuring development on floodplains comes to end, as agreed by National Cabinet
- Review land use planning arrangements based on water catchments
- Adopt a risk-based approach to future residential development
- Undertake further flood studies where required to better understand risk
- Commit to mitigation infrastructure before housing targets are given to councils.
- Refine government messaging around risk to drive greater understanding of the likelihood and impact of extreme weather events
- Support amendments to the NCC and relevant Australian Standards that prioritise building resilience and considers current and future climate projections.
- Increased investment to make homes, businesses, and communities more resilient to extreme weather events
- Implement recommendations of the Building Confidence Report
- Improve data standards and consistency
- Undertake taxation reform, including reform of the ESL

Improving Resilience to Extreme Weather Events

Insurance prices risk, and as climate change continues to drive worsening extreme weather events, the challenges associated with insurance affordability and availability in vulnerable areas will continue to grow. The extreme weather events experienced by NSW in recent years underline the importance of improving our resilience in the face of a changing climate. In 2022 alone, New South Wales suffered \$3.3 billion in insured losses from 150,100 claims relating to extreme weather events, the majority of

¹ APRA Statistics

which resulted from the February–March floods which cost \$2.87 billion in insured damages across the State².

Creating a more resilient NSW in the face of a changing climate is key to addressing growing levels of risk and to closing the insurance coverage gap. Changing the risk profile of communities exposed to extreme weather in NSW requires action by the State Government to make homes, businesses and communities more resilient to extreme weather, by shifting what we build and where we build it.

The Insurance Council recommends action across six key priority areas to deliver on these critical objectives and to improve resilience to extreme weather events:

1. **Land use planning reform**, including action to deliver on National Cabinet’s commitment to ensure development no longer occurs on flood plains. Planning legislation needs a mandatory requirement for strategic and statutory planning arrangements to consider property and community resilience to extreme weather events.
2. Through the Building Ministers Meeting, embedding **resilience in the National Construction Code** and associated referenced standards to strengthen the resilience of new homes being built across the State
3. Ongoing **investment in resilience infrastructure** to improve the resilience of existing homes at risk of impact from worsening extreme weather.
4. Improving **competence and compliance**, including implementing the findings of the *Building Confidence Report*.
5. Improve and make more consistent **data** standards to enable households, communities, government, and agencies to better prepare, protect and respond to disasters.
6. Improve insurance affordability and availability through **taxation reform**.

Priority Area 1 - Land Use Planning Reform

NSW Government work to date

The Insurance Council notes a key outcome of the meeting of Planning Ministers Meeting on 4 August 2023 was for the NSW government to lead the development of a framework and guidance on nationally agreed principles for natural disaster and climate risk considerations in land use planning decisions. This framework and guidance are an important part of jurisdictions’ response to National Cabinet’s declaration in December 2022 that “the days of developing on flood plains needs to end.” The Insurance Council strongly supports the decision of National Cabinet and calls on all jurisdictions to follow through on this commitment. As the largest state NSW should lead on this to ensure development in high-risk areas like parts of Western Sydney does not occur. The Insurance Council looks forward to the finalisation of this framework and guidance, and for it to facilitate improved decision making in all jurisdictions to ensure extreme weather is properly assessed and addressed in planning decisions.

The need for action in this area is reinforced by recent ABS figures showing 454,400 new arrivals to Australia in the year to March and the budget papers forecasting 1.5 million arrivals over five years. Ensuring people have somewhere safe and affordable to live has never been more important. National Cabinet recently committed to build 1.2 million new homes over five years from 2024. Where these homes are built is critically important to ensure they are not situated in high-risk areas.

² [A Stronger NSW - Policy recommendations for the next NSW Government \(insurancecouncil.com.au\)](https://www.insurancecouncil.com.au)

At a recent National Industry Land Use Planning and Resilience Roundtable held by the Insurance Council of Australia, Master Builders Association, the Planning Institute of Australia and the Local Government Association of Australia, senior officials from the NSW Department of Planning shared with industry the NSW Government's approach to better considering the potential for natural disasters in land use planning decisions. The Insurance Council welcomes the Government's renewed focus in this area and acknowledges its efforts to avoid putting residents in harm's way by limiting housing development exposed to the severe impacts of extreme weather events, particularly in flood affected areas

Notwithstanding the Insurance Council's support for the measures the NSW Government has undertaken in response to the major floods and bushfires in recent years, we encourage ongoing action to ensure planning decisions more precisely, consistently, and deliberately consider the relationship between land use planning and extreme weather risk. This includes the following measures:

Review of Land Use Planning

The Insurance Council encourages ongoing reviews of land use planning arrangements considering both the likelihood and consequence of extreme weather events, including flooding.

These reviews should adopt a catchment-based approach to land use planning and hazard management, based on existing NSW Water catchment boundaries and take into account current and projected extreme weather events and input from relevant councils. This approach needs to incorporate flood risk, utilising existing water catchment boundaries rather than local government boundaries.

Reviews must consider the likelihood and consequence of the full range of possible flood events, including larger and rarer floods beyond the 1 per cent annual exceedance probability (AEP), as well as future climate projections expected over the full lifecycle of development. This state-led approach will provide planning settings that better consider the local context, rather than the current one-size-fits-all approach which only considers the 1 per cent AEP in any area.

Prioritise a risk-based approach

The Insurance Council encourages the NSW Government to take a risk-based approach to land use planning for flood and other extreme weather events to protect lives and properties, and for Government to provide clear direction on where homes can and cannot be built and where mitigation is required.

The threshold of acceptable risk needs to be central to planning decisions, and the consequence of extreme weather, not just the probability, needs to be taken into consideration. The NSW Government should prioritise development in areas of negligible-risk and low-risk to extreme weather for new dwellings, noting the probability of a hazard occurring and the potential impact of that hazard on property and life as part of the development of regional plans. Housing development in areas prone to extreme weather events, including high flood risk, should not be permitted.

Furthermore, the capacity to accommodate new dwellings should be understood before the setting of housing targets for local governments. Councils should provide input into the strategic planning at the catchment level and receive direction from the State on where housing should not be permitted as part of the development of regional plans.

Better Understanding of Risk

The Insurance Council urges the Government to identify and resource areas that require further flood studies to better understand and manage the risks of flooding. These studies must consider the likelihood and consequence of the full range of possible flood events, and consider the local context, including geography, demography and community, utility and evacuation infrastructure. All local council flood mapping should be centralised at a state level and made available to all levels of government (including Federal), industry and the public.

Mitigation measures

The Insurance Council encourages the Government, where appropriate, to commit to mitigation infrastructure before housing targets are given to councils. The implementation of appropriate risk mitigation measures plays an important role in reducing risk faced by householders, businesses and organisations, including the risk to both physical property and personal safety. We acknowledge that governments and developers have invested large amounts of time and money into developments that could be potentially paused while risk is being mitigated, and that there is pressure to deliver more housing across the State. However, the protection of life and property needs to be the primary focus.

Refine Government messaging around risk

The Insurance Council supports greater education of residents to help them better understand the likelihood and impact of extreme weather events, including flood. Presently, NSW policy requires new housing not to be located where there is a 1 per cent AEP flood level. Education is needed on the meaning of “1-in-100-year flood” risks. It does not mean that a property floods every 100 years. Instead, it means there is a 1 per cent chance of flooding occurring yearly. This means it is more likely than not (50.3%) that a property will flood at least once in 70 years.³

Priority Area 2 – Resilience in the National Construction Code

Strengthening our building codes and standards is a key policy lever that needs to work alongside improved land use planning to mitigate the risks posed by climate change. More frequent and severe extreme weather events mean we must design and construct stronger new homes that are both more resilient and durable.

Fundamental to achieving this is embedding the principle of resilience in the National Construction Code (NCC), along with initiatives to lift building practitioner skills and strengthen supervision of building and construction.

³ Climate Change Impact Series: Flooding and Future Risks, Insurance Council of Australia
[Climate Change Impact Series: Flooding and Future Risks \(insurancecouncil.com.au\)](https://www.insurancecouncil.com.au/Climate-Change-Impact-Series-Flooding-and-Future-Risks)



The NCC is developed by the Australian Building Codes Board (ABCB) with consideration of issues of building design, construction, performance and liveability that are the minimum necessary to achieve health and safety, amenity and accessibility, and sustainability. It is of significant concern that the NCC is not required to consider the resilience of buildings in the context of a changing climate.

A new report from the Insurance Council has found strengthening the NCC could save an estimated \$4 billion a year. The ICA commissioned the analysis from the Centre for International Economics (CIE) and the report outlines that extreme weather costs to homeowners will double by 2050, as events become more severe or more frequent because of climate change. It found strengthening the NCC to require that new homes are made more resilient to extreme weather could reduce average annual building costs by an estimated \$2 billion per year for cyclones, \$1.475 billion per year for floods, and \$486 million per year for bushfires. It also makes clear that reforming state and territory planning rules will be essential to preventing new homes being built in high-risk areas.

The New South Wales Government, via its representation at the Building Ministers' Meeting and on the ABCB, should continue to support amendments to the NCC and relevant Australian Standards that prioritise building resilience and considers current and future climate projections.

Priority Area 3 - Investment in Resilience Infrastructure

Improved land use planning decisions that take into account the risks caused by climate change need to occur in conjunction with ongoing investment in community-level flood mitigation and resilience measures, such as improved early warning systems, flood levees that reduce risk and buy-backs as well as home retrofit pre-emptive buy-back programs to better protect homes and communities particularly those living in high-risk environments.

Analysis⁴ conducted in 2022 by actuarial consultancy Finity for the Insurance Council identified a range of resilience measures that would provide significant returns on investment by better protecting communities from and lowering our risk exposure to extreme weather. These include wet flood proofing existing homes, early warning systems for bushfires and floods, better fuel reduction measures, and a mitigation fund for local projects like levees and seawalls. This analysis found that a \$232 million investment in New South Wales over five years would deliver more than \$5.6 billion in returns, an ROI of 24.

The Insurance Council encourages the NSW Government to take advantage of Federal Government investment of \$1 billion over five years on resilience measures to significantly increase and expand its own investment in community and household protections (noting the Insurance Council is calling on the Commonwealth to build on the five-year resilience funding announced in the October 2022-2023 Budget to move disaster resilience funding to an indexed ten-year rolling program). We encourage the NSW Government to increase its investment in mitigation infrastructure to minimise risk, and to allocate greater funding levels to its Resilient Homes Program which is a welcome initiative for the Northern Rivers region. This program provides valuable lessons that should inform application of similar programs across the state and so we encourage the NSW Government to fund this as a permanent program to cover a greater number of high-risk areas of NSW.

⁴ <https://insurancecouncil.com.au/wp-content/uploads/2022/02/220222-ICA-Election-Platform-Report.pdf>

The NSW Government's 2023/2024 budget allocation of \$150 million to establish the Community Restoration Flood Fund to support disaster impacted communities in the Northern Rivers and Central West is necessary and welcome. However, given the significant investments needed to provide ongoing support to disaster impacted communities in the Northern Rivers and Central West, it is imperative there is strong oversight provided by Government to ensure these funds are spent effectively and targeted at the areas of highest need.

Priority Area 4 – Improving Competence and Compliance

While there have been commendable efforts to change industry practice in recent times, failure to comply with the technical requirements of the NCC remains a major problem in New South Wales, with the Building Commissioner recently finding 39 per cent of strata buildings had experienced serious defects in the common property.⁵

A 2021 report by the Centre for International Economics, commissioned by the ABCB, highlighted that up to 72 per cent of residential properties in Australia have defects with an estimated cost of \$2.5 billion per annum. The report also highlighted that the full economic impact could be much worse, citing the example of the Opal Towers building in Western Sydney, where the cost of defects was assessed at \$1 million, however, the full remediation cost exceeded \$27 million.

To remedy these challenges, the NSW Government must continue to action the recommendations of the *Building Confidence Report* including nationally consistent requirements for the registration of building practitioners, their enhanced education and training, greater rigour in the certification of design and construction, and improved enforcement.

Priority Area 5 – Improve Data

The development of a robust, national hazard database that streamlines existing national, state and territory datasets and that is accessible to all levels of government, industry and the Australian public can play a critical role in improving and standardising our understanding of climate risk and how we prepare for it.

The NSW Government should work with other jurisdictions and the Commonwealth to update, standardise and make publicly available climate hazard data, considering long-term time horizons and prioritising the high impact perils of flood, bushfire, cyclone and coastal erosion. This data should consider all possible perils to help establish a national public baseline that can better inform land use planning, building codes and standards and understanding of current and future risk.

There is also an opportunity for the NSW Government to engage with the Federal Government to implement outcomes from the Hazard Insurance Partnership which is an initiative funded by the Commonwealth to better target mitigation investment to help improve insurance affordability over time. The Insurance Council encourages the State to draw on robust, streamlined national hazard data

⁵ A Stronger NSW: Policy Recommendations for the next NSW Government, Insurance Council of Australia

[A Stronger NSW - Policy recommendations for the next NSW Government \(insurancecouncil.com.au\)](https://insurancecouncil.com.au)



developed by the Federal Government, via the Hazard Insurance Partnership, to help inform and prioritise suitable resilience projects and in the state.

Priority Area 6 – Taxation Reform

The Insurance Council encourages the NSW Government to commit to a number of important taxation reforms to help bring the State in line with other jurisdictions, and in so doing, put downward pressure on insurance costs for households and businesses. New South Wales has the highest rate of insurance taxes in the country with insurance customers hit with both Stamp Duty and the Emergency Services Levy (ESL), meaning New South Wales insurance customers pay 20 to 40 percent in state taxes on top of their premium.

The 2023/2024 NSW Budget confirms that the Government expects to collect \$11.9 billion from insurance customers over the forward estimates – \$5.1 billion through the ESL and \$6.8 billion through stamp duty – which is around \$1 in every \$15 of all forecast tax revenue over the next four years. New South Wales is the only mainland state to still tax insurance customers to fund emergency services, with numerous reports and reviews by past governments calling for the tax to be abolished.

The Insurance Council encourages the NSW Planning and Environment Committee to recommend the immediate abolition of the ESL and the establishment of a fairer way to fund emergency services

Conclusion

Thank you for the opportunity to provide input on the inquiry into the Planning System and the Impacts of Climate Change on the Environment and Communities. Please contact Duncan Sheppard, Senior Advisor, Resilience on 0412 340 934 or dsheppard@insurancecouncil.com.au for further information.

A handwritten signature in blue ink, appearing to read 'Andrew Hall'.

Andrew Hall
Chief Executive Officer