



Mr Andrew Colvin AO APM
Independent Review of Commonwealth Disaster Funding
National Emergency Management Agency

By email: disasterfunding@deloitte.com.au

Dear Mr Colvin

Thank you for the opportunity to provide feedback to the Independent Review of Commonwealth Disaster Funding.

The NSW Small Business Commissioner (the Commission) is an independent statutory office of the NSW Government. It provides advice, advocacy and affordable dispute resolution services to small businesses across NSW.

Overlapping disasters

The frequency and severity of natural disasters in Australia have significant consequences for small businesses and local economies. Some of the impacts small businesses have experienced in recent disasters in NSW include damaged and destroyed assets, loss or extended absence of staff, mental health impacts, severe disruption to operations and reduced revenue.

Navigating the recovery process can be overwhelming for small businesses who can face many challenges in sustaining their operations and/or reopening. Small business recovery generally is required to occur concurrently with their employees' recovery, who may have been individually impacted, and that of the broader local community. This can lead to a range of competing needs and priorities.

Small businesses in NSW have endured overlapping disasters with drought, bushfires, floods, storms and COVID-19 occurring over the past several years. During this time the Commission has provided support to small businesses and worked with government agencies to aid in the response and recovery. This submission is informed by the Commission's work supporting small businesses through natural disasters and other disruptions.

The need for clear and consistent eligibility criteria and determinations

To reduce confusion, eligibility criteria for support packages should be simple and expressed in terms that small businesses understand. For example, eligibility for an earlier bushfire support package referred to 'direct' and 'indirect' impacts. Many small businesses did not understand these terms or why this was a distinction in eligibility. This led to confusion and frustration for impacted small businesses. Recent experience with COVID-19 grants suggests a need for processes to consider businesses that may be typically excluded due to the eligibility guidelines even though they have an equivalent need or compelling case for support. Eligibility criteria for financial supports should be periodically reviewed to ensure deserving businesses can access required support.

Significant state and federal financial assistance have been provided to small businesses in response to recent natural disasters and disruptions. During this time there has been some evolution in threshold requirements for natural disaster assistance. This in part reflects the cumulative impact of COVID-19 and natural disasters.

We suggest it may also be timely to examine the suitability of agreed protocols, principles, and thresholds for access to small business financial support in the form of grants and loans. This

consideration might extend to ensuring arrangements for grants and loans following natural disasters are fit for purpose, are appropriately codified, have suitable evidentiary requirements, and are consistently applied.

Existing business advisor networks can play an important role in communicating and providing technical information about grants. Professional accounting associations have strong connections and links to small businesses given their professional relationship and role as key business advisors. Their guidance can assist in ensuring grant programs do not create unnecessary complexity or confusion for small businesses. Online accounting package providers such as MYOB, XERO and QuickBooks have a large number of small business customers and provide them with information and updates.

The Commission supports a framework for natural disaster assistance that establishes clear and transparent requirements and expectations about when financial supports will be activated. This supports fair and equitable distribution of funding across different natural disasters and regions. It also supports businesses to plan and ensure relief is concentrated to where it is most needed.

Indirectly impacted businesses and the need for consistent metrics

There appears to be some inconsistency in funding determinations for small businesses indirectly impacted by natural disasters or for smaller communities that receive insufficient or less funding for disaster support even when the impacts of the disaster are severe or in some instances more severe on impacted business.

There are many significant indirect impacts small businesses face in the event of natural disasters leaving them unable to operate. This can also be the case in circumstances where they have not experienced any direct damage. For example, many small businesses in locations unaffected by the 2019/20 summer bushfires experienced loss of trade due to road closures in other locations. Costs related to physical damage to property may be dwarfed by unavoidable costs (including salary and wages, rent, interest repayments and other outgoings) incurred while a business is unable to operate.

Smaller communities have also experienced insufficient relief and support where businesses have faced indirect impacts. For example, the lengthy road closures in Kangaroo Valley left the community suffering for an extended period with local businesses reporting decreases in turnover of around 80 per cent. Flood-impacted small businesses and not-for-profits in Kangaroo Valley could apply for grants of \$10,000 and while this was welcomed, many small businesses expressed this was not enough. Further, some areas of NSW that faced severe indirect impacts have also experienced being left out of the 'defined disaster area' list resulting in an absence of relief and support. For example, when grant funding was expanded into additional areas such as Kangaroo Valley, areas such as Hawkesbury were not included in the list of eligible areas. Many Hawkesbury businesses were indirectly affected by the floods for a variety of reasons such as customers not being able to enter the area to spend money or trade businesses not being able to access roads to get their jobs done. Hawkesbury small businesses who did not have insurance could apply for up to \$50,000 of grant funding, however, had to provide evidence of direct damage, leaving businesses with indirect impacts without relief and support.

The Commission has received representations from businesses outlining the significant indirect impacts that are currently faced by communities while receiving no support. The Wolgan Valley community continue to suffer severe indirect impacts due to heavy rainfall and flooding in 2022 that resulted in landslides and road closures. Representatives of local business located within Wolgan Valley have advised that financial support is not available to them as they were not directly impacted by the natural disaster.

The need for consistent metrics is also evident and the Commission suggests reviewing the current framework to ensure smaller affected communities and those suffering indirect impacts are not only included in potential funding discussions but are provided with support that is proportionate to the damage suffered regardless of community size.

Insurance

The Commission has both heard and received representations from small businesses reporting increasing barriers and challenges when attempting to obtain insurance. This includes some businesses with uninsurable assets (such as premises located in a flood zone).

The decline in insurance affordability and accessibility is a growing concern for small business. Care therefore needs to be taken in structuring support packages to ensure they do not discourage small businesses to take up insurance and/or retail cover where it is available or result in a further decline in insurance affordability or accessibility.

Disaster grants and financial supports frequently indicate it is only available to small businesses without insurance coverage for losses. While it would be inappropriate for small businesses to receive additional financial support where they will receive an insurance pay-out, there are also real concerns that the insurance market may become even more limited or volatile on account of businesses and households electing not to insure and relying on future or potential Commonwealth and State financial assistance.

While it is reasonable to target financial support to uninsured businesses, the provision of grant funding and insurance pay-outs run on different timeframes. Financial assistance programs should be suitably designed to cater to these businesses while at the same time prioritising the importance of small businesses retaining insurance coverage. There would also appear to be a need to consider the broader sustainability and affordability of the insurance market.

Similarly, consideration should be given to directing available funding and resources to support both direct and indirect loss where insurance is either not available or would be unfeasible given cost or limitations on potential insurance claims.

For example, the disaster recovery small business grant was introduced to provide relief to small businesses and not-for-profits in NSW that had been directly impacted by storms or floods from August or September 2022. This grant contained eligibility criteria that excluded businesses who had received or were entitled to receive the expenses they were claiming under an insurance policy.

The Commission is also aware of reports that insurers have been overwhelmed by requests from grant applicants seeking a letter from their insurer confirming they are not covered. For example, with the recent floods, grant applicants were required to indicate whether they had any business insurance. If they answered 'yes', even if the type of insurance was irrelevant to their circumstances, they were required to obtain a decline letter from their insurer to make a claim. This practice has the potential to delay payment, contribute additional complexity to grant applications and may discourage small businesses from properly ascertaining their rights under existing insurance policies.

Further, the Commission notes the potential difficulty in obtaining insurance for indirect losses suffered as a result of natural disasters. Given the severity of indirect impacts many small businesses have faced and continue to experience, the Commission encourages extensive exploration of how funding programs can be developed to give greater weight to indirect impacts of natural disasters, particularly where insurance may not be available or practical.

The Commission would also welcome further exploration of how government programs can be designed to avoid perverse incentives that may further erode the sustainability and affordability of insurance coverage. This may include establishing an insurance database that provides information on the insurance status of every commercial and residential property in NSW as an additional integrity measure. This database would assist in processing grants but importantly inform future policies decisions regarding planning, development and broader policies impacting insurance affordability and availability.

Inconsistencies in cross border funding

There are a number of local government areas that border NSW and another state, that have significant ties to both states. This can lead to inconsistencies in funding. For example, a small business may be located in a bordering area such as Albury, but the small business owner may reside in Victoria. Similarly, given their location they often rely on business from customers from both NSW and Victoria.

Their unique location, however, has presented discrepancy issues when disasters occur, and funding is provided. For example, Victoria provided small business and not-for-profit organisations that suffered significant damage to their assets and/or significant loss of income due to floods with concessional loans of up to \$250,000. NSW provided a similar program, however, provided concessional loans of up to \$130,000. This meant that bordering areas would receive significantly less funding than their neighbours just on the other side of the Victorian border.

Given the Australian Government provides funding under the joint Australian Government-State cost sharing disaster arrangements to help them with relief and recovery costs, there may be opportunities to structure guidelines around the funding to better support cross border communities. The Commission encourages further exploration and consultation of cross border relief strategies for those local government areas that border multiple jurisdictions. This will ensure those areas are not disadvantaged due to which side of the border they fall on.

Thank you for the opportunity to make a submission. If you require further information, please contact Megan Bennett, at either megan.bennett@smallbusiness.nsw.gov.au or (02) 9372 8767.

Yours sincerely

Chris Lamont
Commissioner
NSW Small Business Commission

Date: 04/08/23

