

5 June 2014

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Natural Disaster Funding Arrangements
Productivity Commission
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Dear Sir/Madam

**Hunter Councils Submission to the Australian Government Productivity
Commission Inquiry into Natural Disaster Funding Arrangements**

Thank you for the opportunity to provide a submission to the Inquiry into Natural Disaster Funding Arrangements.

Hunter Councils represents eleven urban and rural Councils in the Hunter region of NSW. These Councils are:

- Cessnock
- Newcastle
- Lake Macquarie
- Port Stephens
- Maitland
- Dungog
- Singleton
- Muswellbrook
- Upper Hunter
- Great Lakes
- Gloucester

The Hunter's Councils have worked together for many years to ensure co-operation, collaboration and advocacy on issues and policy that impact the Hunter region. This submission highlights a number of issues relating to Natural Disaster funding that may or will affect Council's within the Hunter region. These include:

1. The sustainability and effectiveness of current arrangements for funding natural disaster mitigation, resilience and recovery initiatives
2. The risk management measures available to and being taken by asset owners
3. How to ensure the right incentives are in place to support cost effective decision making

Further details are provided below on each of these areas.

1. The sustainability and effectiveness of current arrangements for funding natural disaster mitigation, resilience and recovery initiatives

The major issues identified in the Paper that are relevant to the Hunter's Councils are:

- There has been a large increase in the amount of natural disaster funding required in recent years;
- The projected annual economic costs of natural disasters are expected to rise from \$6 billion in 2012 to \$12 billion in 2030 and \$23 billion in 2050.
- The Paper identifies four categories for Natural Disaster Relief & Recovery Arrangements (NDRRA) (A, B, C & D). Community infrastructure is included in category B which comprises 90% of the funding. Councils are responsible for the majority of community infrastructure.

The Paper discusses natural disaster funding and a proposed limiting or reduction in commonwealth costs in the future. Hunter Councils is concerned about any potential shift in costs to local government which would impact on community funding and service levels. Hunter Councils believes any reduction in the natural disaster funding will have a negative effect on the sustainability and effectiveness of local government.

The existing natural disaster arrangements tend to focus on recovery and don't discuss mitigation and resilience. In NSW the Roads & Maritime Service (RMS) provide guidelines on the restoration of assets to their original condition prior to the natural disaster but this does not include the funding of "betterment". NSW Public Works (who administer claims from Councils) guidelines say "Additional costs incurred by councils beyond that level in restoring an asset to a higher standard (improvement or betterment) will be borne by councils." Future natural disaster funding arrangements needs to have options that includes betterment where it will improve asset resilience and decrease likely future natural disaster costs. A nationwide cost/benefit assessment framework should be developed to assist in this aspect.

2. The risk management measures available to and being taken by asset owners

Hunter Councils' risk management team is made up from all member councils. The function of the team and the individual risk management officers from each Council have developed systems to manage natural disaster emergency responses and recovery. The role of risk management officers is closely linked with Councils' insurers to ensure community facilities are maintained while limiting the risk.

Natural disaster funding has filled the financial gap that insurance does not provide. For example flooding of Council community facilities is common in significant rain events as these facilities are often built on land with no other development capability (flood prone), such as parks or sporting fields. Councils' insurances generally will not cover "flood damage".

The Inquiry has been asked to develop findings on risk management measures available to and being taken by asset owners. It is understood that the respective

Councils in the Hunter region have developed asset management and risk management plans to help manage assets. A coordinated Asset Management Plan improvement scheme would perhaps be worthwhile considering.

3. How to ensure the right incentives are in place to support cost effective decision making

The Paper raises the issue of insurance and the effect of NDRRA being an incentive for State and Local Government not to insure assets. This is not practical or the case in most instances. Councils' insurance costs are already very high due to Councils having very large asset portfolios. Asking or considering that Local Government is to or should take on more risk or insurance costs is not appropriate.

This situation becomes more problematic as the distance from major population areas increases, in particular rural Councils with very large asset bases (especially roads) and a small population to fund the work. Continuation of natural disaster funding is critical for country areas of Hunter Region and generally across Australia.

Positive incentives that could be put in place to ensure cost effective decision making include:

- Encourage betterment to improve natural disaster resilience.
- Eliminate existing funding policies that will only fund replacement to the existing asset standard.
- Assist in asset management planning to improve long term resilience.

Thank you for the opportunity to make this submission to your Inquiry.

Roger Stephan

**CHIEF EXECUTIVE OFFICER
HUNTER COUNCILS**