

# **Draft Submission to the Productivity Commission Inquiry into Natural Disaster Funding Arrangements**

June 2014

## Introduction

Local Government NSW (LGNSW) is the peak body for councils in NSW. LGNSW represents all the 152 NSW general-purpose councils, the special-purpose county councils and the NSW Aboriginal Land Council.

LGNSW is a credible, professional organisation representing NSW councils and facilitating the development of an effective community-based system of Local Government in NSW. LGNSW represents the views of councils to NSW and Australian Governments; provides industrial relations and specialist services to councils; and promotes NSW councils to the community.

LGNSW welcomes the opportunity to make an initial submission to the Productivity Commission Inquiry into Natural Disaster Funding Arrangements.

LGNSW is a member of the Australian Local Government Association (ALGA). ALGA is a federation of the Local Government Associations (LGAs) of each state and territory, representing the views of Local Government at the national level. LGNSW and the other LGAs collaborate with ALGA in the preparation of submissions and other representations at the national level.

ALGA has made a very comprehensive submission to the Inquiry and this submission is fully endorsed by LGNSW. It accurately represents the major issues and concerns of Local Government in NSW. As such, the LGNSW submission will limit itself to any additional issues, information specific to NSW and points of emphasis.

We also encourage the Productivity Commission to give due consideration to submissions made by individual councils, Regional Organisations of Councils and other Local Government based bodies such as the Floodplain Management Association (FMA).

## General

All councils in NSW play a key role in all aspects of disaster and emergency management at the local and regional level. NSW has a framework of plans, guidelines, and committees for Planning, Preparation, Response, and Recovery (PPRR) at state, district, and local levels which prescribe the role, responsibilities and arrangements for each agency involved in emergency management, including councils. In addition to statutory or regulatory responsibilities and despite limited means, councils also play a major role in providing support to volunteers and charities.

LGNSW is actively engaged at the state level through membership the State Emergency Management Committee (SEMC), the State Disaster Recovery Advisory Group (SDRAG) and numerous other committees and working groups managed by the Ministry for Police and Emergency Services (MPES) and specific combat agencies (e.g. Rural Fire Service).

## NDRRA and Australian Government Funding

This Inquiry, together with the recommendations of the recent report of the National Commission of Audit, raise concerns that the Australian Government is solely being driven by the objective of reducing its financial exposure to natural disasters. LGNSW do not consider cost cutting to be an appropriate basis for the development of a natural disaster funding framework.

Many of the cost cutting measures alluded to would simply result in cost shifting from the Australian Government to State and Local Government. This is untenable given the high degree of Vertical Fiscal Imbalance that exists in the Australian taxation system.

LGNSW maintains that it is essential that the Australian Government maintain its financial support for natural disaster mitigation, resilience and recovery. It is absolutely critical at the local level. As noted above, Local Government does not have the financial capacity to adequately deal with natural disasters without substantial support from the Australian Government.

However, improved efficiency and long term effectiveness are legitimate objectives, independent of cost outcomes. Conceivably, this would involve increased Australian Government spending on mitigation measures in the medium term that result in long run savings. This approach is supported by a research paper produced by Deloitte Access Economics (2013) which found that annual expenditure on mitigation and resilience of \$250m could potentially generate budget savings of \$12.2 billion for all levels of government and reduce natural disaster costs by more than 50 per cent by 2050.

## **NSW Local Government Financial Situation**

The subject of Natural Disaster Funding Arrangements needs to be considered in the overall financial context of Local Government in NSW.

The financial capacity of NSW councils to maintain existing services and infrastructure is already stressed. In many instances councils are already being forced to cut services and defer critical infrastructure expenditure.

The recent Local Government Infrastructure Audit undertaken by the Department of Premier and Cabinet, Division of Local Government in 2013 found an infrastructure backlog of \$7.4 billion at 30 June 2012.

The NSW Treasury Corporation's assessment of the financial sustainability of NSW councils also undertaken in 2013 confirms these findings. The assessment indicates that existing revenue restrictions, including rate pegging, severely hamper council's ability to fund current and future levels of service and rates the financial sustainability of 39 (25.7%) of the 152 councils as weak or very weak. It finds that the total infrastructure backlog for NSW Councils had increased from \$5.8 billion in 2009 to \$7.2 billion in 2012 with the main component of the infrastructure backlog in public roads (including footpaths and car parks) at \$4.4 billion as at 2012.

Against this backdrop, NSW councils struggle with an increased range of roles and responsibilities resulting from impositions by the State Government and community expectations.

In brief, NSW councils do not have the financial capacity to take on additional natural disaster related costs.

## **Betterment Natural Disaster Relief & Recovery Arrangements (NDRRA)**

LGNSW maintains that increased funding should be directed to mitigation measures, both in advance of disasters where the risks are identified and in the recovery stage. In the latter

instance it is simply negligent to restore essential infrastructure assets to their previous condition if it is known that there is a high probability that the asset will be subject to similar disaster damage in future.

LGNSW remains strongly supportive of the NDRRA Determination 2007 which included essential public asset betterment. In this Determination betterment, in relation to an asset, means the restoration or replacement of the asset to a more disaster-resilient standard than its pre-disaster standard.

Despite the 2007 determination and widespread acknowledgment of the merits of betterment, it is disappointing that there has been negligible funding allocated on this basis.

LGNSW supports change to current arrangements to ensure a much stronger focus on mitigation.

## **Insurance Additional Comments re Proposals Related to the Review**

One aspect relating to the Inquiry is the investigation of the availability and feasibility of insurance for public infrastructure assets such as roads and bridges. While councils generally have adequate insurance arrangements for buildings and other property, they do not as a rule, insure roads and bridges. It is not common practice for governments (local, state or federal) to insure these types of assets anywhere in Australia or anywhere else in the world according to insurance industry experts. Consequently, this type of insurance is not readily available in the commercial market.

This raises a number of issues for Local Government, chief of those being the potentially enormous increase in insurance costs to councils and ultimately ratepayers.

Local Government NSW is concerned that many seem to accept that it is desirable to establish insurance arrangements for council road and bridge infrastructure and therefore reduce reliance on NDRRA funding. At present the Australian Government is sharing the financial risks associated with natural disaster. LGNSW argues this is appropriate given the much wider tax base and ability to spread the risk over a wider geographic area. A reduction in the financial risk borne by the Commonwealth will increase the risks and costs borne by councils (cost shifting). There is not likely to be an overall saving for taxpayers, just a shifting of the burden from federal taxes to local taxes (rates), with those in areas most vulnerable to natural disasters bearing the highest insurance costs.

LGNSW does not accept the conclusion that the NDRRA reduces the incentive for Local Government to take out insurance. As noted previously, Local Government does typically insure buildings plant and other assets with the exception of the road network. The fact that over 50% of NSW council assets are roads and bridges distorts the insurance picture. As has been established, there are quite rational reasons for not insuring the road network that are independent of the NDRRA including the:

- Unavailability of commercial insurance;
- Prohibitive cost if it was available; and
- Geographic inequity.

LGNSW is strongly opposed to any moves that would require Local Government to insure road and bridge infrastructure.

## Responses to Specific Questions

### ***Are there reliable projections of future natural disaster incidence and impacts in Australia?***

There can be no absolute certainty about projections for the future although it would seem that the accuracy and reliability of projections is improving. There is sufficient evidence supporting projections to at least warrant a prudential approach and this means planning and mitigation for the most likely disaster scenario's.

Impacts of climate change, such as increased frequency and intensity of extreme weather events and natural disasters, higher temperatures, or sea level rise, will put pressure on local services and infrastructure, reducing the life of assets, increasing the of whole-of-lifecycle cost, or requiring new infrastructure solutions.

There are a number of potential impacts including:

- Changes in rate of deterioration of transport infrastructure (e.g. local roads, bridges, tunnels) as a result of frequency and severity flooding as well as increased temperature (thermal expansion) and increased solar radiation;
- Damage to infrastructure as a result of increased frequency and severity of bushfires and extreme weather events (all infrastructure types);
- Damage to water supply and sewerage, stormwater and drainage infrastructure as a result of increased frequency and severity of flooding (councils in regional NSW, outside the area of operation of Sydney Water and Hunter Water, are water supply and sewerage service providers);
- Reduced security of town water supplies in regional NSW as a result of decreases in surface water run-off requiring additional supply augmentation and infrastructure solutions for alternative supply solutions (e.g. pipelines, groundwater);
- Negative impacts on water quality and water supply security as a result of increased temperature, (e.g. algae blooms) and increased occurrence of bushfires;
- Damage to coastal infrastructure and property as a result of increased storm surges and sea level rise (all infrastructure types) including housing and a need for increased expenditure on sea defences.

Many NSW councils are already taking significant steps to incorporate climate change into day-to-day operations, strategic planning, emergency management planning and the land use planning and development assessment process. LGNSW has been managing the project "Climate Change Action Planning for Local Government" to assist NSW councils prepare for and address climate change in a strategic, risk-based manner. This approach will help mitigate disasters and improve resilience.

### ***Are the 'betterment' provisions in the NDRRA effective in encouraging recovery that develops resilience and reduces the costs of future disasters?***

As noted previously, the current arrangements have been largely ineffective.

### ***Are the payments to farmers and small businesses through NDRRA categories B and C justified? Are they set at appropriate levels?***

NSW Councils have generally found these payments important for assisting community recovery and alleviating hardship.

***How frequently has Category D ('exceptional circumstances') assistance been used? What is this assistance used for and how have decisions been made?***

This provision appears to have been rarely used, at least in recent years in NSW, although it does have the merit of allowing anomalies to be addressed where they arise.

***What impacts do the structure and design of the NDRRA have on the incentives of households and business to insure their property? Is non-insurance and underinsurance by households and businesses against natural disaster risks a significant problem?***

Industry research and the experience following natural disasters indicates a that there is a significant degree of underinsurance, with non-insurance being a lesser problem. It is not clear that the incidence of under insurance is directly related to the operation of NDRRA. A strong correlation would indicate a degree of consumer sophistication that is unlikely. Anecdotal evidence would suggest that the incidence of underinsurance is more likely the result of factors such as high insurance costs, a lack of awareness of real risks and ignorance of the real costs of repair or rebuilding.

***Do local governments in particular have appropriate capabilities to undertake cost-benefit analysis of mitigation activities?***

The capability would vary between councils, with many having in house capacity and others who would require outside assistance. The assistance of state agencies is important for the latter.

***What mechanisms are available for businesses and communities to contribute to the costs of mitigation and recovery, where appropriate (for example, through the use of property-specific charges to fund some mitigation works)?***

The *Local Government Act (NSW) 1993* makes provision for the application of Special Rates which may be applied for mitigation purposes:

s495 Making and levying of special rates

- (1) A council may make a special rate for or towards meeting the cost of any works, services, facilities or activities provided or undertaken, or proposed to be provided or undertaken, by the council within the whole or any part of the council's area, other than domestic waste management services.
- (2) The special rate is to be levied on such rateable land in the council's area as, in the council's opinion:
  - a) benefits or will benefit from the works, services, facilities or activities, or
  - b) contributes or will contribute to the need for the works, services, facilities or activities, or
  - c) has or will have access to the works, services, facilities or activities.

## **Conclusion**

LGNSW's initial submission emphasises that Australian Government support for natural disaster funding is critical to councils. LGNSW will support measures that improve the efficiency and effectiveness of natural disaster funding but will oppose measures designed solely to reduce the cost exposure of the Australian Government. LGNSW looks forward to making further contributions to the Inquiry through the forthcoming meeting in NSW, the Roundtable and future submission.