



Municipal Association of Victoria

Submission to Productivity Commission inquiry into natural disaster funding arrangements

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Executive summary

The MAV and Victorian councils welcome the Productivity Commission inquiry into natural disaster funding arrangements. Councils play a key role in emergency management in Victoria through undertaking disaster risk mitigation, working with communities to build resilience and coordinating relief and recovery at the local level.

Victorian councils view the inquiry into disaster funding as an opportunity to investigate some of the issues with the current arrangements; for example thresholds and eligibility criteria regarding essential public assets, day labour and betterment.

The terms of reference and issues paper also indicate that more substantial reforms regarding the overall quantum of funding, incentive structures and an absolute shift of funding from relief and recovery to risk mitigation may be considered. The MAV recommends careful consideration when investigating such reforms.

Council decision-making and activity is constrained by limited financial resources. Councils' financial resources must be allocated among competing claims and priorities as well as the expense of local government itself.

Although councils have a degree of discretion and powers to implement policy at a local level in certain areas (e.g. adoption of local laws and the Municipal Strategic Statement), in most instances councils are subordinate political bodies required to implement legislation and policy set a higher level.

Victorian councils' key emergency management responsibilities stem primarily from the Emergency Management Act 1986 and the Emergency Management Manual Victoria which expands upon responsibilities stated in legislation. Aside from these two documents there are at least 20 other Victorian acts that prescribe some form of emergency management responsibility to councils. In addition to these legislated responsibilities councils also invest significantly in natural disaster insurance and undertake risk mitigation measures to protect private and community assets.

Councils have different approaches to managing the financial burden of their increasing emergency management activity depending on their individual capacity, risk profile, recent experience and political will. Councils with low rate-bases often struggle to invest up-front in emergency management planning and staffing, instead focusing their limited budgets on more basic and tangible services with immediate and visible benefits.

Each year the MAV undertakes a desktop review of the financial pressure on Victorian councils. It uses a model that takes account of council debt and major own source revenue

and considers other factors such as rate effort¹, capacity to pay, costs and population growth to assess the financial pressure on individual councils.

The MAV has assessed that there are 17 councils that range between being under moderately high financial pressure to extreme financial pressure in regards to their ability fund the spread of services they provide. The vast majority of these councils are geographically located in areas that are considered to be more prone to natural disasters, especially flood and bushfire.

Overall many councils spend a significant amount of their discretionary budgets on emergency management; to meet legislative responsibilities and mitigating natural disaster risks.

To assist in undertaking some of these responsibilities Victorian councils receive substantial reimbursement for relief and recovery activities from the Commonwealth's Natural Disaster, Relief and Recovery Arrangements. For example, in the 2012 – 2013 financial year 42 councils were assisted, with the median assistance being \$2,129,560 and total financial assistance being \$196,409,000. Some councils also receive grant funding for disaster risk mitigation via the National Partnership Agreement on Natural Disaster Resilience or other programs. Without such funding assistance councils would be unable to meet many of their responsibilities.

The sources of councils' funding and the areas on which it is expended outlined in this submission highlight that councils' capacity to increase the resources they put into emergency management is constrained. A council's capacity for flexibility regarding how they allocate funding between risk mitigation, relief and recovery is limited by their statutory responsibilities and income streams. The source and quantum of the funding streams available to councils also highlight their limited capacity to further internally fund emergency management activities.

These factors must be considered by the Commonwealth when making decisions regarding reforms to natural disaster funding arrangements. Changes to the funding incentive structure, by increasing thresholds or tightening eligibility criteria at the Commonwealth level, or at the State level through a passing down of responsibilities, would likely see limited changes in behaviour by councils. Broadly speaking this is due to the inability of many communities to absorb rate increases and the financial position of some councils that would make it difficult to redirect or reprioritise revenue towards further disaster risk mitigation, relief and recovery. The implications for communities if such measures were to occur are serious and must remain a key consideration in this reform process.

Victorian councils are also keen to ensure the failings of the previous funding arrangements are rectified. Councils have provided many examples of inconsistent application of the Natural Disaster Relief and Recovery Arrangements. In order to ensure the reform to

¹ Establishing whether, based on relative levels of rates per assessment, councils are low or high taxing and therefore whether there is some basis to believe that rates might be able to be increased.

arrangements lead to the best possible outcomes for communities and all levels of government reform options must ensure:

- clear and unambiguous objectives for natural disaster funding arrangements are developed
- funding arrangements provide certainty regarding the level of support available and the rules governing funding availability are transparently and consistently applied
- natural disaster risk mitigation, relief and recovery costs are allocated to those most able to meet defined responsibilities
- the significant benefits of less quantifiable risk mitigation and recovery measures such as resilience programs and community and individual recovery initiatives are recognised, and
- transparent and deliberate transitional arrangements that take into account the time required for risk mitigation measure to be implemented and become effective.

1 Introduction

The MAV and Victorian councils welcome the Productivity Commission inquiry into natural disaster funding arrangements. Councils play a key role in emergency management in Victoria through undertaking disaster risk mitigation, working with communities to build resilience and coordinating relief and recovery at the local level. Victorian councils also receive substantial reimbursement from the Commonwealth's Natural Disaster, Relief and Recovery Arrangements, without which they would be unable to meet many of their responsibilities.

Victorian councils view the inquiry into disaster funding as an opportunity to investigate some of the issues with the current arrangements; for example thresholds and eligibility criteria regarding essential public assets, day labour and betterment.

The terms of reference and issues paper also indicate that more substantial reforms regarding the overall quantum of funding, incentive structures and an absolute shift of funding from relief and recovery to risk mitigation may be considered.

The MAV recommends careful consideration when investigating such reforms. The sources of councils' funding and the areas on which it is expended outlined in this submission highlight that councils' capacity is constrained. Council's statutory responsibilities and income streams provide limited scope to alter the allocation of funding between risk mitigation, relief and recovery. The source and quantum of the funding streams also highlight councils' limited capacity to further internally fund emergency management activities.

These factors must be considered by the Commonwealth when making decisions regarding reforms to natural disaster funding arrangements. Changes to the funding incentive structure, by increasing thresholds or tightening eligibility criteria would likely see limited changes in behaviour by councils due to the inability of many communities to absorb rate increases. The financial position of some councils would also make it difficult to redirect or reprioritise revenue towards further disaster risk mitigation, relief and recovery. The implications for communities if such measures were to occur are serious and must remain a key consideration in this reform process.

2 Principles for natural disaster funding arrangements reform

The following principles should be taken into account when considering natural disaster funding reform options.

Communities should not be disadvantaged by the changes to natural disaster funding arrangements.

Councils already play a substantial role in risk mitigation, relief and recovery and have limited scope to further increase the resources they put towards emergency management. Councils should not be expected to fill a funding gap.

Funding arrangements should provide certainty regarding the level of support available. The rules governing funding availability should be transparently and consistently applied.

Natural disaster risk mitigation, relief and recovery costs should be allocated to those most able to meet defined responsibilities. The review should also recognise the implications of placing financial obligations with agents that are unable to effectively undertake such responsibilities.

The significant benefits of less quantifiable risk mitigation and recovery measures such as resilience programs and community and individual recovery initiatives should be recognised.

Not all risks can be mitigated effectively and future arrangements should recognise that there will always be a role for relief and recovery.

Objectives of disaster funding are focused on positive and equitable community outcomes, not narrow economic outcomes.

A comprehensive review of natural disaster funding arrangements should include the consideration of climate change and climate change adaptation.

Transparent and deliberate transitional arrangements that take into account the time required for risk mitigation measures to be implemented and become effective should be considered.

3 The nature of Victorian councils

3.1. Overview

Councils have a number of characteristics which need to be considered in assessing the role they play in Victoria's emergency management regime:

- councils are democratically accountable to their local electorate;
- there is no one-size fits all approach to local community governance;
- the powers of councils are geographically limited;
- there are two types of council decision-making: political and administrative;
- councils have limited resources;
- councils are dependent on the technical expertise of other agencies;
- councils must often weigh competing considerations; and
- councils are subordinate bodies required to implement government policy.

The legal basis for local government and each of these characteristics is discussed below.

3.2. Legal basis

Local government is recognised in *Part IIA* of the Victorian *Constitution Act* 1975 as a distinct and essential third tier of government consisting of democratically elected councils. Under Section 74 of the *Constitution Act* these democratically elected councils are to ensure 'the peace, order and good government of each municipal district'. The powers, duties and functions of councils are set out in the *Local Government Act*. The primary objective of councils is to achieve the best outcomes for the local community having regard to the long term and cumulative effects of decisions. In doing so, councils must have regard to the following objectives:

- promotion of the social, economic and environmental viability and sustainability of the municipal district;
- efficient use of resources to best meet the needs of the local community;
- improvement of the overall quality of life of people in the local community;
- equitable imposition of rates and charges; and
- transparency and accountability in councils' decision-making.

3.3. Councils are democratically accountable to their local electorate

Councils are representative bodies democratically elected to manage local issues and to establish and plan for their local communities' needs. In this respect, councils must be responsive and democratically accountable to the needs and expectations of the people within their electorate.

3.4. There is no one-size-fits all approach to local community governance

While there is a degree of commonality in the provision of services in accordance with the *Local Government Act* across the 79 councils in Victoria, each municipality varies in size, population, natural environment, community preferences, rate base and resources. There

also can be significant differences between areas within the one municipality. As a result, there is a high degree of diversity in responding to varying local needs and expectations.

3.5. The powers of councils are geographically limited

The constitutional basis of local government means that in the exercise of their powers they are geographically restrained. They may engage with and co-operate with neighbouring municipalities in the exercise of their powers, but ultimately those powers are to be exercised only for and on behalf of the people residing within the geographical boundaries of the municipality.

3.6. Councils have limited resources

Councils' financial resources are finite and must be allocated among competing claims and priorities as well as the expense of local government itself. The activities of councils are diverse and extensive. They include infrastructure services, traffic and street management, maintenance of local roads and bridges, land management, waste management, family and community services, aged services, recreation and culture and animal management. In applying their resources, Victorian councils must do so in accordance with 'Best Value Principles' under the *Local Government Act*. These principles provide that councils must take into account, amongst other factors, community expectations and values, the balance of affordability and services to the community, and the potential environmental advantages for the municipality.

As discussed above, each council is distinct, providing certain 'core' services in common with other councils, and other services that respond to particular local circumstances. Councils fund their services principally from rates levied on the basis of property values. While there are variations among different councils, rates on property constitute approximately 56 per cent of council income. The remainder of council income is derived from general and specific government grants, fees, charges and fines and investment income.

3.7. Councils rely on the technical expertise of other agencies

Victorian councils generally have limited emergency management technical expertise, therefore they rely in significant part on the technical expertise of other stakeholders in emergency management, in particular the Country Fire Authority (CFA), Victoria State Emergency Service (VicSES), Metropolitan Fire Brigade (MFB), Victoria Police and the Department of Environment and Primary Industries (DEPI).

3.8. Councils must often weigh competing considerations

Decisions or activities in relation to emergency management also often tend to be interrelated with other issues including land use planning, road safety, conservation values, environmental biodiversity, ecosystems, aesthetic considerations, asset management, pressures for commercial development, and the varying attitudes of residents to emergency risk.

3.9. Councils are subordinate bodies required to implement Government policy

Although councils have a degree of discretion and powers to implement policy at a local level in certain areas (e.g. adoption of local laws and the Municipal Strategic Statement), in most instances councils are subordinate political bodies required to implement legislation and policy set at a higher level. For example, councils are required to adhere to and implement the State planning policy framework, and the Victoria Planning Provisions ('VPPs'). They must operate within that constraint.

4 Victorian councils' roles and responsibilities in emergency management

4.1. The Victorian emergency management framework

The Victorian emergency management framework is designed to facilitate planning, preparedness and coordination across three components of emergency management: prevention, response and recovery. Following an emergency, there are four recovery environments: the social environment, the built environment, the natural environment and the economic environment.

Victoria's main emergency management arrangements are outlined in the Emergency Management Manual Victoria (EMMV). The EMMV provides guidance to agencies that operate at municipal, regional and state levels for both small and large-scale emergencies. Councils are an integral part of this state-wide planning approach.

4.2. Council responsibilities

Councils' key emergency management responsibilities stem primarily from Part 4 of the *Emergency Management Act 1986* (the *EM Act 1986*), which requires councils to:

- establish a municipal emergency management planning committee (MEMPC) (*EM Act 1986* s21(1))
- facilitate the development and maintenance of the municipal emergency management plan (MEMP) by the MEMPC, for consideration and endorsement by council (*EM Act 1986* s21(4))
- allow the audit of the plan (*EM Act 1986* s21A), and
- appoint at least one municipal emergency resource officer (MERO) to coordinate the use of council resources for emergency response and recovery (*EM Act 1986* s21(1)).

There has been little change to these requirements since the Act was introduced in 1986. However, a reform process is underway in Victoria which is outlined in section 3.13 below.

For the 64 councils covered wholly or partly by the *Country Fire Authority Act 1958* (the *CFA Act*), there are similar requirements that specifically relate to fire planning. These include the appointment a municipal fire prevention officer (MFPO) (s96A), the establishment of a fire prevention committee, and the requirement for the committee to draft a municipal fire prevention plan (s54 and s55A). Additionally the role of the MFPO includes the inspection of hazards and the issuing of fire prevention notices. Notably, the *CFA Act* was amended in 2009 to require councils to consider neighbourhood safer places (NSPs) for use as a place of last resort in bushfire.

For councils in the Metropolitan Fire District, the *Metropolitan Fire Brigades Act 1958* (the *MFB Act*) also requires the appointment of a MFPO for each municipality (s5A) and provides councils with the power to issue fire prevention notices (s87).

Councils also have a wide range of emergency management obligations that result from provisions contained in other Victorian legislation. These include the *Planning and*

Environment Act 1987, the Building Act 1993, the Building Regulations 2006, the Electricity Safety Act 1998, the Public Health and Wellbeing Act 2008 and the Water Act 1989.

4.3. Council responsibilities outlined in the EMMV

Aside from statutory requirements councils also have a range of roles and responsibilities outlined in the EMMV. Many of the responsibilities stated in the EMMV expand upon responsibilities stated in legislation including more detailed guidance on the role of Municipal Emergency Management Planning Committees (MEMPCs).

The EMMV outlines that the MEMPC is responsible for the incorporation of risk reduction strategies into the MEMP, and for carrying out and overseeing risk management. This includes hazard identification, risk analysis, risk treatments, making recommendations and on-going monitoring and review.

Using information from the risk assessment, the MEMPC is responsible for the provision of community education and awareness programs, community involvement and management arrangements.

The EMMV also outlines responsibilities for councils that do not appear in legislation, predominately that councils have the responsibility for coordinating emergency relief and recovery at a local level. This includes:

- initial assessments of impacts on essential infrastructure and services;
- initial relief coordination, including the provision of emergency shelter and operating the relief centre facility, in which they are assisted by other organisations and agencies;
- a lead role in coordinating volunteer efforts after emergencies;
- responsibility for the local management and delivery of recovery services for individuals and communities affected by emergencies, including the coordination of an outreach team;
- working in partnership with DHS to provide information, including community briefings and meetings in the event of a major incident;
- using existing communication networks to communicate relief and recovery information to local stakeholders; and
- ensuring the establishment and resourcing of Community Recovery Committees as soon as possible after the emergency after a significant emergency.

For a comprehensive overview of councils' roles and responsibilities see Appendix 1.

4.4. Emergency management planning at the local level

Despite the multi-agency nature of municipal emergency management planning and the efforts of councils, there is a growing misconception that councils, as the custodians of the MEMP under legislation, are also accountable for delivery of all outcomes and outputs within the plan.

'Municipal Emergency Management Plans' are in fact multi-agency plans for the local government area, with all relevant response, relief and recovery agencies expected to contribute to the drafting and be collectively accountable for the execution of the plan.

Councils do not have the expertise in the various hazards the plans are seeking to address, nor do they have the capacity to carry the planning and preparedness load. Nevertheless, councils are taking steps to build their capacity and address geographical and resourcing constraints.

Increasingly, Victorian councils are working together at the regional and sub-regional level, occasionally supported by some State Government departments and agencies. Councils generally see benefits in working in partnership to increase capacity and develop more consistent approaches to planning and operating arrangements.

4.5. Reform in Victoria

The *Victorian Emergency Management Reform White Paper*, released in December 2012, outlines a number of proposed changes to emergency management roles and responsibilities at the State and local level. Some of the broader governance measures have already come into effect or are due to commence this year. However a number of other proposed reforms that directly affect councils are yet to be realised.

These reforms include:

- Review all legislation that allocates emergency management responsibilities to councils to clarify local government's roles in emergency management
- Develop a new structure of Municipal Emergency Management Planning, including shared accountability for plans and implementation
- Identify hazard leaders and make them accountable for undertaking and implementing hazard specific plans; and
- Support for regional planning and cluster models where councils work together to meet their emergency management responsibilities.

Additionally the White Paper outlines that councils will also have a role in the establishment of community resilience committees and plans that enable local communities to develop comprehensive all-hazards plans in line with municipal, regional and state plans.

The full implementation of White Paper commitments and the progression of the reforms specific to local government in regards to both timing and detail remain uncertain.

5 Councils' emergency management responsibilities - funding and expenditure

The sources of councils' funding and the areas on which it is expended outlined in this section highlight that councils' capacity is constrained. Firstly a council's capacity for flexibility regarding how they allocate funding between risk mitigation, relief and recovery is limited by their statutory responsibilities and income streams. The source and quantum of the funding streams also highlight councils' limited capacity to further internally fund emergency management activities.

Each year the MAV undertakes a desktop review of the financial pressure on Victorian councils. It uses a model that takes account of council debt and major own source revenue, and considers other factors such as rate effort², capacity to pay, costs and population growth to assess the financial pressure on individual councils.

The MAV has assessed that there are 17 councils that range between being under moderately high financial pressure to extreme financial pressure in regards to their ability to fund the spread of services they provide. The vast majority of these councils are geographically located in areas that would be considered to be more prone to natural disasters, especially flood and bushfire.

Councils have different approaches to managing the financial burden of their increasing emergency management activity depending on their individual capacity, risk profile, recent experience and political will. Councils with low rate-bases often struggle to invest up-front in emergency management planning and staffing, instead focusing their limited budgets on more basic and tangible services with immediate and visible benefits for the community.

Where support from the State and Federal governments is available, it tends to be specific, grant-based funding, with little or no on-going funding, leaving councils with legacy systems, infrastructure and services that must be maintained.

These factors must be considered by the Commonwealth when making decisions regarding reforms to natural disaster funding arrangements. Changes to the funding incentive structure, by increasing thresholds or tightening eligibility criteria at the Commonwealth level, or at the State level through a passing down of responsibilities, would likely see limited changes in behaviour by councils. Broadly speaking this is due to the inability of many communities to absorb rate increases and the financial position of some councils that would make it difficult to redirect or reprioritise revenue towards further disaster risk mitigation, relief and recovery. The implications for communities if such measures were to occur are serious and must remain a key consideration in this reform process.

² Establishing whether, based on relative levels of rates per assessment, councils are low or high taxing and therefore whether there is some basis to believe that rates might be able to be increased

5.1. Funding and expenditure from council rates

In early 2012 the MAV surveyed councils to collect detailed data on budgeted emergency management expenditure. The survey excluded any response and recovery related expenditure. To the best of our knowledge, this is the first survey undertaken of councils' emergency management expenditure in Victoria. Over 80 per cent of Victorian councils responded to the survey.

However, the ease with which emergency management expenditure can be extracted from councils' financial systems varies widely. There are a number of reasons for this. Firstly, an officer holding an emergency management role often holds it as an addition to their substantive role, such as local laws or community development, so payroll information can be difficult to precisely extract. Secondly, many works projects that have an emergency management component, such as managing drains and levees, or strengthening bridges for flood mitigation, are embedded in projects for other purposes such as routine maintenance or renewal. Similarly, many councils incorporate emergency preparedness, mitigation and resilience building activity into core service provision. For these reasons results from this survey should be taken as indicative rather than definitive. It's also important to note that the survey excluded any recovery expenditure.

The mean gross expenditure on emergency management was \$1.7 million per council and the mean, net of grants, was \$1.5 million, this could amount to a high proportion of a small council's revenue. There are three broad categories of expenditure from councils' rates and charges revenue (i.e. excluding funding from staffing grants and reimbursements) that account for 86 per cent of emergency management outlays:

- mitigation activities (47 per cent),
- contributions to emergency service organisations (24 per cent)³, and
- staffing costs (15 per cent).

In regards to mitigation activities, this line item is predominantly bushfire mitigation and hazard tree management⁴.

The survey data provide evidence of a correlation between a council's emergency management expenditure and their overall expenditure; however some emergency management line items correlate only moderately with determinants such as the size of the municipal district.

It was apparent through the analysis that both emergency management expenditure and corresponding State and Commonwealth grants for small shires was markedly lower than for

³ Metropolitan councils used to make a statutory contribution to the fire services which accounted for a significant proportion of this item when the survey was undertaken. However, the introduction of the Fire Services Property Levy the metropolitan councils are now treated like any other property owners.

⁴ Hazard tree mitigation activities are driven by a broad spectrum of tree-related hazards including the danger of falling trees and limbs, traffic safety, tree root damage to paths and drainage, and power line clearance for continuity of supply and reduction of a bushfire ignition source.

large shires and other council-types. There is a sense that small shires are under-resourced to such an extent that they have disproportionately less capacity to apply for, or utilise, available State and Commonwealth assistance.

5.2. Funding and expenditure from grants

There are currently two main sources of emergency management specific grants available to Victorian councils: the Commonwealth's National Partnership Agreement on Natural Disaster Resilience and the Victorian Government's Municipal Emergency Resourcing Program.

Councils have received other emergency management related grants in recent years to assist councils with high bushfire risk with the implementation of State policy. For example, in 2010 a number of councils with towns identified as having extremely high bushfire risk received tailored grants to assist with the establishment of Neighbourhood Safer Places.

The 2012/13 Fire Ready Community and 13/14 Resilient Communities grants funded 38 council and community led projects totalling over \$1.4 million and \$733,900 respectively. All of these projects have a solid foundation in contributing to building community resilience specific to disasters. The majority of initiatives are focused around community planning and preparedness, education and awareness raising activities.

National Partnership Agreement on Natural Disaster Resilience

Approved funding to councils from the Commonwealth National Partnership Agreement on Natural Disaster Resilience through the Natural Disaster and Resilience Grants Scheme (NDRGS) is outlined below. Councils must compete for NDRGS funding with a range of other state agencies, not-for-profits and universities. In 2013-14 the pool of funding in the NDRGS was \$4 million.

Table 5.1 – Commonwealth NDRGS funding to councils

Financial Year	Amount
2010-11	\$961,178
2011-12	\$1,928,378
2012-13	\$2,304,386
2013-14	\$1,891,824

Councils rely on these grants to undertake resilience projects that sit outside of their legislative responsibilities or that they could not otherwise afford to undertake. It is also one of the few opportunities councils have to be innovative in emergency management.

NDRGS has also provided the opportunities for smaller municipalities to come together to form 'clusters' for emergency management purposes through seed funding. Clustering allows councils to pool resources and expertise, and undertake 'landscape' (sub-regional)

planning that relates to a risk footprint extending beyond the boundaries of a single municipality.

These grants are also the main source of funding for local flood mapping and flood mitigation infrastructure such as levees, with Commonwealth funding for flood related NDRGS projects usually being matched equally by the State Government and the council involved.

Municipal Emergency Resourcing Program

The State currently provides funding to the 64 councils covered by the CFA Act through the \$22.3 million Municipal Emergency Resourcing Program (MERP). The program commenced 1 July 2011 and will continue until June 2016. Councils are funded individually or in groups of up to three member councils.

The priority aims of the program are to:

- Provide resourcing support for councils within the areas of the state covered by the CFA Act to implement Victorian Bushfires Royal Commission (VBRC) recommendations, and
- Contribute to addressing the VBRC and Victorian Floods Review recommendations relating to identification of vulnerable persons.

Prior to this program a limited number of councils with high bushfire risk received funding to appoint an emergency management coordinator, in most cases shared between two or more municipalities.

The MERP program and its predecessor have been critical to the ability of councils to improve planning and preparedness for emergencies, develop collaboration strategies with neighbouring municipalities and effectively partner with the State and local stakeholders to and make improvements to bushfire, flood and other hazard management.

5.3. Funding and expenditure from reimbursements

NDFA and NDRRA

The Victorian Government's Natural Disaster Financial Assistance (NDFA) is administered by the Victorian Department of Treasury and Finance and mirrors the eligibility criteria outlined by the NDRRA. Accessing Commonwealth NDRRA funding, via the NDFA, is the primary means by which councils receive reimbursement for relief and recovery expenditure.

In the current financial year (2013 - 2014) 35 councils received financial assistance through NDRRA/NDFA, with the median funding being \$965,230 and total funding provided \$71,268,000.

In the 2012 - 2013 year, 42 councils were assisted with the median assistance which was \$2,129,560, and total financial assistance \$196,409,000 (as reported in the Annual Report for DTF).

These figures include financial assistance provided as either reimbursement of expenditure already incurred or advance payments requested by councils to support their natural disaster recovery activities, for which claims will be submitted to acquit against the advance payments.

6 Response to Productivity Commission questions

The MAV has elected to only answer questions from the Productivity Commission's issues paper that are directly relevant to Victorian councils. Other questions may not have been answered as they have been covered off in responses to previous questions.

1. Are there reliable projections of future natural disaster incidence and impacts in Australia?

The Victorian Government recently released *Emergency Risks in Victoria*, a report documenting the outcomes of a state-level emergency risk assessment.

The report from the Intergovernmental Panel on Climate Change titled *Climate Change 2014: Impacts, Adaptation, and Vulnerability* focuses on the impacts of climate change and how to adapt to them. Chapter 25 of the report focuses on the regional impact on Australasia. For Australia the report broadly predicts that climate change will lead to more extreme rainfall and rising sea levels, constraints on water resources, an increase in extreme heat and the intensity of bushfires and uncertain weather patterns; all with wide-ranging impacts on livelihoods, health and the environment.

2. The lack of discussion of climate change and its potential effects, specifically relating to an increase in the frequency and severity of natural disasters is a notable and significant omission in the Productivity Commission's issues paper. A comprehensive review of natural disaster funding arrangements cannot occur without the consideration of climate change and climate change adaptation. What are the policy objectives of the NDRRA? Have these changed over time? Are current arrangements consistent with the achievement of these objectives?

The MAV is not aware of any clearly stated NDRRA policy objectives. The Commonwealth Department of Finance and Deregulation *Review of the Insurance Arrangements of State and Territory Governments under the Natural Disaster Relief and Recovery Arrangements Determination 2011* states that:

The Australian Government provides financial assistance to the States through the Natural Disaster Relief and Recovery Arrangements (NDRRA) to aid, among other things, in the cost of restoration of public infrastructure. Commonwealth assistance is not intended to remove incentives for States to plan, mitigate or allocate resources for natural disasters or otherwise discourage governments purchasing insurance to protect their assets. (pg. 5)

This review led the Commonwealth to further tighten the rules, under its 2012 NDRRA determination, regarding eligibility requirements that act as thresholds or limits for receiving NDRRA payments.

The 2012 Determination outlined the aims of the NDRRA in the following way:

Natural disasters often result in large-scale expenditure by state governments in the form of disaster relief and recovery payments and infrastructure restoration. To assist with this burden, the Commonwealth has made arrangements to provide financial assistance to the states in some circumstances. Usually the assistance is in the form of partial reimbursement of actual expenditure.

The Commonwealth's assistance is intended to be directed to state measures that complement other strategies in relation to natural disasters, such as insurance and disaster mitigation planning and implementation. (pg. 1)

These outlined objectives appear to focus the purpose of NDRRA on the restoration of physical public infrastructure. However the categories of eligible measures in NDRRA, specifically *Category A* and *C* and to some extent *Category D* also imply that an objective of NDRRA is also to facilitate the provision of emergency assistance to individuals and communities to alleviate their personal hardship or distress arising as a direct result of a natural disaster.

From these documents we can infer that the objectives of NDRRA are to:

- provide financial relief and support to assist communities recover in the event of natural disasters
- provide financial support to restore infrastructure losses which are essential to the recovery of communities in the event of natural disasters, and
- provide support in a way that does not remove incentives for states to plan, mitigate, insure against or allocate resources for natural disasters.

The objectives of NDRRA and the need to provide appropriate policy incentives to payment recipients, via a set of eligibility criteria are reasonable. However the eligibility criteria and the inconsistent means by which they are applied do not appear to achieve the desired outcomes for the Commonwealth, states, local government or communities. It is therefore appropriate that the Productivity Commission undertake this review.

Frequent change in Determination rules coupled with the lack of clearly articulated NDRRA objectives does not provide the certainty required for states and councils to plan or make policy regarding natural disasters.

It is imperative that clear and unambiguous objectives for natural disaster funding are developed. This will provide direction for the structure, rules and details of any future arrangements. It will also allow the effectiveness of the arrangements to be measured.

3. How effective are the eligibility criteria for NDRRA reimbursement in facilitating effective and sustainable natural disaster risk management, including mitigation of possible future disasters? How rigorously have these criteria been enforced? What level of oversight is provided?

As discussed in Section 3 of this submission Victorian councils already undertake a considerable number of mitigation activities in their municipalities, predominantly through the implementation of Victorian State policy and legislation.

In regards to their own assets, such as council buildings and property, insurance is a key disaster risk mitigation strategy. Jardine Lloyd Thompson (JLT), the major insurance broker for Victorian councils in respect to natural disasters indicates that insurance provides incentives for councils to invest in disaster mitigation as such actions will lower their premiums in the long-term through a more positive claims experience.

Specifically JLT provides property insurance for 71 councils⁵ via their Municipal Asset Protection Plan (JMAPP) discretionary trust, underwritten by Vero, Zurich and CGU. The overall limits under JMAPP are considerable with a \$300 million combined limit for any one loss subject to a limit of \$1.2 billion for any one event.

The insurance is however subject to a variety of sub-limits, the most relevant being for flood. Flood is currently limited to \$2 million per member per event, \$10 million per event for all members and \$25 million in the aggregate for any one period of insurance. These limits decreased considerably following the 2010-2011 Queensland and Victorian floods which made it difficult to source flood insurance.

All 'Real and Personal Property' is covered unless otherwise excluded. Roads and bridges are generally excluded under a traditional industrial special risks (ISR) arrangement. Under JMAPP such assets can be insured subject to being declared and accepted by the insurers.

Including local roads in insurance policies has in the past been investigated. Insurers have indicated a lack of appetite for insuring small geographic areas subject to flood risk as this would amount to insurers selecting against their own interests given the likelihood and frequency of claims. For larger areas the premiums required are cost-prohibitive as the disparity between revenue size and the extent of road infrastructure is significant for many councils. Such disparity in many cases also correlates with increased flood risk.

In this sense the eligibility criteria for NDRRA reimbursement do not act as a disincentive for councils to undertake risk mitigation actions as they are already undertaking significant mitigation actions within their powers and capabilities. Therefore changes to the natural disaster funding incentive structures would likely see limited changes in behaviour by councils.

⁵ Other councils have sought insurance individually in the private market.

4. Are the thresholds for NDRRA reimbursement set at an appropriate level?

In relation to the *small disaster criterion* threshold amount of \$240,000, Appendix G of the *Review of the Insurance Arrangements of State and Territory Governments under the Natural Disaster Relief and Recovery Arrangements Determination 2011* states that:

Taking into consideration that a State's assets are predominantly commercial assets and the incurred losses arising from natural events declared by Insurance Council of Australia are generally in excess of \$10m per event, the current small disaster criterion appears low. The low threshold may be reasonable in respect of intervention at community level in providing financial relief to communities. However, it is too low in respect of State level financial support in restoration or replacement of EPAs [Essential Public Assets]. (pg. 10)

As outlined in section 4.3 the State's NDFA arrangements directly mirror the NDRRA eligibility criteria and therefore councils also face the \$240,000 small disaster threshold. For many councils \$240,000 is a large proportion of their discretionary budget. If an emergency in a council fell just short of this threshold such a budgetary shock would put significant stress on a council and its ability to effectively meet its everyday responsibilities.

For example, Buloke Shire, located in North Western Victoria and with a population of slightly less than one person per square kilometre, had revenue from rates and charges in 2012-2013 of \$9.866 million.⁶ For such a council a 'small disaster' can take 2.4 per cent of their discretionary budget without them being eligible for Commonwealth or State assistance.

5. Is the approach of providing assistance under four categories the most appropriate way of administering Australian Government grants? Is the way the categories are defined sensible? Is the assistance provided under each of the four NDRRA categories set at an appropriate level?

If implemented consistently having four detailed categories that define what will and will not be funded provides a level of certainty to funding recipients. Experience has shown however that the current categories have been applied inconsistently and have in some circumstances been overly restrictive, for example in regards to 'betterment'.

It is difficult to answer the question of whether the approach of providing assistance under four categories is most appropriate way of administering Australian Government grants. It is necessary to define the objectives of Commonwealth natural disaster funding before the most appropriate means of administering it can be determined.

Alternative approaches have been put forward. Most recently the National Commission of Audit recommended that the NDRRA:

⁶ <http://www.dpcd.vic.gov.au/localgovernment/find-your-local-council/buloke>

should be replaced with a grant to affected States in the case of each major natural disaster with the Commonwealth contribution based on a designated proportion (between 25 per cent and 33 per cent) of the estimated reconstruction costs.

The Commission of Audit also recommended:

maintaining the Australian Government Disaster Recovery Payment but abolishing the Disaster Recovery Allowance with the Commonwealth's direct contributions being paid to only those individuals severely affected by natural disasters. (pg. lvii)

This may be attractive to the Commonwealth as it would most likely reduce the overall quantum of funding it provides. A single payment model may be also be attractive to the states, if the proportion provided by the Commonwealth was raised, as it would provide them with more flexibility as to how the funding was allocated. This model would however not provide any certainty to councils or communities as to how funding would be allocated across and between physical reconstruction and recovery, individual relief and longer term community recovery. Such uncertainty makes it difficult for businesses to effectively plan their own risk mitigation measures and generally does not promote resilience.

Regarding the level of assistance provided under each of the four NDRRA categories, again a lack of consistency makes it difficult to answer this question. In some circumstances it could be argued that the level of assistance was appropriate and in others inadequate and inequitable. Councils have been particularly affected by the inconsistent payments under Category C.

Also, for councils the cost of providing relief services, including running an emergency relief centre can be significant however these costs do not clearly fall into any of the NDRRA categories. In recent years NGOs assisting councils within centres have started invoicing councils for their expenses, including volunteer time. Without assistance from the other levels of government many councils will not be in a position to run these centres in the future.

Table 6.1 – Long-term recovery needs

Macedon Ranges Shire is well experienced in emergency management. They have been affected by natural disasters a number of times in the last five years, including the Black Saturday fires.

During a three-week period from 25 January 2014, a number of fires affected multiple communities in the Macedon Ranges Shire.

Fortunately no lives were lost, however five houses were destroyed and hundreds of properties were damaged. In addition to physical damage, those affected have reported psychosocial effects resulting from the fire threat and damage, including students and parents of Malmsbury Primary School which was locked down twice due to fire in the area.

More than 385 requests for some form of recovery assistance were logged with the council.

Recovery is progressing steadily however the council estimates that recovery is likely to take

12 months or more based on the number and complexity of cases, delays with insurance claims, the slow process of restoring fencing, pasture and sheds. Additionally many of those affected will be focussing on achieving physical recovery before seeking psychosocial support.

NDRRA funding (Categories A & B) has enabled the council to respond swiftly and effectively to immediate response and recovery needs. However three months after the fires, Category C had not been activated and the council was not advised of the trigger for activation. This impeded planning for longer term community recovery.

In the interim, the council employed a Recovery Officer for 12 weeks with no certainty that the cost would be reimbursed. The council believes that a full-time Fire Recovery Officer is required to coordinate the longer term recovery. This officer would manage the outstanding recovery requests, many of which are complex, and undertake liaison with internal and external stakeholders to facilitate effective recovery.

Four months after the fires, the Victorian Government confirmed funding for a 0.4 EFT Community Development Officer to be based within the council and \$12,000 to a community provider of psychosocial support, which is estimated to equate to 0.2 EFT for three months. Based on the amount that has been provided to the council for previous events, and the resulting positive outcomes for community recovery, this is viewed by the council as inadequate to meet community needs.

Aside from inconsistencies and delays in the application of NDRRA categories there are also instances where definitions or exclusions impede effective and cost-efficient recovery.

For example the lack of flexibility regarding the use of council staff for recovery works and programs leads to delays and increased costs. In many rural areas, contractors are not readily available which can result in significant delays, escalated restoration costs and a lost opportunity to use local knowledge and boost local employment.

In rural shires, with limited access to contractors, there is a need to allow the use of council staff beyond the initial 72 hour period currently defined if the council can demonstrate measures taken to outsource the work at a reasonable cost were unsuccessful.

Another example is the current definition of Essential Public Assets. The December 2012 Determination of Terms and Conditions redefined what may be classified as an Essential Public Asset, essentially removing the ability of local councils to receive NDRRA funding to restore or replace community facilities, including sporting grounds and recreation facilities. Councils and communities across Victoria have previously benefited from NDRRA funding to restore and replace damaged sporting, recreational and other such community facilities. These community facilities are often focal points for community engagement and interaction and also play vital roles in developing and maintaining a community's social cohesion. Post-disaster the importance of such facilities is amplified by their ability to aid effective community recovery.

Table 6.2 – Recent council experience with Category C funding

In the floods of February/March 2012 the Commonwealth Government made a decision to not extend the \$25,000 clean up and recovery grants under Category C of NDRRA to 16 of 20 flood affected municipalities. Many communities that lie within these 16 municipalities, such as the Rural City of Wangaratta, were as severely affected by the same floods as eligible communities in neighbouring flood affected municipalities which included Greater Shepparton, Moira, Indigo and Towong.

Floods do not observe municipal boundaries. It was unjust to exclude affected communities simply along municipal lines based on a diluted threshold for each municipality. The Commonwealth did not provide any explanation for this decision which appeared anomalous and unfair.

As a matter of fairness and equity landholders should be eligible to claim recovery grants on estimated value of loss and damage. This would avoid the current unfortunate situation where ineligible landholders see assistance made available to their neighbours who reside in the adjacent approved municipality. In doing so it would be consistent with the way eligibility criteria has been applied by the Commonwealth in previous emergency events including the Victorian floods of 2011 and the 2009 Black Saturday bushfires.

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

The concept of betterment is a sound one; however it has seldom been applied. Firstly betterment is poorly defined and the rules determining eligibility for betterment projects difficult to navigate.

The Victorian Auditor-General's Office (VAGO) 2013 report into Flood Relief and Recovery states:

Recovery efforts were affected by interpretation and application of an NDRRA funding rule around betterment... Negotiating the rules and application processes was testing for local government, especially at a time when it was dealing with many other challenges arising from the floods. Councils needed assistance from DTF to identify and process betterment proposals. Evidence shows that DTF's advice and support to councils on betterment was not sufficiently timely. However, this was partly due to the need for ongoing discussions with the Commonwealth to clarify the interpretation of the betterment funding principle. As a consequence of DTF not being able to provide timely advice, some potential local government proposals may not have gone forward and the state and local government may have foregone Commonwealth funding. (pg.xi-xii)

The report then concludes:

Government did not clearly explain the complex rules attached to NDRRA funding, especially around the betterment issue and there may have been lost opportunities for councils to claim funds for necessary improvements. (pg. 28)

Complex rules may be one factor that has prevented betterment projects from proceeding, another factor may be a lack of appetite at all levels of government to engage in this process given the potential costs involved.

Alternatively some Victorian councils have reported that they have planned to rebuild to what they interpret as current standards only to find that the build is deemed to be betterment and costs for the project are not authorised. This does not provide a sound incentive for councils to attempt to rebuild to anything except the absolute base standard.

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

Payment made to farmers and small businesses are often justified and usually lead to broader community benefits and faster community recovery. Some of the short term shocks of natural disasters are difficult to insure against and planned for. For example during the recent Morwell mine fire many small businesses suffered from a severe reduction in trade due to advice recommending residents to relocate. Some businesses were provided financial support, without which they may have been forced to close down or reduce staffing levels. Such an outcome would have placed an even greater burden on the town's long term recovery.

(also see the response to question 5 above)

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

Category D has been used to provide extended concessional loans to businesses, primary producers and not-for-profit organisations following the 2010-2011 Victorian floods. It was also more recently used to provide assistance to Morwell residents given the exceptional circumstances of the mine fire and its effects on the community. Decisions on Category D funding appear to be made through negotiations between State and Commonwealth governments. This decision making process is however generally not transparent and there is often significant delays in the announcement of support leading to lost opportunities and considerable community and business angst.

9. *How effective have NPANDR funded projects been at promoting resilient communities and reducing the impacts and costs of natural disasters? Is the focus appropriate? Have evaluations been undertaken of these projects and are these publicly available?*

As mentioned in section 5.2, NPANDR via NDRGS has been an important avenue for councils to undertake resilience projects that sit outside of their legislative responsibilities or that they could not otherwise afford to undertake.

Councils have used the funding effectively to improve community resilience. However the scale of the funding has been too small to have broad and lasting effects across the State. Councils appreciate the grant funding they receive to work on resilience projects, and are arguably highly efficient in their use of such funding. However time-limited grants often mean councils make good progress in specific areas only to see funding come to an end. With the discontinuation of funding, progress made can halt or unwind as councils usually do not have resources to internally fund the continuation of such projects.

A focus on resilience is appropriate and the National Strategy for Disaster Resilience (NSDR) is a good starting point, however a more coordinated approach at the State-level and further guidance regarding resilience objectives is required to improve and entrench resilience outcomes. Some councils view the NSDR as being too high-level and in its current form cannot be applied by councils in a uniform way to build community resilience.

The MAV is not aware of any evaluation of projects at the state or national levels. As a member of the Victorian grant allocation panel the MAV has some awareness of the projects funded through the program and can take proactive steps to facilitate sharing of outcomes throughout the sector, but there is no formal process for ensuring lessons or innovation are shared.

Table 6.3 - North West Metropolitan Region collaboration project

The North-West Metropolitan Region collaboration (NWMRC) project was funded by NDRGS in 2013 for three years.

The growing complexity of emergencies and the demands placed on local government have shown that a single council can lack the capacity and capability to support the community through relief and recovery after major emergency events.

The collaboration has used the NDGRS funding to coordinate 14 councils across Melbourne's north-west metro region to make better use of resources and achieve a better outcome for communities. Councils across the north-west metropolitan region have already taken significant steps towards developing a regional emergency management model that will support councils in an emergency event. Many of the collaboration's activities will have direct and long-lasting impacts on both council and community resilience and capability.

Initially, the project allowed councils to share lessons, standardise their operating guidelines, conduct shared training, undertake exercises, and leverage each other's resources in the relief phase following an emergency. Importantly, it filled a gap in the state-wide relief and

recovery framework by providing council-led targeted emergency management and leadership training to over 400 council staff.

The area covered by the NWMRC presents a significant challenge in relation to emergency planning. The communities are diverse with greatly varying levels of risk awareness and preparedness. Key risks include bushfire, grassfire and heatwave. The populations most at risk include Culturally and Linguistically Diverse (CALD) communities, the elderly, isolated individuals and families with very young children.

The NWMRC project outcomes include image-based signage for use in emergency relief centres to enable better understanding by people of CALD backgrounds, community-focused emergency relief centre operation guidelines and a holistic approach to carrying out post-impact assessment.

The collaboration also supports a Resilience Working Group which is focused upon developing guidelines and tools to enable councils to enhance their engagement with communities. These tools include community emergency planning guidelines, advice on how councils can open up their current emergency planning systems to community members and training opportunities for community members.

10. What is the most efficient way of allocating funding — between states and within states — under this national partnership?

Before models for efficient allocation of funding can be determined at the State level objectives and goals need to be defined. This will allow the funding to flow to agencies that are determined to be best able to meet these objectives.

Local government sees its close involvement in people’s lives and its day-to-day role in community development as providing a sound foundation on which to build effective community resilience.

This relationship should be recognised and supported as part of the Commonwealth’s overarching disaster resilience strategy. This support could include funding councils to facilitate the roll out of State and Commonwealth programs in a coordinated and strategic way to help build resilience, rather than maintaining the current disjointed delivery mechanisms.

11. Is the balance of Australian Government funding on mitigation and resilience activities relative to recovery activities appropriate? How should this assessment be made?

In the 2013 – 2014 financial year the Commonwealth, via NPANDR, made available \$4 million to fund resilience and risk mitigation in Victoria. In the same year the Commonwealth has provided over \$71 million for relief and recovery through NDRRA and this number could still increase.

Funding on mitigation and resilience activities should increase. In the long-term this - coupled with more easily accessible betterment funding - should reduce the funding necessary for relief and recovery. A 2002 COAG review⁷ noted that additional investment in natural disaster mitigation was estimated to reduce the economic cost of natural disasters and, in particular, that for every dollar invested in flood mitigation around \$2.10 was saved.

A 2013 paper⁸ by Deloitte Access Economics noted funding for relief and recovery could be reduced through carefully considered and directed investment into disaster resilience. The paper stated that annual expenditure on mitigation and resilience of \$250 million 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.

It should be noted however that building resilience and investing in disaster mitigation is a long-term investment and behaviour change especially takes time. Therefore whilst an increase in funding towards resilience and disaster mitigation activities is sensible it should not be met with an commensurate or immediate reduction in relief and recovery funding.

Table 6.4 – Floods in Moira Shire Council

In the March 2012 flood that affected Moira Shire, the towns of Nathalia and Numurkah present an interesting comparison.

Whilst both towns are situated on the banks of the Broken Creek, they differ significantly in the steps undertaken in recent years to mitigate the effect of flooding.

The Nathalia township has been protected by a ring levee which was strengthened in recent years through Natural Disaster Resilience Funding at a cost of \$3.5 million. Nathalia’s vulnerability to flooding is limited to 17 houses and the local Showgrounds, which planning indicates are likely to be affected by what are seen as typical flood events that reflect 1 per cent AEP⁹. During the recent event, a number of these at risk houses were saved from damage through active protection by householders and emergency services. Damage to the Showgrounds oval, buildings and other assets exceeded \$150,000.

Conversely, Numurkah has no such protection and as such suffered significant damage to residential and business premises as well as community infrastructure. In excess of 70 houses suffered above floor inundation and a significant number of community assets also required significant restoration. Whilst difficult to estimate the total insurance cost to private dwellings, repair costs to community infrastructure exceeded \$1 million.

⁷ Natural Disasters in Australia: Reforming mitigation, relief and recovery arrangements (August 2002)

⁸ Deloitte Access Economics. Building our Nation’s Resilience to Natural Disasters: Australian Business Roundtable for Disaster Resilience and Safer Communities. June 2013.

⁹ The probability that a given rainfall total accumulated over a given duration will be exceeded in any one year.

12. What is the objective of the AGDRP? Does the scheme in its current form achieve those objectives? If not, what changes do you consider are needed?

The Australian Government Disaster Recovery Payment (AGDRP) objective seems to fill a gap in support not met by the NDRRA or other assistance measures available to the community. However like the NDRRA, activation of the AGDRP is inconsistent and not always transparent.

Victorian councils believe that when the AGDRP is activated it is useful in providing support for short-term initial recovery measures.

13. Are there any unintended consequences from the AGDRP?

Occasionally the AGDRP is misused or abused. This can lead to division and conflict within communities already suffering from the effects of significant natural disasters. A lack of clearly defined criteria and the absence of a relationship between the size of the payment and the needs of the recipient can also create an expectation of payments and support in the future.

14. Does the AGDRP overlap with state and territory government assistance to individuals?

Some Victorian councils report that during the March 2012 floods, some residents not directly affected by flooding managed to receive both Federal AGDRP and State Government payments. The same councils report that these grants have been more effectively targeted during recent natural disasters.

Consistency in applying the eligibility criteria of any community grant is essential in maintaining the confidence of the community. The perception by the community of generosity toward those seemingly not affected becomes another layer of concern for those managing recovery.

15. What are the governance and institutional arrangements relating to natural disaster mitigation, resilience and recovery in each state and territory? What are your views on how these arrangements could be improved?

A comprehensive outline of institutional arrangements relating to natural disaster mitigation, resilience and recovery in Victoria can be found in the EMMV. Councils' role in this framework is presented in chapters 3 and 4 of this submission.

A key area in need of improvement is emergency management planning. Despite the multi-agency nature of municipal emergency management planning and the efforts of councils, there is a growing misconception that councils, as the custodians of the MEMP under legislation, are also accountable for all aspects of the plan.

Currently there is a lack of accountability for emergency management planning at the local level. This is partly because roles and responsibilities for the management of specific

hazards are not clear. For example councils, CFA, DEPI, Parks Victoria, VicRoads, VicTrack, electricity asset owners all have overlapping responsibilities for bushfire mitigation however no single agency is accountable. In some cases this leads to disjointed planning, responsibility shifted to councils or lack of execution of agreed local plans.

The Victorian *Emergency Management White Paper* outlines a number of reforms, which if implemented effectively will significantly improve Victoria's emergency management arrangements. Unfortunately reform has been very slow and an implementation plan outlining the stages and timelines for introducing White Paper reforms has not been developed.

The White Paper clearly states that a key feature of new emergency management planning arrangements will be legislation that will 'create an obligation for relevant agencies to participate in the planning process' (page 29). Additionally 'Legislation will recognise that emergency management is a shared responsibility and that plans will identify roles and responsibilities for a range of stakeholders'.

Without clear lines of accountability the visions, principles and strategic priorities of the White Paper cannot be met. As a result community resilience and safety outcomes will not improve.

The MAV recommends that legislation is amended to ensure:

- that all relevant agencies and departments participate in the planning process
- that hazard leaders are identified and made accountable, and
- all agencies and departments are accountable for actions outlined in MEMPs.

The White Paper is silent on a number of issues, including:

- detail relating to on-the-ground management and organisation of relief and recovery, with exception to the provision of large scale support in a major emergency, and
- funding for VicSES and the relationship of VicSES Units and councils.

In regards to the VicSES the *Victoria State Emergency Service Act 2005* and the *Emergency Management Act 1986* are silent on the financing of VicSES and of VicSES units. The current situation, whereby municipalities are expected to match the funding contribution made by the State for local VicSES units is unsustainable.

Funding of the provision, maintenance and insurance of VicSES unit accommodation, vehicles and equipment, varies from municipality to municipality, unit to unit. There is a trend towards councils reducing or removing funding to VicSES units.

The VicSES plays a key role not only in emergency response but also community resilience. The current funding model for VicSES is preventing it reaching its potential as an organisation and not leading to the best possible community resilience outcomes. As VicSES has matured into a statutory authority it is neither sustainable nor appropriate for VicSES units to depend on councils for funding or other in-kind support.

For a more detailed view on where Victorian councils believe arrangements could be improved see the MAV's:

- December 2011 position paper, *'The role of local government in emergency management'*
- Submission on the Victorian Government's *'Towards a more disaster resilient and safer Victoria'* Green Paper
- *The Future of Local Government's Relationship with VicSES* position paper
- *Victorian emergency management reform white paper*, members brief¹⁰

16. What influence does Australian Government funding (such as through the NDRRA and NPANDR) have on state, territory and local government prioritisation and funding of infrastructure projects? How does this funding affect the mix of projects funded through other means?

Victorian councils have strongly stated that NDRRA funding has been invaluable in contributing toward emergency relief costs and the repair or replacement of damaged infrastructure.

It is unlikely that NDRRA funding has affected any pre-existing priorities that councils have regarding infrastructure investment priorities. As outlined earlier, councils' insurance arrangements already provide incentives to invest in risk mitigation measures relating to their infrastructure. Additionally NDRRA, in practice, only replaces assets to their existing standard due to the lack of application of betterment. Therefore it is unlikely that NDRRA would provide perverse incentives to council regarding infrastructure prioritisation decisions.

NPANDR projects that increase the information available to council regarding risk exposure, such as flood mapping, may appropriately lead to councils altering decisions regarding infrastructure projects.

Table 6.5 – Essential Public Assets

The tightening of criteria relating to Essential Public Assets in the NDRRA December 2012 determination has the potential to affect council infrastructure decisions.

For example the March 2012 floods in Victoria had a total cost of \$50.3 million in the Moira Shire alone. Of this almost \$3 million could be classified as being for Essential Public Assets which under the new arrangements would be not eligible for funding to repair. This amount represents 30 per cent of Moira Shire's annual capital works program and over six per cent of its annual turnover. Whilst recovery was spread over two financial years, the effect of such a financial burden, should a repeat event occur would be significant. As a result Moira Shire would have some very difficult prioritisation decisions to make, and it is likely that future of some community assets or services would be need to be reconsidered.

¹⁰ These publications can be found at: <http://www.mav.asn.au/policy-services/emergency-management/Pages/default.aspx>

17. How effective are each state and territory's natural disaster relief and recovery measures relating to individuals, businesses, primary producers and voluntary organisations (including those part-funded by the NDRRA)? Are these arrangements targeted sufficiently closely to those in the greatest need?

Some Victorian councils have noted that measures relating to individuals, businesses, primary producers are generally well intentioned, but in practice inconsistent in application and implementation. The announcement or declaration of such measures is often delayed, which both misses opportunities for early and effective intervention and leads to frustration and resentment by those affected.

18. How well are natural disaster mitigation and recovery coordinated across governments and agencies at the Commonwealth, state/territory and local levels? Is there evidence of duplication or overlaps?

As described earlier, Victoria's emergency management arrangements are well documented and the EMMV provides clarity on roles and responsibilities in most cases. There are grey areas however, and since the 2009 bushfires and the 2010-11 floods work has been done to address these.

In many cases councils are viewed as the most appropriate agency to undertake mitigation works, manage mitigation infrastructure or lead particular initiatives because they 'are the closest level of government to the community'. The MAV is concerned with the cumulative effect of this trend as many councils are not in a position to fund significant additional mitigation activity without support from the other levels of government. Additionally councils often have limited expertise to design mitigation options and undertake cost-benefit analyses of mitigation options that would allow for more effective prioritisation and efficient allocation of scarce resources.

With regard to recovery, councils generally feel they are best placed to lead community relief and recovery, however they often require swift and sometimes significant funding from other levels of government to do so effectively. Councils have the authority and governance structures, networks and strategic partnerships necessary to support community recovery. They understand the unique needs of the community and can coordinate flexible recovery programs accordingly.

It should also be recognised that councils have responsibility for managing the long-term outcomes of recovery and reconstruction decisions.

The experience of Murrindindi Shire, a rural shire with low population, after the 2009 fires was that some budgetary decisions about bushfire recovery and reconstruction activities came through a council special committee. Others were made through direct interaction between community recovery committees and the State Government, with the council being consulted in the final stages. As a result, the council acquired legacy assets of \$52.8 million (of which \$30.6 million are included on the council's balance sheet and \$22.2 million are non-council assets) and associated costs which the council calculates at \$1.184 million per annum in operating and maintenance costs and approximately \$0.6 million in depreciation.

19. What progress have state and territory governments made in implementing the recommendations of past inquiries relating to natural disasters? Do any of the recommendations relate to funding arrangements? Are there major recommendations that remain to be implemented?

The Victorian Bushfires Royal Commission (VBRC) Final Report recommended the State appoint an implementation monitor to assess progress with implementing the Commission's recommendations and report to the Parliament and the people of Victoria by 31 July 2012. This date was later extended to September 2014, perhaps an indication of the speed of implementation of recommendations. The Implementation Monitor will deliver his concluding report in July 2014 which will report on the progress of any implementation actions that remain outstanding. Only two recommendations from the VBRC related to funding, both with regards to planned burning.

The *Review of the 2010–11 Flood Warnings and Response* final report made a number of recommendations which remain unimplemented. A number of these recommendations related to natural disaster funding.

20. What should be the objectives of the natural disaster funding arrangements?

The objectives of natural disaster funding arrangements should be to provide financial assistance to individuals, communities and lower levels of government for circumstances where they are unable to fund their own disaster relief and recovery.

The financial arrangements should provide incentives, for those that are capable, to mitigate against disaster risk.

Financial arrangements policy should be developed with a clear understanding of the implication of decreasing relief and recovery support. A decrease in support to the states could result in an increased responsibility for relief and recovery being shifted to councils whose capacity is already severely constrained.

The Commonwealth should also recognise that councils do not have a flexible or redistributive taxation system suitable for raising funds for public goods whilst also meeting other social objectives.

Table 6.6 – The scale of natural disaster costs in municipalities

The 2010 - 2011 Victorian floods caused widespread damage across Victoria. The Pyrenees Shire Council received approximately \$35 million in reimbursements from the Commonwealth government through the NDRRA for relief and recovery activities. If the Pyrenees Shire were to internally fund those activities a 100 per cent increase in rates, levied for five years, would have been required. The Pyrenees Shire has indicated that even a 10 per cent increase in rates would likely lead to financial stress in their community, yet a 10 per cent increase would only increase revenue by \$700,000.

East Gippsland Shire may be one of the most disaster-prone municipalities in Victoria due to

the nature of its environment and its large geographic size. Since July 2011 East Gippsland Shire has been affected by floods, two major fires and two significant storm events. The estimated cost of the effect of these events on Shire assets and community recovery activities is approximately \$16 million, with claims for approximately \$6 million still to be fully resolved. This amount equates to approximately 15 per cent of the council's annual rates revenue.

21. Under current institutional arrangements, are roles and responsibilities for natural disaster risk management allocated appropriately?

Under current arrangements councils are often seen as the deliverers of natural disaster risk management at the local level. Councils have strong community links and are well placed to implement a number of risk mitigation activities and policies. However decisions to make councils a policy implementer need to be made with councils' capability and capacity to undertake such work in mind. In the past roles and responsibilities have been passed down to councils with little consideration of their capability and resources.

22. What should be the role of the Australian Government in natural disaster risk management?

The Australian Government must continue to play a role in providing financial assistance to individuals, communities and lower levels of government in circumstances where they are unable to fund their own disaster mitigation, relief and recovery activities.

The Commonwealth should also continue to provide overarching policy objectives and direction. For example initiatives such as funding the Bushfire and Natural Hazards Cooperative Research Centre and producing guidance such as the National Strategy for Disaster Resilience are core Commonwealth roles that add significant value and should continue.

23. To what extent is moral hazard a significant problem at the household and business level in Australia? Does it result in inefficient and ineffective natural disaster risk management?

Moral hazard is arguably a factor that can lead to households and businesses not undertaking adequate risk mitigation measures. Moral hazard is not necessarily derived from the expectation of relief and recovery funding; it also arises from government communications regarding a states' response capability.

24. What impact is mitigation activity likely to have on insurance premiums? What evidence is available to assess this?

Frankston City Council is not one of the 71 Councils insured through JMAPP. A factor in the council's decision to leave the JMAPP was related to increased premiums as a result of claims made by other councils, mainly due to recent floods and bushfires. Frankston City

Council has experienced premium reductions, but has indicated that this is due to their procurement processes, rather than mitigation works. The council's risk manager has reported that there is no specific disaster risk mitigation activity that could be undertaken to provide further premium reductions. Frankston's insurance premium is calculated by the rate in the dollar and the overall value of the declared assets and its claims history. For example each \$1 million worth of assets equates to \$1,000 in insurance premium (round numbers). The rate in the dollar is determined by the general insurance market and the perceived risk exposure. As already stated, there are many council assets which cannot be insured such as roads and bridges.

25. Are the level and balance of natural disaster mitigation, resilience and recovery activities appropriate? Is there a case for changing them, either in absolute or relative terms?

As previously stated it is likely that an increase in absolute mitigation funding in the near term would allow for a decrease in relief and recovery funding in the long term. However an immediate reduction in relief and recovery funding would potentially have serious implications for a community's ability to recover effectively and a council's ability to assist.

Secondly the role of emergency response funding is not raised in the issues paper. In many cases an increase in mitigation funding would also reduce the required expenditure on response activities. Whilst response is primarily a State responsibility the Productivity Commission should consider response funding and activities when making future recommendations.

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

Victorian councils would benefit from State or Commonwealth government guidance and tools regarding cost-benefit analysis of mitigation options, particularly betterment. However it should be noted that the majority of Victorian councils' mitigation activities are prescribed in legislation that do not provide them with flexibility to not undertake, or undertake less of, a mitigation activity if it is shown that the costs outweigh the benefits.

27. What impacts do policies regarding land-use planning and infrastructure have for natural disaster risk management at the state and local government levels?

Land use planning has its greatest capacity to minimise risk exposure in a greenfield environment. Other mechanisms outside of land-use planning need to be used where the environment is largely built.

The Victoria Planning Provisions (VPPs) provide a template for all planning schemes in Victoria. The VPPs contain a comprehensive set of planning provisions that manage land use and development.

Six special purpose zones, which dictate land use, and land management overlay, which dictate built development, are available to identify hazards from flooding, erosion to fire. A property owner can download a report that provides an overview of the zone and overlay controls relevant to their property.

Typical built form responses may be to increase floor levels in a flood prone area, or have a cleared space (defendable space) around a property in a fire prone area to reduce the risk to human life and minimise damage.

28. Is there a need for greater information provision and disclosure in planning decisions?

In Victoria, Section 32 of the *Sale of Land Act 1962* discloses if a property for sale is in a bushfire-prone area.

Increased information availability and disclosure about other hazards would help all decision makers, including governments, the community, private enterprise and insurers understand risks and increase resilience.

29. What impact do the current natural disaster funding arrangements have on land-use planning, risk reflective asset pricing and infrastructure investment decisions at the state and local levels?

It is difficult to define what effect funding arrangements have on asset pricing and infrastructure investment. However the availability of funding, from any source, heavily influences the preparation of studies to inform land use planning controls.

For example, flood studies are typically funded by a mixture of Commonwealth and State Government funding and project managed by a Catchment Management Authority.

In the absence of funding and project management support it is unlikely that preparation of studies to inform the application of land use planning controls would occur.

30. What reforms to land-use planning and infrastructure investment would best support cost-effective risk management and understanding of the changes to the risk profile?

The introductions of controls that identify and manage development in areas exposed to hazards are politically unpopular, expensive and time consuming. For example, the preparation of a flood study and introduction into the planning scheme can cost upward of \$150,000. However these studies are vital to informing appropriate development.

An expedited, independent and centralised process that funds the development of the relevant studies and their introduction into planning schemes is required.

31. What would be the advantages and disadvantages of retaining the current NDRRA, but with reforms to the thresholds and contribution levels?

The primary benefit of maintaining the current NDRRA format, with some changes to thresholds and contribution levels would only be that the system is familiar to all levels of government. However the current NDRRA has deeper flaws than simply thresholds and contributions. The current system has unclear objectives and confusing criteria. The manner in which NDRRA has been implemented in the past has also been inconsistent. Therefore further reforms would be required to solve these problems.

32. What transitional arrangements should be considered to assist with the implementation of reforms?

Transition arrangements will be required if reforms to include a reduction in Commonwealth funding of relief and recovery with the aim of reducing moral hazard and increasing independent risk mitigation. Behaviour change and risk mitigation measures take time to develop and a reduction in relief and recovery funding could see a number of communities exposed to outcomes they cannot independently recover from.

7 Appendix 1: Snapshot of Local Government's Legislative Obligations¹¹

Planning and Environment Act 1987

Under this Act a planning authority that is a municipal council:

- must prepare a strategic statement for its municipal district. It is required to consider local land conditions and strategies for achieving objectives
- must provide sound, strategic and coordinated planning of the use and development of land in its area, having regard to the municipal strategic statement and taking into account any significant effects the environment might have on any use or development envisaged, and
- can apply to the tribunal for an enforcement order against any person whose use of land contravenes or will contravene a planning scheme, this may include the enforcement of bushfire related planning permit conditions.

Part of the municipal strategic statement must include the identification of land, waterways and high hazard areas that have the greater risk and frequency of being affected by flood.

Building Act 1993

Administration and enforcement of parts of the Act include supervising bushfire construction and reconstruction standards, granting building permits inspection of damaged buildings and the provision of building assessments and advice.

Building Regulations 2006

As part of these regulations the Minister may determine designated bushfire prone areas. It is the council's responsibility upon receipt of this information to make a copy of the most recent map and make it available to members of the public at the council office, without charge and within business hours.

Electricity Safety Act 1998

The purpose of the *Electricity Safety Act 1998* is to govern the safety, reliability and efficiency of electricity supply and use in Victoria. It establishes Energy Safe Victoria and includes provisions regarding bushfire mitigation, mostly in relation to electricity operators.

Under the Act, agencies responsible for maintaining vegetation and clearance space around power lines are referred to as 'responsible persons'.

¹¹ For a more detailed overview of Victorian local government statutory responsibilities see MAV's *Local Government Emergency Management Handbook*.

Councils are 'responsible persons' for trees on council managed public land within a 'Declared Area' for the purposes of the Act. For areas which are not within a 'Declared Area', primary responsibility for vegetation clearance and management will usually fall to the relevant electricity distribution company. VicRoads and DEPI are also 'responsible persons' in some municipalities.

Section 86B of the Act provides that a municipal council must specify, within its municipal fire prevention plan:

- procedures and criteria for the identification of trees that are likely to fall onto, or come into contact with, an electric line [hazard trees], and
- procedures for the notification of responsible persons of trees that are hazard trees in relation to electric lines for which they are responsible.

Each 'responsible person' should have an internal procedure regarding the steps that will be taken following notification of a potentially hazardous tree.

The *Electricity Safety (Electric Line Clearance) Regulations 2010* further provide that a responsible person may cut or remove a suspected hazard tree 'provided that the tree has been assessed by a suitably qualified arborist; and that assessment confirms the likelihood of contact with an electric line having regard to foreseeable local conditions.'

Public Health and Wellbeing Act 2008

The *Public Health and Wellbeing Act 2008* outlines each council's obligation to promote public health and wellbeing, and gives special powers to the Secretary of the Department of Health to direct councils during declared states of emergency.

Councils are also obliged to appoint an Environmental Health Officer (EHO) under this Act.

The Secretary of the Department of Health may require a report from a council on health and wellbeing issues and councils must create a health and wellbeing plan within 12 months of council elections and include health and wellbeing matters in the council plan or strategic plan.

In a declared state of emergency, the Secretary has broad powers to direct councils' activities and those of their officers.

Water Act 1989

The *Water Act 1989* outlines the laws relating to water in Victoria, including waterways, drainage and floodplain management. Along with the *Water Industry Act 1994*, it outlines provisions in relation to fire plugs. A council may require an authority that has a water district situated wholly or partly within the council's district to fix fire plugs in suitable locations for the supply of water for fire-fighting purposes. The council must meet the costs of providing, installing, marking and maintaining all fire plugs.