



Submission

to

Productivity Commission Inquiry

on

Natural Disaster Funding Arrangements

October 2014

## Executive Summary

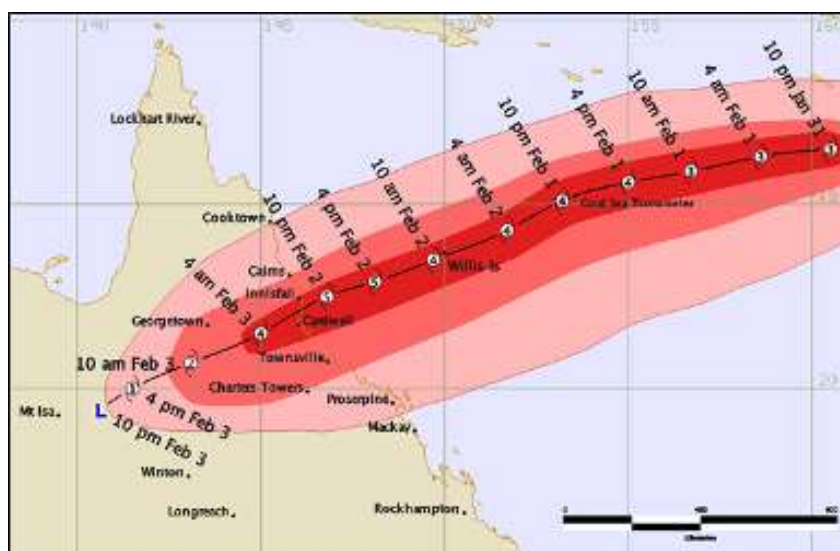
The Cassowary Coast Regional Council owns and manages approximately \$1.3 billion worth of infrastructure assets. These assets service a population of approximately 30,000 across a geographic region spanning 4,701km<sup>2</sup>.

In recent years the Cassowary Coast has been severely impacted by Tropical Cyclone Larry (2006) and Tropical Cyclone Yasi (2011), as well as a number of smaller cyclone and flooding events all of which have caused significant damage to the region's essential public infrastructure. The assistance provided to Council through the NDRRA program has been substantial and has helped to rebuild Council's infrastructure. The community impact of the reconstruction effort should also not be underestimated.

The Draft Productivity Commission Report is extremely concerning as the Cassowary Coast Regional Council's repair bill for Cyclone Yasi NDRRA Recovery works was more than \$120 million. Based on the existing 75% funding arrangements it is estimated that the Federal contribution was \$90 million so with the recommended model there would be a shortfall of \$30 million. The State Government has made it clear that its 25% contribution of \$30 million can't increase at all, let alone double, and Cassowary Coast Regional Council could not afford to meet the \$30 million shortfall. The result would be a financial disaster commensurate with the cyclone impact.

Both the State and Federal Governments have indicated an interest in developing Northern Australia (eg. Pivot North) with investigations confirming that the cost of development and natural disasters is high and represents a challenge to growth. If the communities of Northern Australia were now required to fund an additional 25% of disaster restoration works then it would further reduce the viability of developing Northern Australia.

There are however, a number of opportunities identified in the draft report. More autonomous ability to access funds and then prioritise expenditure on a best for network approach while co-investing Council funds to achieve even better engineering outcomes and using day labour workforces in delivery are seen as sensible outcomes.



Cyclone Yasi Track (Feb 2011) - BOM

# Comments on Productivity Commission Proposals

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Cassowary Coast Regional Council supports a number of recommendations in the Productivity Commission's Draft Report. However, the funding reforms proposed would have an unacceptable (and unsustainable) impact on the Cassowary Coast Regional Council. Council provides the following specific comments in relation to the draft recommendations of the Productivity Commission:

## DRAFT RECOMMENDATION 3.3

The Australian Government should publish estimates of the future costs of natural disasters to its budget in the Statement of Risks. It should also provision through annual appropriation for some base level of natural disaster risks that can be reasonably foreseen. For more catastrophic, less quantifiable risks, it is likely to be more efficient to finance the related costs if and when the risks are realised.

The Council believes this recommendation is reasonable and relevant to Local Government as well. Council's annual operational budget currently, but not explicitly, includes provision for funding immediate costs up to the current NDRRA trigger level as well as other disaster-related costs not covered by NDRRA.

These funds are generally sufficient for smaller events, however, are not sufficient for catastrophic events.

In recent years Council has also made provisions for capital funding for betterment projects to improve resilience and achieve improved engineering and community outcomes.

## DRAFT RECOMMENDATION 3.1

The Australian Government should:

- reduce its marginal cost sharing contribution rate to disaster recovery outlays to 50 per cent under the Natural Disaster Relief and Recovery Arrangements
- increase the triggers for Australian Government assistance (small disaster criterion and annual expenditure threshold).

In conjunction with this reduction in funding assistance, the Australian Government should provide state and territory governments with increased autonomy to manage relief and recovery expenditure in a way that reflects the preferences and characteristics of their communities.

The Council has serious concerns over the ability of either State or Local Governments to fund the proposed 25% reduction in Federal funding. Local Government has the least revenue sources of all levels of government and is not in a position to fund the costs associated with a major natural disaster. It is probable that the impact of this cost-shift would most likely need to be funded by Local Government given the financial position of the State Government. The recent trend of the State Government has been one of either direct or indirect cost-shifting and it's likely that this approach would also apply to NDRRA funding given the potential significant costs involved.

In a major event such as Cyclone Yasi, Cassowary Coast Regional Council may have to fund up to \$30 million. Its main income source is Council rates, which are limited by the community's ability to pay. To suggest that Councils could fund this cost by increasing rates is unrealistic and unsustainable.

The Productivity Commission also needs to consider the level of expenditure currently funded by Local Government for activities not funded by NDRRA. Such costs include NDRRA submission costs, internal costs (accounts payable, payroll etc.), some project management costs and day labour costs. Council has also invested significant betterment and complementary funds into the NDRRA program out of its annual Capital budget.

Raising the triggers to a higher (but still affordable level) is considered reasonable, as \$240,000 is a relatively small amount and does not represent a "disaster". If the trigger level was raised to a point that the impact was beyond what the Local Government could reasonably fund out of its Operational budget (eg. having to reallocate its external workforce for 1-2 months), NDRRA would be triggered less often. It is considered that raising the trigger to \$2 million is too high an increase and that a lower amount should be considered, with some modelling of the impacts undertaken, particularly for small to medium Councils that have limited own-source income (eg. rural Councils) located in higher risk natural disaster areas.

If the trigger was raised to a higher level for a "disaster", and the 75% funding maintained this would see funding going to those areas truly impacted rather than smaller events generating administrative and cost burdens to government to manage minor weather events.

Allowing Councils autonomy to manage relief expenditure would enable Local Governments to prioritise the restoration of services on a regional basis. Councils will need to ensure that Asset Registers are accurate and that Asset Management Plans and Strategic Network Plans and strategies consider regional levels of service, natural hazards and resilience planning. However, further assistance to achieve this would be required from State and/or Federal Governments.

This planning would require Councils to consider whether assets should be rebuilt in high-risk areas and/or the standard to which they are rebuilt. If a community is to remain in a location that has been impacted by a disaster it is obvious that essential services such as roads, water and sewer, would need to be rebuilt, potentially to a higher standard. However, non-essential parks and buildings may not necessarily be rebuilt in a high-risk zone. In theory Council should be able to relocate these assets to a low-risk location without having to justify the costs to the State and Federal Governments. Council should also be able to consider not replacing assets if they were providing a level of service greater than Council's desired regional level of service and use these allocated funds for the restoration or improvement of other more important assets.

This approach may see some levels of service reduce following a disaster, which will be difficult for the community to comprehend, particularly during the collective trauma and shock that often affects the community following a natural disaster. However, if a level of service is unsustainable outside of disaster funding it is still unsustainable even with NDRRA funding as it is the asset owner who has to operate and depreciate the asset.

This type of approach may also enable a relocation approach to be considered such as the "Strengthening Grantham" project.

It is noted that based on recent NDRRA experience with the Federal Government Inspectorate and Queensland Reconstruction Authority, the current approach to governance arrangements will seriously limit Council's ability to simply access funding. Should a revised model be considered a substantial change in approach will be required in order to provide the autonomy that is recommended.

#### DRAFT RECOMMENDATION 3.2

If the Australian Government reduces the relief and recovery funding it provides to state and territory governments, it should increase annual mitigation expenditure gradually to \$200 million, distributed to the states and territories on a per capita basis. The amount of mitigation spending could be adjusted over time to reflect the imputed 'savings' from reduced relief and recovery funding.

Increased mitigation funding should be conditional on matched funding contributions from the states and territories and best-practice institutional and governance arrangements for identifying and selecting mitigation projects. These would include:

- project proposals that are supported by robust and transparent evaluations (including cost-benefit analysis and assessment of non-quantifiable impacts), consistent with National Emergency Risk Assessment Guidelines risk assessments and long-term asset management plans, and subject to public consultation and public disclosure of analysis and decisions
- considering all alternative or complementary mitigation options (including both structural and non-structural measures)
- using private funding sources where it is feasible and efficient to do so (including charging beneficiaries)
- partnering with insurers to encourage take-up of adequate private insurance and private mitigation through measures such as improved information sharing and reduced premiums.

The proposed extra funding for mitigation is welcomed by Council but it should not be funded through a reduction in recovery funding. It is also unclear what 'mitigation' is envisaged, as it is extremely difficult to mitigate against the impact of a severe tropical cyclone. Cyclones have the ability to cause major destruction of infrastructure, not only on the coast, but a long way inland. Modern building codes and increased planning provisions are in place to limit the chance of the disaster consequence increasing. However, these provisions do not address the fact that there is a large population and quantity of infrastructure already existing in areas of high natural disaster risk. Furthermore, hard engineering solutions such as rock walls and levees are expensive to build and maintain, and even these do not guarantee that there will not be damage to properties and infrastructure following a disaster event.

Overall, mitigation is likely to reduce, but not eliminate damage caused by a natural hazard. It is considered reasonable to plan to reduce the impacts of future events through a more risk-aware approach to the provision of infrastructure in high risk areas, however, this is a long term solution that will require a great amount of leadership from all levels of government before the costs can even be estimated.

Dot points 3 and 4 of the recommendation are not considered to be practical and should not be relied upon as an option that will allow for a reduction in NDRRA funding.

#### DRAFT RECOMMENDATION 3.4

State, territory and local governments should further investigate non-traditional insurance products for roads. Where they do not already do so, state, territory and local governments should compile and publish detailed registers of road asset condition and maintenance for all roads over which they have jurisdiction (and have these registers independently audited). This may help insurance markets to understand and price the risk. Consideration should be given to the Victorian model in this regard.

The Council believes that the cost of insuring road assets, if cover could be obtained, is not feasible and will be cost prohibitive. Premiums on Council's existing insurance policies have already increased significantly over recent years, with insurance premiums on assets having increased by almost 100% over the past four years. Private household insurance premiums in the region have also risen dramatically and are becoming unaffordable for many residents. For any insurance scheme to be affordable it's likely to have to be provided on a national basis to share the costs across all governments to give those governments that are more disaster-prone some chance of affording the premiums.

Concerns also exist about the timeframe in which insurance pay outs would be available from an insurer following a major disaster event. The key to recovery is in getting infrastructure and services up and running as soon as possible with a degree of funding certainty and delays in approvals for funding would have an adverse impact on the economy.

#### DRAFT RECOMMENDATION 3.5

The Australian Government should:

- cease reimbursement to state and territory governments under the Natural Disaster Relief and Recovery Arrangements for relief payments for emergency food, clothing or temporary accommodation and assistance to businesses and primary producers (including concessional loans, subsidies, grants and clean-up and recovery grants)
- reduce the amount provided under the Australian Government Disaster Recovery Payment (AGDRP). The Australian Government Crisis Payment may provide a reasonable benchmark in this regard
- legislate the eligibility criteria for the AGDRP and the Disaster Recovery Allowance and make these not subject to Ministerial discretion.

The Council agrees that the payment of grants and disaster payments detailed above should be reviewed and better targeted, but it does not support them being ceased entirely. Council has concerns that such a move could be devastating to local agricultural industries, particularly sugar cane and bananas. Consideration should be given to the priority of this funding, when compared to funding of the restoration of public assets.

No amount of grant or payment could compensate for the loss of access or essential services, due to funding not being provided to Councils to restore infrastructure and essential services.

#### DRAFT RECOMMENDATION 4.1

When collecting new natural hazard data or undertaking modelling, all levels of governments should:

- make information publicly available where it is used for their own risk management and/or there are significant public benefits from doing so
- use private sector providers where cost effective, and use licencing arrangements that allow for public dissemination. Where there are costs involved in obtaining intellectual property rights for existing data, governments should weigh up these costs against the public benefits of making the data freely accessible
- apply cost recovery where governments are best placed to collect or analyse specialist data for which the benefits accrue mostly to private sector users.

The Council agrees that natural hazard data should be publicly available and without qualification in order to protect those who hold and/or own this data, including all levels of government.

While making data publicly available may have implications regarding an individual's insurance premiums or the ability to obtain loans to purchase land subject to high natural disaster risk, it will enable the public, insurance companies and financial institutions to be aware of the potential risks of natural disasters. By using the best available information it is hoped that the current natural disaster risk is not increased through poor planning or decision-making.

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#### INFORMATION REQUEST

*If guidelines for the collection and dissemination of hazard mapping and modelling are developed:*

- *who would be best placed to develop these guidelines?*
  - *what hazards could be covered?*
  - *how could guidelines for hazard types be prioritised for development?*
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The Council believes that State Governments are best placed to develop such guidelines.

Bushfire, flood and coastal hazards (including the impacts of climate change) are the minimum hazards that should be covered.

Prioritisation for development of hazard type guidelines could be determined through a multi-criteria analysis, which considers various impacts on communities, infrastructure and their overall costs. In effect targeting high cost and high risk hazard types first.

#### DRAFT RECOMMENDATION 4.2

State and territory governments, local governments and insurers should explore opportunities for collaboration and partnerships. Partnerships, for example, could be formed through the Insurance Council of Australia and state-based local government associations (or regional organisations of councils). Consideration could be given to the Trusted Information Sharing Network model, and involve:

- governments sharing natural hazard data that they already hold and undertaking land use planning and mitigation to reduce risk exposure and vulnerability
- insurers sharing expertise and information (for example, claims data) to inform land use planning and mitigation
- collaboration to inform households of the risks that they face and adequacy of their insurance to fully cover rebuilding costs, and to encourage private funding of mitigation through incentives such as reduced premiums.

The Council notes that this approach appears reasonable if it will result in better outcomes for the community, including less exposure to natural hazards, more sustainable infrastructure and reduced insurance premiums.

Council has utilised considerable hazard, risk and mapping data that it has available to inform the development of the proposed Cassowary Coast Region Planning Scheme, including flood, bushfire and landslip. However, further work is required for coastal hazard risk data.

#### DRAFT RECOMMENDATION 4.3

State and territory governments should hasten implementation of the *Enhancing Disaster Resilience in the Built Environment Roadmap*, including reviewing the regulatory components of vendor disclosure statements. Furthermore, the Land Use Planning and Building Codes Taskforce should consider possibilities for regular, low-cost dissemination of hazard information to households by governments and insurers (for example, the work of the Insurance Council of Australia to develop natural hazard ratings at a household level).

The Council has hazard information already available on its website. However, an improved and standardised approach to providing hazard information to the community would be welcomed.



DRAFT RECOMMENDATION 4.4

State governments should:

- clearly articulate the statewide natural hazard risk appetite in land use planning policy frameworks
- provide local governments with guidance on how to prioritise competing objectives within land use planning
- provide local government with guidance on how to integrate land use planning and building standards. Consideration should be given to Victoria's *Integrated Planning and Building Framework for Bushfire* in this regard.

Furthermore, local governments should publish the reasoning behind development assessment decisions.

DRAFT RECOMMENDATION 4.5

The onus is on state governments to ensure that local governments in their jurisdiction are sufficiently resourced to effectively implement their land use planning responsibilities. State governments should review the adequacy of local governments' resources and capabilities, and provide further resources and support where they are not adequate.

DRAFT RECOMMENDATION 4.6

State governments should provide additional support and guidance to local governments that addresses the extent of local governments' legal liability when releasing natural hazard information and making changes to land use planning regulations.

DRAFT RECOMMENDATION 4.7

The provisions in the Queensland *Sustainable Planning Act 2009* for injurious affection should be repealed.

The Council considers that recommendations 4.4 to 4.7 are appropriate. It is noted however, that indexation of the Federal Assistance Grants has been paused, which will limit what support can be provided by the State to assist Councils to be adequately resourced.

Furthermore, Council has utilised considerable hazard data that it has available to inform the development of the proposed Cassowary Coast Region Planning Scheme, including flood, bushfire and landslip. However, further work is required for coastal hazard risk data.

The current provisions relating to injurious affection in the *Sustainable Planning Act* are a potential impediment to planning considerations relating to natural disasters and their repeal is supported.

DRAFT RECOMMENDATION 4.8

State and territory taxes and levies on general insurance should be phased out and replaced with less distortionary taxes.

DRAFT RECOMMENDATION 4.9

Insurers should provide additional information to households regarding their insurance policies, the natural hazards they face and possible costs of rebuilding after a natural disaster. This work could be led by the Insurance Council of Australia to ensure consistency in the provision of information across insurers.

Recommendations 4.8 and 4.9 are considered reasonable by Council.

DRAFT RECOMMENDATION 4.10

All governments should put in place best-practice institutional and governance arrangements for the provision of public infrastructure, including road infrastructure. These should include:

- stronger processes for project selection that incorporate requirements for cost-benefit analyses that are independently scrutinised and publicly released
- consideration of natural disaster risk in project selection
- a clearer link between road-user preferences and maintenance and investment decisions.

The Council believes the proposed approach is appropriate providing guidelines are developed by State and Federal Governments in order to provide a consistent approach across the country and will require more emphasis to be placed on infrastructure and asset management planning. Such planning will need to give more consideration to natural disaster risk. Locally this will be an issue due to the flood and coastal hazards having a greater potential to impact the higher population and tourist areas in our region.

The use of cost benefit analyses is complex and onerous given the nature of the required data and will need to be standardised and simplified to provide a consistent approach across the country if such measures are to be implemented. The costs and benefits of public infrastructure are various and quite subjective, with very limited data available to provide a full analysis. The updating of such data is also very expensive and time consuming and would need to be funded by higher levels of government.

# Conclusions

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All levels of government need to acknowledge that Australia is a vast country prone to a wide variety of natural disasters. Our communities have often chosen to develop in areas that are potentially higher risk. These areas also often provide the highest reward in non-disaster times. Governments are now realising that the cost of this development when disaster strikes can be substantial. Planning reform and political leadership will be required to ensure the community risk is not increased.

Asset Management, Regional Levels of Service, Design Standards and Network Planning need to give increased consideration to resilience and prioritisation of all funding is required to ensure limited funds are spent in such a way that achieves sustainable and affordable levels of service for our communities. Investment in engineering for improved outcomes and resilience will provide far better return for our communities than over-regulation of financial processes associated with disaster funding.

At the same time, governments need to treat any funding with the appropriate level of diligence. No matter where the funding is coming from it should be spent on priority assets that provide a standardised regional level of service that has been detailed in Asset Management Plans and long term financial plans. There is certainly an opportunity to see more funds directed to on-the-ground outcomes rather than an overly complex and administratively burdensome administration process.

The proposed recommendations regarding NDRRA funding represent a major risk to Councils' ability to remain financially viable following a major natural disaster. All levels of government have responsibility to prepare for and manage post-disaster impacts. The ability for each level of government to cover the costs of disaster restoration is largely governed by their ability to generate income. With the current degree of Vertical Fiscal Imbalance and Local Government having by far the smallest revenue share of all levels of government, the possibility of shifting such a burden onto Local Government is unrealistic and unsustainable, and is not supported by the Cassowary Coast Regional Council.

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