



Floodplain Management Association

Supporting Wise Planning and Development

www.floods.org.au ABN 67 007 279 179

Chairman: Ian Dinham

21 October, 2014

FMA Submission on Productivity Commission Draft Report on Natural Disaster Funding Arrangements

The Floodplain Management Association (FMA) welcomes the opportunity to make a submission on the Productivity Commission's Inquiry *Draft Report – National Disaster Funding Arrangements*.

The FMA commends and supports many of the draft recommendations made by the Productivity Commission (the Commission) in the *Draft Report*. We acknowledge the Commission has taken the FMA's initial submission into account in developing the *Draft Report*, recommendations and findings.

The FMA will focus its comments on areas where we have concerns about a particular recommendation or finding, or where we have new information relevant to the Commission's Report.

Intergovernmental funding reform options

The FMA agrees with the Commission's finding regarding state and local government – as well as community – over reliance on Australian Government funding, which has led to:

- Limited incentives to reduce risk exposure through mitigation
- Disincentives for private risk management investment
- Short sighted government decisions based on election cycles and media interest; and
- Increased entitlement dependency, and decreased individual responsibility.

The FMA supports reforms that increase the autonomy of state and local governments to manage relief and recovery expenditure in a way that reflects the preferences and characteristics of their communities. We also support changes that would improve flexibility and reduce complexity in administration including a review of eligible expenditure to minimize duplication and inefficiency.

However, there is a danger that the primary focus of the *Draft Report* could be viewed as reducing Australian Government costs, rather than reducing losses caused by natural hazards. We urge the Commission to ensure its recommendations support a holistic approach to natural disaster funding that prioritises addressing community vulnerability and reducing losses caused by natural hazards. It follows that the Australian Government will ultimately benefit financially from investment in mitigation measures.

Funding arrangements for recovery

Reduced funding to state governments

We share the concern of other organisations, including the Australian Local Government Association, that state governments will not be able to fund this increased liability – particularly not without a substantial increase to their revenue stream - and will pass this cost on to local government and therefore ratepayers. While it seems reasonable to raise thresholds for Federal funding for "small" disasters, it is vital for rural councils in particular that state funding remain available due to their inability to raise funds from a limited, and already financially stressed, rate base. The FMA understands the principles driving these recommendations – including the aim of generating a strong incentive to invest in mitigation - and the Australian Government's desire to reduce its liability. However, as noted above, we believe the focus should be on reducing the damage caused by natural hazards and therefore the costs to all levels of government.

Assessed damages and benchmark prices

The FMA supports this approach provided that the benchmarking is realistic and achievable. The Commission has acknowledged potential practical difficulties in implementing a benchmarking approach. Further to this, we refer the Commission to the NSW Independent Pricing and Regulatory Tribunal (IPART) which was engaged to report on the feasibility of benchmarking infrastructure costs for inclusion in developer contribution plans (http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Reviews/Benchmark_Costs/Benchmark_costs_for_local_infrastructure_contributions). IPART's report demonstrates how complex benchmarking can become. Benchmarking needs to establish an acceptable level of service for an infrastructure asset, which reflects the base cost. However, a range of adjustment factors was then identified to account for the geographical location of the works in terms of proximity to materials and labour cost variations, constraints to the works (for example congestion), and contingencies. The draft report concluded that some infrastructure groups could reasonably be benchmarked; others not be benchmarked but could be referenced; and others were so site specific that they could not be reasonably benchmarked. It is assumed that flood repair works would fall into similar categories. However, added to the complexity of flood recovery are the possible economic influences of widespread natural disasters as occurred in Queensland, where scarcity of resources and skilled labour dramatically increased the unit costs, which therefore exceeded any reasonable benchmarks.

While there are complexities and practical difficulties involved in a benchmarking approach the FMA also notes that under current arrangements in NSW, all road damage restoration under the NDRRA is subject to scrutiny and approval by the state roads authority. Therefore, a form of "benchmarking" assessment is already in place.

Betterment

The FMA supports reform that will encourage the betterment of public assets when they are restored following a natural disaster (and encourages governments to consider options other than simply replacing an asset). The Commission's preferred reform option includes a presumption that giving states greater autonomy over how funds for reconstruction of essential public assets are spent would reduce the barriers to betterment or 'reduce the bias for rebuilding damaged assets to the same standard'. However it is not certain that the benchmark pricing approach would necessarily lead to more resilient rebuilding – while the main administrative barriers would be removed there would still be community pressures. Further, the *Draft Report* suggests that the benchmarked prices will reflect the cost of reconstruction to previous service standard in accordance with current engineering standards. There is no explicit mechanism to include betterment in benchmark pricing which would leave betterment to be undertaken where it does not exceed the benchmark price or

where savings are made across a program of works. While variations to the benchmarks could be applied, this adds to the administrative complexity of the system instead of simplifying it. The FMA would welcome further information from the Commission on how betterment is compatible with benchmarking.

Response to information request

Do state, territory and local governments maintain up-to-date asset registers?

How is asset management planning integrated into state, territory and local government budgets?

How do state, territory and local governments' asset management plans incorporate natural disaster risk management?

The FMA understands that most Councils in NSW have an assets register but the extent of detail and life costs would vary between city Councils and small rural areas - most small country Councils have limited resources and not many have a dedicated "Asset Manager".

NSW Roads and Maritime requires asset registers and maintenance management plans for all work on state highways and regional roads but not for local roads.

Based on our experience it is unlikely asset management plans incorporate natural disaster risk management as Councils generally do not have spare budget capacity, and the NDRRA have always provided the funds to restore damaged assets.

Funding Arrangements for Mitigation

The FMA welcomes the Commission's draft recommendations aimed at creating incentives for the Australian, state and local governments, as well as individuals, to invest in mitigation. In particular we support the recommendation to increase Australian Government annual mitigation expenditure to \$200 million. As stated above, the FMA believes the focus of reform should be on reducing the damage caused by natural hazards and therefore the overall costs of recovery and reconstruction. Consequently, an increase in Australian Government mitigation funding should occur irrespective of a reduction in relief and recovery funding to states and territories.

The Commission needs to be aware that mitigation options generally focus on reducing urban damages and will have little effect on reducing damage to infrastructure, such as road and rail networks (as was the experience in the Moree Plains Shire Council area following flooding in 2012, and in Queensland following the 2011 floods). That is why the NDRRA safety net remains important. Draft recommendation 4.10 goes some way towards addressing this issue in that it seeks to ensure consideration that natural hazard risks are embedded in arrangements for the provision of public infrastructure. Ensuring natural hazards and resilience issues are considered as part of 'mainstream' infrastructure planning and funding will also reduce the pressure on mitigation funding sources to address issues after implementation.

The FMA notes the Commission's recommendation that an increase in Australian Government funding for mitigation to \$200 million per year is conditional on matched funding contributions from state and local governments (collectively). This aspect of the recommendation raises concerns about local government's financial capacity to meet increased funding obligations. The FMA urges the Commission to ensure its recommendation explicitly includes flexibility for projects with a significant cost-benefit to be funded without matching local government funding. We also query the recommendation that increased mitigation funding be distributed among the states on a per capita basis. There is a range of factors that would need to be considered in determining which mitigation projects

offer the best value for money on a national basis. This is particularly true in industrial and commercial areas that support substantial employment and economic production, but have low levels of resident population. Accordingly, there would need to be a range of criteria that consider economic damages to private and public assets as well as loss of life. These criteria would need to include costs incurred during the recovery phase.

The FMA supports insurers being more involved in informing or providing information to assist in determining mitigation priorities provided they have appropriate/relevant expertise and a significant level of exposure (i.e. in areas of significant building density or value).

The Commission has suggested that arrangements for identifying and selecting mitigation projects should be supported by robust and transparent evaluations of proposals, and be subject to public consultation and public disclosure of analysis and decisions. Under the NSW Floodplain Development Manual methodology each flood study and floodplain management plan completed by a Council must be placed on public exhibition before implementation. The design of any project is also placed on public exhibition.

As noted in our initial submission the FMA is represented along with other stakeholders such as the Bureau of Meteorology and the State Emergency Service on the assessment committee that makes recommendations to the NSW Government about the projects to be funded under the Floodplain Management Grants Program. The Office of Environment and Heritage publishes assessment criteria, a description of all the projects that receive a grant and a range of other documents on its website. The FMA supports this level of transparency and engagement for all major natural hazard management activities as it reinforces community ownership of hazard risks and decision-making around how those risks should be addressed.

Policy Reforms to Improve Natural Disaster Risk Management

Information collection and sharing

The FMA supports draft Recommendations 4.1 and 4.2. The FMA plays an important role in promoting the principle of risk information transparency within its Membership. As noted in our initial submission, establishing robust frameworks for custodianship, collection and maintenance of flood risk and related information – such as information on flood management assets, building attributes and building floor heights – must be a priority. More importantly, these frameworks will not be effective unless supported by recurrent and consistent funding.

Our local government Members are now under pressure to provide flood and other natural hazard related information to a range of different stakeholders with different needs in a way that was unheard of ten years ago. While there has been an increase in demand there has not been a commensurate increase in funding or technical support. This should be explicitly recognised and supported. To this end we support exploring mechanisms to apply cost recovery as proposed by the Commission.

On the issue of a national information repository the FMA believes more needs to be done to support current efforts to centralise and standardise flood data, particularly given the range of users referred to above. We refer to the submissions of the Australian Business Roundtable for Disaster Resilience and the Insurance Council of Australia on this point.

The FMA is also a strong supporter of building partnerships and pursuing opportunities for collaboration between state and local governments and the private sector particularly insurers. In our initial submission we noted a number of initiatives which we have undertaken

to generate dialogue between insurers and our Members, and to establish the FMA as a forum to improve information sharing.

Most recently, the FMA hosted a workshop on New South Wales flood data and insurance in August 2014. The main objective of the workshop was to bring together the key players involved in creating and consuming flood data in the insurance context to work through each stakeholder's perspectives and challenges, as well as identify common ground. The workshop was attended by representatives from major insurers - Insurance Australia Group, Suncorp, QBE and FM Global – the Office of Environment and Heritage, Local Government NSW and the Australian Local Government Association. Three local government FMA Members - Gosford City Council, Fairfield City Council and Liverpool City Council - also attended to contribute 'on the ground' experience to the discussion. The FMA will convene a further workshop in November to review progress on action items aimed at improving information sharing between insurers and state and local government. Our Queensland Members, and partners in other jurisdictions such as Victoria, have expressed interest in establishing a similar insurance forum.

We will continue to look for opportunities to partner with other stakeholders including other local government based organisations, and welcome the recommendation recognising the importance of the collaboration we are pursuing with the insurance industry.

Communicating information to the public

Educating and engaging the broader community on their vulnerability to the impact of flooding and other natural hazards is also essential to building resilience. The FMA supports draft Recommendation 4.3 in so far as it relates to implementing improvements to vendor disclosure statements and exploring possibilities for low-cost dissemination of hazard information to households.

The FMA has recently made submissions to the New South Wales and Victorian Governments urging that they adopt an approach to vendor disclosure and communication of hazard information more broadly that focuses on informing residents about the full range of hazards they face, rather than relying on the planning controls residents may have to navigate.

Leaving aside how the information could or should be disclosed to the public – for example rates notices, insurance policy documents or vendor disclosure statements – it is important that wherever the community is receiving messages about risk that they are as accurate and consistent as possible. This relates back to the recommendations around information sharing and collaboration between stakeholders.

Land use planning

The emphasis on sound town planning integrated with best practice flood risk management is strongly supported, and is consistent with FMA policy and initiatives. We endorse Recommendations 4.4 and 4.5 particularly as they relate to the need for greater state government guidance and support for local governments on land use planning issues.

However, the suggestion in draft Recommendation 4.4 that Councils should be required to publish reasoning behind development decisions seems to be unnecessary. Determinations concerning development proposals are typically explained in reports and resolutions which are publicly available. For a minority of development types, the determination notices would be publically accessible and the statutory power authorising a consent would be specified. A

requirement for separate and additional reporting would be superfluous, costly and difficult to administer.

Legal liability

We acknowledge many of our local government Members face political and public pressure due to perceptions – justified or otherwise – about the impact which releasing flood risk information has on property values, development opportunities and insurance premiums.

We agree with the Commission's view that concerns about liability may be as much about perception as reality. However, our experience is that FMA Members face a variety of very real concerns when it comes to making land use decisions – and releasing information about hazard risk more broadly – and that they need to be supported through these concerns. The FMA is pursuing initiatives as simple as developing case studies and resources to explain how other Councils have addressed the legal and political risks involved, and to demonstrate the benefits and interrogate assumptions about the negative impacts of releasing information. However, we believe greater state government guidance and accountability would be the most effective way of relieving these concerns both real and perceived. In New South Wales and Queensland the proximity of the political pressure to the level of government with responsibility for making decisions and releasing information is a key factor. To that end we support draft Recommendations 4.6 and 4.7 as important steps in helping local governments and our Members in New South Wales and Queensland in particular address these concerns.

Building Regulations

The Commission has expressed reservations about the value of increased government funding for resettlements, retro-fitting and financial incentives for private mitigation to address legacy issues in existing areas of settlement. The FMA agrees that the focus of policy reform and additional funding should be on substantial further improvements that could be made to land use planning where it relates to new development. However, there is still practical benefit in funding voluntary house raising and voluntary purchasing for some communities with severe legacy flood vulnerability issues.

Conclusion

The Floodplain Management Association appreciates the opportunity to provide comment on the *Draft Report* on behalf of floodplain management authorities, businesses and professionals. The FMA brings together expertise and experience from all aspects of flood prevention, preparedness, response and recovery, which we would be pleased to further contribute at the Commission's hearings.

Brooke O'Rourke
Communications Director
Floodplain Management Association

Please address correspondence to:

Glenn Evans Executive Officer Floodplain Management Association
115 Marshall Street Garden Suburb NSW 2289 Email eo@floods.org.au