



17 November 2014

Natural Disaster Funding Arrangements  
Productivity Commission  
Locked Bag 2  
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MELBOURNE VIC 8003

Email: [disaster.funding@pc.gov.au](mailto:disaster.funding@pc.gov.au)

Dear Commissioners

**Supplementary submission to the *Natural Disaster Funding Inquiry***

The Local Government Association of Queensland (LGAQ) thanks the Commission for the opportunity to appear at the public hearings held in Brisbane on 31 October 2014. As you are aware, during the Brisbane public hearings LGAQ sought leave to consider a number of questions on notice. This supplementary submission provides information sought by the Commission in relation to those matters.

The LGAQ also wishes to seek clarification on the discussion of the 'second round' Commonwealth Grants Commission funding, and how this provides support for disaster recovery, to assist our understanding and explanation to our members of the likely impact of any change in the Commonwealth contribution share on Queensland local governments. This request is detailed in point 6 below.

1. On the request for specific examples of the potential impact of raising the small disaster threshold:
  - 1.1 October 2011 - localised heavy rainfall event in northern Queensland resulting in an eligible expenditure estimate of \$1.3 million. One council area was impacted (Cassowary Coast Regional Council) and only 8 months earlier in February 2011 this same council was at the centre of the impacts from Tropical Cyclone Yasi.
  - 1.2 3 - 4 February 2012 - Tropical Low in Far North Qld resulting in approximately \$1.9 million in damage across eight remote councils. Most of these were Indigenous councils which have no rates base and are primarily reliant on grants for all of their operations and community infrastructure works.
  - 1.3 Overall, LGAQ has now had an opportunity to review Queensland Reconstruction Authority (QRA) data relevant to this issue which indicates that a change to the small disaster threshold from \$240,000 to \$2 million if applied to events over the period March 2009 to January 2014 would have resulted in additional costs to Queensland councils of \$9.3 million. This figure is higher than the \$6.3 million previously estimated by the QRA which included only actual claims received to date. In subsequent discussions with LGAQ, QRA recognises that further claims up to \$9.3 million could be made for these events in accordance with current damage estimates and permitted timelines. A copy of the table provided by QRA is attached for reference (*Attachment A*).





2. On the request for comments about a move from a reimbursement model to a unit rate model, and local councils making an assessment of damages and then applying those to benchmark costs up to a threshold level of \$5 million after which point an independent assessor could be required:
  - 2.1 LGAQ's submission, and our initial response at the public hearing, noted that the primary objective of disaster funding arrangements is to return the service level to the local and broader community and economy. This often involves works necessary to re-open a local section of a transport route.
  - 2.2 The actual cost associated with the reinstatement of essential infrastructure will be subject to a range of variables and the process for estimating the cost of repair works is undertaken using the most effective methods available in what are often constrained environments. The LGAQ understands that cost estimates are subject to benchmark / unit rate costs at the claim assessment stage by the QRA and this is an appropriate way to apply a check on both quality and value for money. It is also understood that further checks are also applied by Emergency Management Australia (EMA).
  - 2.3 The LGAQ considers that the current model whereby cost estimates are prepared based on actual work required supports the primary objective to reinstate infrastructure and service levels. The LGAQ has concerns that a move to a unit rate model is likely to include dated rates and could not include all event-specific and local market factors, such as higher prices in remote areas or in times of high demand relative to the availability of reconstruction services and materials.
  - 2.4 Where unit rates are lower than actual cost rates, the unit rate model would result in local government receiving only partial funding compared with the current model under which there is a commitment by each level of government to actual cost contribution shares. A unit rates model would therefore likely result in local government facing a funding gap, preventing the timely re-building of infrastructure and failing to meet the primary objective to reinstate service levels for the community and economy.
  - 2.5 On the question regarding a threshold for the involvement of an 'independent cost assessor', LGAQ would have no objection to expert assistance being provided to councils to support the preparation of repair cost estimates at any threshold amount, subject to any fees being recognised as a 100% eligible expenditure. The LGAQ notes the QRA and EMA currently undertake reviews of expenditure claims by councils.
3. On the request for comments on an appropriate method for allocating mitigation funds:
  - 3.1 LGAQ notes from the discussion during the public hearings in Brisbane that the Commission recognises there is a case for mitigation funds to be allocated on a risk / benefit basis considering a range of factors, rather than on a simple per capita basis. LGAQ supports and strongly encourages the risk / benefit approach to the distribution of mitigation funding.
4. On the request for LGAQ's comments on whether the draft recommendations relating to land use planning could achieve the desired objective to have greater transparency and make sure that natural disaster risk is being taken into account, and that councils have got enough support and enough confidence to make those tough decisions:





- 4.1 LGAQ would welcome support for councils in the Final Report Recommendations that would provide councils with confidence to incorporate natural disaster risks in relevant local government land planning decisions. As noted at the hearings, appropriate statutory provisions are required to support local governments' ability to incorporate these factors by providing more certainty around liability and the vulnerability of community assets, which affects both council and broader community assets.
5. On the request for LGAQ's observations over the years of the consequences of changes to eligibility and funding arrangements between the State and local governments:
  - 5.1 The LGAQ notes that there is a significant history to the development of Commonwealth financial assistance grants and natural disaster funding arrangements. The Federal Government introduced financial assistance support in the 1970s, now known as the financial assistance grants, and further special funding programs at particular times including more recently the Roads to Recovery program. These were designed to address Vertical Fiscal Imbalance.
  - 5.2 The State Government had long provided significant financial support to local government for infrastructure funding by way of subsidies for water, sewer, drainage and a number of other programs, particularly around public buildings and public place programs. That funding has been significantly reduced in the past five years, with various programs being abandoned. An analysis undertaken about 12 months ago estimated this loss of funding from the State to councils to be about \$800 million a year. That situation has had a major impact on many councils, particularly in the high growth areas of the South East corner and coastal councils.
  - 5.3 The prospect of Commonwealth funding for natural disasters being reduced and the question of who can meet that funding gap transfer is a cause of concern for councils. The LGAQ recognises that the State budget position is constrained and the current State Government has various proposals to address that. In this setting, LGAQ does not see a capacity for the State Government to meet a funding gap for natural disaster expenditure left by a reduction in the Commonwealth's contributions. The obvious consequence of this is that any reduction in the Commonwealth's contributions would be wholly passed onto councils, who have even less capacity than the other levels of government to source this funding from its revenues.
  - 5.4 Subsequent to the Brisbane public hearings, the Premier of Queensland has written to the Prime Minister indicating that, in broad terms, based on the State's own assessment it does not have the capacity to 'take up' the proposed reduction in Commonwealth funding for natural disasters, and that such a move would represent a 'cost shift'. LGAQ has received a copy of the letter from the Premier to our Association President and this is attached (*Attachment B*).
6. Lastly, on the related matter of the relative capacities of the Commonwealth and the State Governments to meet contribution shares of disaster funding, and the specific draft recommendation that the Commonwealth reduce its contribution share from 75% to 50% and that the Queensland State Government would receive 'second round funding' through the Commonwealth Grants Commission process that would provide the capacity to 'take up' this shift in contribution shares:
  - 6.1 LGAQ's submission considered the redistribution of GST revenues to the State and notes that after this adjustment the Commonwealth's revenue share is approximately 70%, compared with Queensland State revenue of 27% and local government revenue of 3%.





6.2 LGAQ respectfully requests that the method by which the Commission has determined that the Queensland State Government would receive funding through the Commonwealth Grants Commission process or any other grant / funding mechanisms that would provide the capacity for levels of government other than the Commonwealth to 'take up' this shift in contribution shares be made publicly available, including the data and calculations used to support this position. The LGAQ requests this information prior to the release of the Final Report so that it can be reviewed and responded to as necessary.

The LGAQ is pleased to provide this supplementary submission and to make any further contributions sought by the Commission. I am happy to discuss any of the matters raised in the submission and can be contacted on (07) 3000 2245.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Greg Hoffman'. The signature is fluid and cursive.

Greg Hoffman PSM  
GENERAL MANAGER – ADVOCACY

Encl: Attachment A - NDRRA expenditure by event by Queensland council March 2009 to January 2014 (QRA)  
Attachment B – Letter from the Premier of Queensland to the Prime Minister on the Inquiry (12 Nov 2014)

