SUBMISSION TO THE PRODUCTIVITY COMMISSION

NATURAL DISASTER FUNDING ARRANGEMENTS

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INTRODUCTION

The Western Australian Association (WALGA) is the united voice of in Western Australia. WALGA is an independent, membership-based group representing and supporting the work and interests of 138 Local Governments in Western Australia.

WALGA provides an essential voice for over 1,200 elected members and approximately 14,500 employees as well as over 2 million constituents of Local Governments in Western Australia. WALGA also provides professional advice and offers services that provide financial benefits to the Local Governments and the communities they serve.

The comments contained in this submission have not yet been considered or endorsed by WALGA’s State Council, as such, please be advised that this is an that WALGA reserves the right to modify or withdraw the comments as directed by State Council.

GENERAL COMMENT

Western Australia (WA) is faced with a broad range of natural disaster risks that require significant and coordinated response and in some cases long term recovery management. Most Local Governments have difficulty raising enough ‘own-source’ revenue to meet their expenditure needs. As a result, Local Governments are dependent on transfers from other levels of government in Australia. [1]

Over the past three years Western Australia has experienced some extra ordinary disaster events including the floods in the Carnarvon Upper Gascoyne and Kimberley regions, Perth hail storms of March 2010, the Perth Hills fires of 2011 and the Margaret River fires the following year. Western Australia in the north is impacted regularly by tropical cyclones while the southern half experiences severe storms that prove costly in damage done to Local Government and state infrastructure. The rebuilding of roads is the single most expensive activity undertaken by the State and Local Government.

Local Governments face a number of challenges in addressing their emergency management responsibilities, which require a coordinated approach across Government. In WALGA summary contends that:

- the current framework for the allocation for Natural Disaster Funding needs to change to increase support for mitigation measures.

- greater fiscal equity and funding for repairing of damaged infrastructure (to a more resilient standard) including appropriate trigger points for access to funding and thresholds to limit the amount liable to be paid for each eligible event.

[1] Refer to additional information provided at appendix 1.

- Greater flexibility to use their own resources to undertake restoration works as is required currently through the Natural Disaster Relief and Recovery Arrangements (NDRRA) determination.

- Access to additional expertise to assist with assessing and planning/designing for recovery projects and designated funding to Local Government for the development of emergency risk management plans and recovery plans.

RECOMMENDATION

The Association welcomes the release of the Productivity Commissions draft report, *Natural Disaster Funding Arrangement* and the intent of key findings. It is clear that the report has examined the issues concerning natural disaster funding arrangements in detail and a considered response to the issues has been developed by the Commission.

Given the considerable amount of detail contained in the Commission’s report and the limited timeframe within which WALGA has had to consult with its Members to form a representative submission, WALGA’ feedback has been limited to the draft recommendations, findings and information requests.

BUDGET TREATMENT OF NATURAL DISASTERS

RECOMMENDATION	WALGA COMMENT
DRAFT FINDING 2.1 The budgetary treatment of natural disaster costs as an unquantified contingent liability means that governments make decisions about natural disaster risk management without having full information about the potential consequences. Where governments make no explicit budgetary provision for the costs of recovery from future natural disasters there is a systematic bias against mitigation and insurance.	WALGA supports this finding.
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.	WALGA supports this finding but believes that this recommendation should also be extended to each of the State and Territory Governments.

FUNDING ARRANGEMENTS FOR RECOVERY

DRAFT FINDING 2.2 Some cost sharing between the Australian and state and territory governments in the form of a fiscal 'safety net' to assist with the cost of natural disasters is	The thresholds and criteria for the Western Australian Natural Disaster Recovery and Relief Arrangements are drawn directly from the NDRRA. A natural disaster with a

inevitable because of vertical fiscal imbalance. The current funding arrangements exceed the requirements for such a safety net. • The current thresholds for funding under the Natural Disaster Relief and Recovery Arrangements (NDRRA) do not constitute a major fiscal burden that exceeds state and territory governments' funding capacity. • The NDRRA 'small disaster criterion' is too low. It captures small, routine events that are unlikely to constitute natural disasters. • A marginal reimbursement rate of 75 per cent is excessive and is not consistent with other cost sharing arrangements in the Federation. • The scope of eligible expenditures under the NDRRA is unclear in some cases, and includes activities that are the core responsibilities of state and territory governments. Ministerial discretion for 'exceptional circumstances' assistance adds more uncertainty around eligible expenditure.	relatively small financial impact at a State level (with revenues of the order of $ 25 billion) would have a catastrophic impact on a typical rural or remote (with annual revenue in the order of $2 million). If the threshold for an event is increased, it will also bring into greater focus difficulties in determining whether observed damage is the result of one or more natural disasters. For example, flood damage caused by a sequence of cyclones or storm fronts over successive days or weeks. The marginal reimbursement rate is appropriate for assets, reflecting the enormous vertical fiscal imbalance between Commonwealth and Local Governments. Local Governments have direct responsibility for most of the assets – but only 3% of the tax revenue raising. Scope of eligible expenditures is unclear to Local Governments. Advice received is that each event is unique and need to continuously consult with State Government regarding eligibility.

DRAFT FINDING 2.4 Prescriptive requirements in the Natural Disaster Relief and Recovery Arrangements (NDRRA) limit the scope for cost shifting, but also impose administrative costs. • The reimbursement model under the NDRRA reduces the incentives for state, territory and Local Governments to implement the most cost effective options for disaster recovery. • Restrictions on reimbursement for inputs for reconstruction (such as restrictions on reimbursing the use of 'day labour') lead to wasteful spending. • The bias in the NDRRA toward rebuilding damaged assets to their pre disaster standard leads to excessive reconstruction expenditure. • There are numerous barriers to the use of the Betterment provisions. • A lack of clarity around what constitutes 'current building and engineering standards' leads to inconsistent application of the clause and inequitable outcomes	WALGA strongly supports moving away from the prescriptive requirements of the NDRRA. Needs significant clarity to be provided concerning how an alternative damage cost model would work – who would estimate the costs / values and on what basis? WALGA agrees with this finding, particularly that restrictions on the use of day labour are counter-productive. Refer to Appendix1 for further information
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	Conditionally Support WALGA contends that for any reduction in Australian Government funding contributions for disaster relief and recovery should be offset by a proportionate increase in the Government's contribution to disaster mitigation funding.

characteristics of their communities	
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: page 6 • 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.	Conditionally Support WALGA supports a substantial increase in Commonwealth support for mitigation but does not believe it should be tied to a reduction in the Commonwealth’s support for relief and recovery. The Commonwealth Government collects 81.5% of all taxation receipts in Australia. and therefore must, expect to play the major role in funding individuals, communities, Local and State Governments suffering from the effects of natural disasters in circumstances where they are unable to support themselves. In particular the role of the Commonwealth Government is important when natural disasters occur in locations that are fundamental to the national economy as it is of everyone’s interest and not just the Local Government. The current role of the Commonwealth Government is a fundamental component of a shared responsibility approach which provides more effective outcomes. A reduction in Commonwealth investment may jeopardize the process of natural disaster risk management. In Western Australia, Natural Disaster Relief

	and Recovery Arrangements (NDRRA) reflect those established at the state and territory level. The consequence of this is that any suggestion to substantially reduce the level of assistance provided by the Commonwealth to the States/territories will almost certainly flow on to local government, the level of government least able to absorb the financial impact of natural disasters. The small disaster threshold was designed to exclude the very small events which jurisdictions were expected to cope with themselves. In Western Australia it is $240,000 which is also applied to Local Government.

Interaction with Commonwealth financial relations

DRAFT Recommendation 3.6 The Commonwealth Grants Commission should revisit its assessment of 'average state policy' and accompanying accountability requirements for natural disaster policies once the Australian Government has announced its decision regarding relief and recovery funding arrangements.	Conditionally support A key feature of the GST distribution model is that funding is provided to the states on a policy neutral basis. The Association considers that this approach is appropriate since GST revenue is provided as a source of

	untied funding. If the Commission believes the Commonwealth Government needs to incentivize specific natural disaster policy measures by state governments, then a separate funding pool should be used for this purpose.

Government insurance

DRAFT FINDING 2.3 There are several impediments to state, territory and Local Governments taking out adequate insurance for their road assets against natural disaster damage. • The current natural disaster funding arrangements reduce the incentive for state, territory and Local Governments s to insure their assets. • Most state, territory and asset registers are not adequate for the requirements of insurers. • Most state, territory and Local Governments have not fully explored the use of non-traditional insurance instruments for insuring roads.	WALGA would require much more time to provide a considered response to this recommendation. The timescale laid down is insufficient to canvass the broad range of views required to give a comprehensive response on the use of non-traditional insurance instruments. It would appear that this would more naturally be best carried out by State or Commonwealth Government. The risk to roads arising out of a natural disaster is unique from a traditional insurance perspective. However non-traditional insurance instruments may materially change risk profiles; they also may often involve products that are more complex than traditional insurance products. The complexity

	of the risk management necessary to handle risks to roads may be very onerous on Local Governments if not managed and resourced correctly; or if imposed with unrealistic timeframes.
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 s 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.	Such an investigation is likely to be both a difficult and resource intensive task to complete and may not necessary lead to a productive outcome for governments in general, but particularly for Local Governments. Accordingly, it would be more productive and cost effective if the Commonwealth and/or State Governments examined such insurance products and provided with examples of where such non-traditional insurance products may be effective for Local Government s to pursue. We would need to explore the merits of the Victorian Model and take advice on its appropriateness and how this may be replicated in Western Australia.

Managing shared risks

DRAFT FINDING 2.6 The Australian Government Disaster Recovery Payment (AGDRP) is significantly higher than the Crisis Payment that is provided to assist income support recipients with the impacts of traumatic events. As such, the AGDRP may be higher than necessary to meet the emergency needs of people affected by natural disasters. Eligibility criteria for the AGDRP tend to be adjusted following a major natural disaster and have progressively become broader in their scope. Ministerial discretion over the eligibility criteria has led to inconsistent and inequitable treatment of people in comparable circumstances and has contributed to increased program costs. There is overlap and duplication between the AGDRP and state and territory government emergency assistance to individuals. The Australian Government is better placed than the states and territories to provide emergency assistance to individuals in an efficient and timely manner.	WALGA agrees with this finding, though it questions the appropriateness of using the Crisis Payment as a benchmark for assessing the level of the AGDRP. WALGA agrees that ministerial discretion over the AGDRP eligibility criteria is not appropriate.
DRAFT FINDING 2.7 The case for government assistance to businesses and primary producers after a natural disaster is weak. If governments do provide assistance to businesses and primary producers, untied grants are a more efficient, effective and equitable instrument than loans and subsidies.	WALGA agrees with this finding. However, if no assistance is provided to businesses and primary producers, it is important that a sufficient safety net is available to business owners and employees as individuals.
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.	WALGA does not support a reduction in funding to State and Territory Governments. In respect to the second dot point – any decision to reduce the AGDRP should be accompanied by a careful determination of an appropriate level for the payment. This should include assessment of costs incurred by households and individuals in previous natural disasters.

Information

DRAFT FINDING 4.1 The availability of information on natural hazards and exposure has improved significantly in recent years, especially in relation to floods. However, there is scope for greater coordination and prioritisation of natural hazard research activities across governments and research institutions.	WALGA supports this finding and believes that despite recent efforts, such as the recently published bush fire hazards mapping by the WA State Government, further opportunities exist to improve the level of hazard information.
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	Conditionally Support As well as being far more cost effective, it would also be more far ‘user friendly’ and more accessible to property owners if the relevant risk management information was

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.	held by a central body / portal either at the national by state level. All tiers of Government should be encouraged to use such a portal to disseminate their information.
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 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.	WALGA supports greater collaboration between all relevant sectors including the construction and real estate industries. Further the Association believes that market based responses, such the cost of sourcing adequate insurance should be used in conjunction with statutory responses such as construction standards to encourage property owners to make more informed decisions about the level of risk that property is exposed to, particularly at the time of purchase.
DRAFT RECOMMENDATION 4.3 State and territory governments should hasten implementation of the *Enhancing*	The Australian New Zealand Emergency Management Committee proposes seven

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).	priority areas for improvement, each with recommended implementation activities: integrated legislation, process enhancements, comprehensive data and mapping, collaborative vendor disclosure, governance partnerships, lifelong education and training, and inter-jurisdictional collaboration. to improve the interaction between planning legislation enacted by each State and natural disaster risk management. This is supported by WALGA. Within this context, the WA planning system has several State Planning Policies (SPP) that specifically influence the planning decisions made at a local level, as they are given 'due regard' when a Local Government prepares its local planning scheme or any amendments prepared. SPP 3.4 Natural Hazards and Disasters provides the broad outline of all hazards within WA, SPP 2.6 State Coastal Planning Policy specifies management along the coastal areas, sea level rise and storm surge issues, while draft SPP 3.7 Planning for Bushfire Management has recently been released to consider bush fires.

	WALGA believes that vendor disclosure is a critical component of the natural hazards risk management process. It is important any proposed building assessment criteria is not burdensome for local Governments to check and maintain.

Regulating the built environment

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.	Support WALGA strongly supports this recommendation and considers it to be imperative that the State Government set out a framework which defines the level of risk acceptability and provides guidance in managing competing land use objectives. Furthermore, WALGA contends that this guidance should be binding on both Local and State Governments. As such, the State Government should also be accountable and publish the reasoning behind its land use and 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	Support WALGA's recent '*Review of Planning Fees and Charges*' highlighted that Local

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.	Governments do not receive full cost recovery in undertaking their land use planning responsibilities. As such, the capacity of Local Governments to provide land use planning functions supporting their communities is severely diminished.
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.	Whilst WALGA is supportive of providing further guidance to Local Governments WALGA contends that Governments should not be held responsible for decisions made in good faith and that property owners should not be injuriously affected by any decisions which limit development potential. There needs to be some clarity over the extent, scope, content and timing of disclosure obligations in respect to natural hazard information known to Local Governments. There also needs to be a clear statement as to how disclosure impacts on the 'good faith' test laid out in the Act (WA). Many Local Governments are concerned, and confused, about their obligations and the potential legal liability to existing and subsequent property owners arising out of a failure to release reasonably accurate hazard information. Especially if this could be potentially more damaging from a liability

	perspective than any liability arising out of the actual release of the information in the first place. There needs to adequate liability safeguards in place to protect Local Government making *good faith* development decisions based on the current state of knowledge. It would be unfair to expect planning departments to gaze through a prism and make decisions based upon hazard information that may only become available at some future date and then find themselves' legally accountable. Consequently we agree that there needs to be significant additional support and guidance in respect to legal liability so that planning departments are clear as to their obligations regarding releasing hazard information for existing areas of settlement as well as new developments.
DRAFT RECOMMENDATION 4.7 The provisions in the Queensland Sustainable Planning Act 2009 for injurious affection should be repealed.	N/A The Association does not wish to make comment with regard to the Queensland's legislative framework. See our comment above.
DRAFT RECOMMENDATION 4.10	Conditionally Support

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 scrutinized and publicly released • consideration of natural disaster risk in project selection • a clearer link between road user preferences and maintenance and investment decisions.	There needs to be recognition that a strict cost-benefit analysis would probably mean that public infrastructure including roads should not be provided at all in many remote areas. For example, there are some communities affected by disaster that would probably have been hard to justify to be rebuilt using the CBR approach. The same may apply to roads with relatively low traffic levels. The CBR would conclude that the small amount of traffic use alternative routes. This would be seen by the local communities as a significant diminishment of service. Local Governments vary in terms of their size, scope, resourcing and capability. While some Local Governments may have appropriate capabilities to undertake cost-benefit analysis of mitigation activities, this is not a core function of Local Government and these skills would not be available in all Local Governments. The NDRRA is fundamentally an arrangement with the States and Territories. The responsibilities of Local Governments to undertake cost-benefit analysis of mitigation activities is not defined. The States potentially have a role in

	supporting cost-benefit analysis of mitigation activities and would have the capability to do so if adequately resourced.

Insurance

DRAFT RECOMMENDATION 4.8 State and territory taxes and levies on general insurance should be phased out and replaced with less distortionary taxes.	Support WALGA supports the removal any barriers which restrict the take up of insurance
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.	Support WALGA believes that it is important that property owners understand how their insurance premiums are calculated and informed of measures that they take to reduce their premiums.
DRAFT FINDING 4.2 International experience has shown that government intervention in property insurance markets (either through direct provision of insurance or by providing	Conditionally Support WALGA agrees that it is important that insurance premiums appropriately reflect the

reinsurance) weakens the price signals that insurance premiums send to households and businesses about the level of risk faced. These schemes also create fiscal risks. Governments have had to bear significant costs following large natural disasters because their insurance schemes failed to accumulate adequate reserves.	level of risk exposure property owners are exposed to. However WALGA believes that any incentives or subsidies for insurance that currently exist should be phased out so as not to disadvantage property owners who unintentionally may not have been fully aware of risk that they were exposed to at the time of purchase. Further, transiting such arrangements may allow property owners to undertake appropriate mitigation measures, such as building upgrades in advance of being exposed to market rate insurance premiums.

APPENDIX 1

FURTHER ADVICE BEING SOUGHT BY THE PRODUCTIVITY COMMISSION

BUDGET TREATMENT OF NATURAL DISASTERS

Do state, territory and Local Governments maintain up to date asset registers?
How is asset management planning integrated into state, territory and budgets?
How do state, territory and Local Governments' asset management plans incorporate natural disaster risk management?

Please refer to additional documents provided.

- *Integrated Planning Framework*
- *Local Government Operational Guidelines Number 09 – (Revised September 2013) Audit in Local Government.*

Financial sustainability of rural Local Governments (Refer to Footnote 1)

Most Local Governments have difficulty raising enough 'own-source' revenue to meet their expenditure needs. As a result, Local Governments are dependent on transfers from other levels of government in Australia. For example, the Financial Assistance Grants (FAGs) scheme is a major source of Commonwealth funding to Local Governments.

Rural Local Governments often have a small rates base due to low populations and are particularly dependent on FAGs and other grants. The following table shows FAGs as a proportion of total revenue by Australian Classification of Local Governments (ACLG). The FAGs proportion ranges from 0.4% in the Urban Capital City category to 36.7% in the Rural Remote Extra Small category.

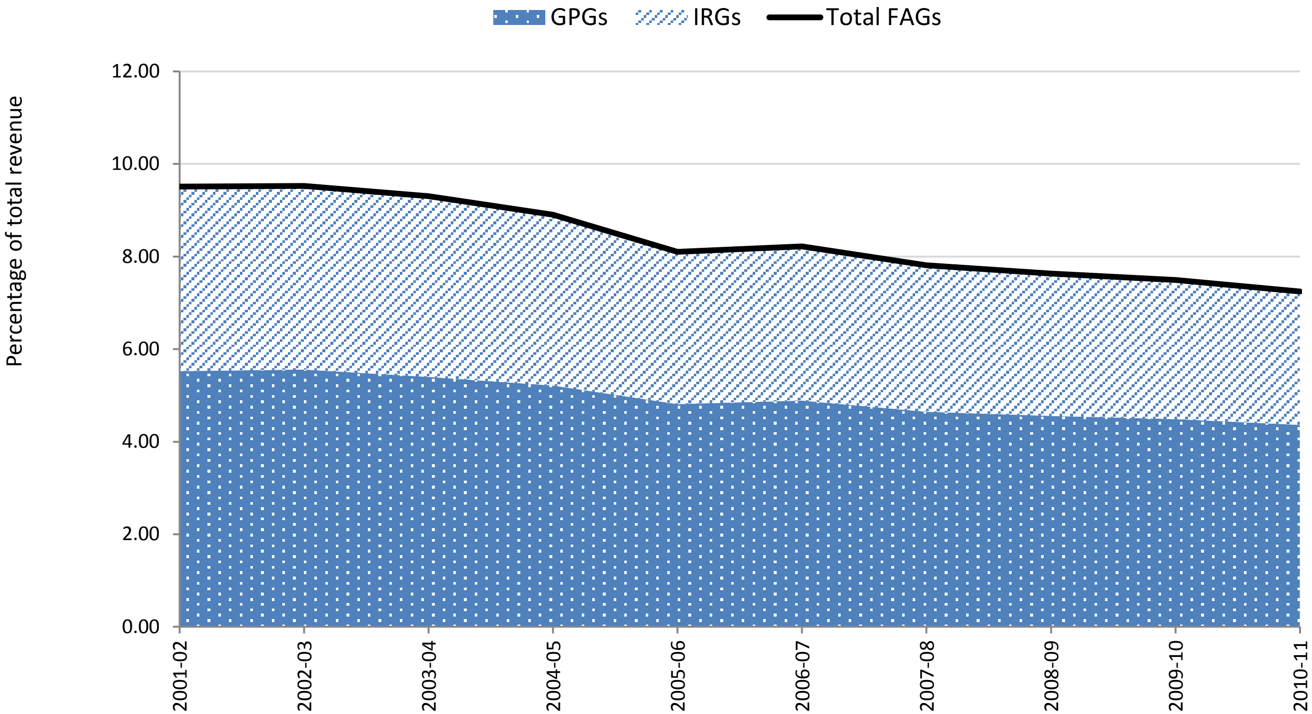
Table 2.3 FAGs as a proportion of WA Local Government revenue by ACLG, 2010-11

ACLG description	ACLG code	FAGs as a proportion of total revenue (%)
Urban Capital City	UCC	0.4
Urban Developed Small	UDS	2.1
Urban Developed Medium	UDM	2.6
Urban Developed Large	UDL	3.1
Urban Developed Very Large	UDV	3.6
Urban Regional Small	URS	5.8
Urban Regional Medium	URM	4.6
Urban Regional Large	URL	n/a
Urban Regional Very Large	URV	n/a
Urban Fringe Small	UFS	n/a
Urban Fringe Medium	UFM	4.2
Urban Fringe Large	UFL	2.4
Urban Fringe Very Large	UFV	2.4
Rural Significant Growth	RSG	9.1
Rural Agricultural Small	RAS	21.0
Rural Agricultural Medium	RAM	13.3
Rural Agricultural Large	RAL	12.3
Rural Agricultural Very Large	RAV	12.5
Rural Remote Extra Small	RTX	36.7
Rural Remote Small	RTS	22.3
Rural Remote Medium	RTM	25.5
Rural Remote Large	RTL	19.6
All ACLG categories	-	**7.2**

Source: WALGGC 2010-11 data

Unfortunately, despite the importance of FAGs to Local Governments in WA, this source of revenue has been decreasing in relative terms over time:

Figure 2.15 FAGs as a proportion of total WA Local Government revenue



Source: ABS, 5512.0; WALGGC Annual Reports; author calculations.

In 2001-02, FAGs made up 9.5% of Local Government revenue in WA. By 2011-12, the FAGs proportion had decreased to 7.2%. As a result of this decreased assistance from the Commonwealth, Local Governments must increasingly draw upon the fiscal capacity of their communities. While this may be possible for some Local Governments in urban areas with high socio-economic status, the same cannot be said of most Local Governments in WA. Rural Councils, in particular, are heavily reliant on grant funding and already have rate levels at or near their feasible maximum. Indeed, in 2008, the Productivity Commission found that rural and remote Local Governments were already drawing heavily on their fiscal capacities and had little potential to increase their own-source revenue2.

The decline in FAGs and the low fiscal capacity for most Local Governments in WA have contributed to a significant infrastructure backlog for the sector. The Association estimated the size of this backlog was $1.75 billion in 20053. The recent review of the Country Local Government Fund suggested this estimate is 'potentially very conservative' and that $800 million of maintenance expenditure may be required for the State's road network alone4.

Cost shifting from other levels of government presents a further financial challenge. The 2003 'Hawker Report' found that while Federal and particularly State Governments expected Local Governments to undertake more functions, little or no funding was provided to match the increased responsibilities5. In rural areas Local Governments are often the service provider of last resort and must fill the gaps left by other levels of government. Typically, this includes funding services that are essential to their communities, such as emergency and medical services.

[2] Productivity Commission 2008, *Assessing Local Government Revenue Raising Capacity*.
[3] WALGA 2006, *In Your Hands: Shaping the Future of Local Government in Western Australia – Final Report.*
[4] Western Australian Regional Development Trust 2012, *Review of the Royalties for Regions Country Local Government Fund.*
[5] House of Representatives Standing Committee on Economics, Finance and Public Administration 2003, *Rates and Taxes: A Fair Share for Responsible Local Government.*

FUNDING ARRANGEMENTS FOR RECOVERY

The Commission seeks information from state and territory governments regarding natural disaster costs by event to inform its analysis of the small disaster criterion. In particular, the Commission requests a list of Natural Disaster Relief and Recovery Arrangements eligible events with total expenditure for each event for the past five financial years.

Should there be a more explicit definition of counter disaster operations under the Natural Disaster Relief and Recovery Arrangements (or any future arrangements)?

- **To what extent are extraordinary counter disaster operations costs subject to separate Australian Government cost sharing arrangements?**
- **To what extent are activities that are the normal responsibilities of state and territory governments being included as eligible expenditure under this clause?**
- **To what extent do councils utilise day labour and own equipment for community recovery activities, such as counter disaster operations?**

Guidelines for eligible expenditure means that Local Governments can claim only overtime costs for day labour workforce deployed to repair infrastructure damaged or destroyed by natural disasters. The amount of work required is often significant and extends over weeks and months. If the Shire's day labour workforce is utilised there is a real cost in terms of other projects not delivered and has potential impacts on funds granted to complete these other projects. This is not recognised within the current eligibility criteria for NDRRA reimbursement.

Consequently, to the extent practical, Local Governments will seek to engage contractors to undertake the major activities associated with restoring essential public assets. This has negative implications including:

- Slower restoration - the time taken to contract and mobilise contractors can be significant, particularly in times of high demand and in remote locations;
- Higher costs – private contract rates are typically higher than Local Government costs and have to include mobilisation costs. It is particularly difficult to negotiate competitive rates when urgent responses are required;

- Inequity between Local Governments – as those closer to regional centres are generally able to source contractors, and hence recover the costs, while the most remote are unable to do so quickly.
- Community resilience is lessened, as the local people are not fully engaged in the recovery effort.

There is also often significant uncertainty for Local Governments regarding whether expenditure incurred will be eligible and paid and the timing of that payment. This has led to substantial delays in work being undertaken with resultant negative impact on business and the community.

The grouping of particular measures to Category A and Category B is not intuitive and should be examined to determine if it has unintended consequences. A Category A measure is a form of emergency assistance that is given to individuals to alleviate their personal hardship or distress arising as a direct result of a natural disaster.

However, Category B measures, that primarily focus on counter disaster operations and the restoration of essential public assets, activities primarily undertaken by Local (and State) Governments includes "loans, subsidies or grants to alleviate the financial burden of costs incurred by certain businesses, primary producers, voluntary non-profit bodies and individuals as a direct result of a natural disaster."

It may be preferable to group measures focussed on individuals (businesses and non-profit bodies), separately to those focussed on broad community activities such as counter-disaster operations and restoration of essential public assets. It is reported that around 90% of eligible expenditure in Queensland in 2010/11 was on Category B measures, highlighting that this combined Category addresses the major activities following a natural disaster.

The threshold amount for the small disaster criterion is set at $240,000. This is not adjusted in accordance with the financial capacity of Local Governments to bear the costs to essential public assets below this trigger point. It also does not take into consideration that Local Government mirror the arrangements made between Local and Commonwealth Governments. The proposed $2 million threshold is not realistic for Western Australian Local Government. The threshold amount for the small disaster criterion is approximately equal to the annual rates revenue of the most remote Local Governments in Western Australia. Given that Local Governments do not have reserve funds to meet disaster expenses, these will be drawn from other projects or programs, or debt funded. About 55 West Australian Local Governments have annual rates revenue of less than $2.4m or ten times the small disaster criterion and for these at least; costs close to the threshold would have a major budgetary impact.

The concept of utilising the opportunity presented by the need to reconstruct an essential public asset following a natural disaster in such a way as to reduce the likely cost of future disasters is a sound one. However, the Association is unaware of the specific 'betterment' provisions in the NDRRA being utilised. When seriously damaged or destroyed infrastructure is reinstated, contemporary construction approaches and techniques are employed, which may result in some betterment of the asset. For example, timber bridges would typically be replaced with concrete culverts if practical. However, there are a number of hurdles within the current NDRRA guidelines for 'betterment' that may make the current regime impractical including:

- The need to demonstrate that the infrastructure has been damaged and repaired "repeatedly." This term is not clearly defined and in some cases records may not be sufficient to demonstrate repeated damage. For example, locally it may be known that a particular floodway regularly requires re-construction following major flooding events, but only some of these events may have been declared natural disasters (depending on the scale of the damage) and previous reconstruction activities may have been recorded as part of the reconstruction of a road length.
- "cost-effectiveness" may be difficult to establish for non-commercial assets (which include most roads in rural and remote Australia) and require assumptions regarding the future frequency of similar events.
- A contribution from the Commonwealth Government is only triggered if the State reaches its NDRRA threshold for the period. This may be unknown at the time that the State is considering a proposal from a Local Government.
- The Local Government (and the State Government) are unlikely to have budgeted for the additional expenditure and may not have the capacity to finance this in a timely way.
- The design work and potential approvals (Environmental, Heritage etc) required may mean that it is difficult to implement a project that includes betterment of a damaged essential public asset in a timely way to meet both community / industry requirements and the allowable time limits under the NDRRA.

While the betterment of public assets to ensure that they are more resilient in the face of natural disasters is likely to be in the long term interests of Commonwealth, State and Local Governments, it is not necessarily the case for an individual asset in a specific time frame. In the specific instances other considerations, including those identified above may mean that this cost effective mitigation strategy is not pursued.

It would be helpful to examine successful and unsuccessful 'betterment' funding applications to identify steps that would be necessary to see this as an integral part of the restoration strategy following a declared natural disaster.

What sort of trigger is most appropriate for an upfront grants model (under the Commission's reform option 3)? Is a threshold of 0.2 per cent of state or territory government revenue an appropriate measure of fiscal capacity where an event based trigger is used?

This needs to be defined at State Government level – otherwise the States will be (or feel) constrained by the National Guidelines.

TRANSITIONAL REQUIREMENTS

To what extent would currently available estimation methods, such as the National Impact Assessment Model, inform the estimation of benchmark costs? Would additional assessment tools need to be developed? Who should be responsible for developing these tools?

- **Could this be overseen by the Australian Government Reconstruction Inspectorate?**
- **What timeframe would be required for the development of benchmark cost estimates to be applied across all jurisdictions?**

This is a very significant challenge and would need to be maintained once costs are established. Would need to consider market cycles as well as the impact of a widespread disaster on the market itself.

What governance and institutional arrangements would be required to implement the Commission's 'top up' insurance option? Could premiums be estimated by the Department of Finance, the Australian Government Actuary, Comcover or another body?

- **How could reinsurers be involved in this process?**

- **What timeframe would be required before such a model could be operational?**

In addition to allowing cover for a lower small disaster criterion, smaller annual expenditure threshold and higher rate of cost sharing from the Australian Government, would there be merit in the 'top up' insurance option also providing cover for broader eligible expenditure?

Need to discuss whether this is intended to be an option at Local Government level as well as State level.

What transitional arrangements are required for state and territory governments to meet the proposed accountability requirements put forward by the Commission to apply to both mitigation and recovery assistance?

INSURANCE

What is the prevalence of sum insured versus total replacement cost cover in household building and contents insurance policies? Has this changed in recent years? Are there any impediments to insurers disclosing an indicative estimate of the difference between the sum insured and the replacement value of the property?

Are there barriers to insurers recognising property level mitigation through reduced premiums? Where commercial insurers adopt more risk reflective pricing are reinsurers adjusting their prices accordingly?

In line with the Productivity Commissions findings, insurance premiums should recognise the level of risk that properties are exposed to. Therefore, property owners that undertake works to mitigate the risk should have their premiums adjusted accordingly. Further, those property owners that fail to maintain their property appropriately which exposes neighbouring properties to increased risks, such as those posed by bushfire, then their premiums should also reflect that.