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Commissioners Coppel and Chester

Natural Disaster Funding Arrangements

Productivity Commission

Locked Bag 2, Collins Street East

MELBOURNE VICTORIA 8003

Dear Commissioners

# Inquiry into Natural Disaster Funding – Requests for Information

I refer to the draft report of the Productivity Commission’s inquiry into natural disaster funding arrangements, which was released on 25 September 2014, and which contains a number of information requests.

The attached table presents a number of officer-level responses to information requests that are of direct relevance to the NSW Government.

The responses provided in the attached table are suggestions and contributions to the Inquiry from a range of NSW Government agencies, and they do not necessarily represent the endorsed policy position of the NSW Government.

The NSW Minister for Police and Emergency Services will send a separate letter which addresses a number of findings and recommendations in the draft report, which are of significant concern to the NSW Government.

I trust that this information will assist the Commission with its inquiry.

Should you have any further queries please do not hesitate to contact the Response and Recovery Branch within the Ministry for Police and Emergency.

Yours sincerely

Vicki D’Adam

Chief Executive Officer

Ministry for Police and Emergency Services

**Productivity Commission Inquiry into Natural Disaster Funding**

**NSW officer-level responses to information requests in the September 2014 Draft Report**

| **Theme** | **Request, Finding or Recommendation** | **NSW Government Position** |
| --- | --- | --- |
| Budget treatment of natural disaster risks | Information requestDo 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? | In NSW, State Government agencies and Local Councils are required to maintain up to date asset registers. NSW State Government agencies are required to follow the government asset management guidelines reflecting best practice total asset management, while Local Councils are required under the NSW Local Government Act 1993 to prepare strategic plans which include asset management plans. In addition, State agencies and Local Councils are required to maintain asset registers as part of their insurance arrangements. NSW Treasury Managed Fund member agencies are required, on an annual basis, to provide an updated declaration of replacement values for their building and contents assets down to address level. This data is captured centrally by NSW Self Insurance Corporation (SICorp) and used to purchase annual reinsurance protection and model SICorp’s exposure to insurable loss to determine limits of cover.At Local Government level, asset management planning is a key component of local government strategic, financial and operational planning through the Integrated Planning and Reporting (IP&R) Framework. IP&R recognises that council plans and policies should not exist in isolation; that they are inter-connected. This framework requires NSW councils to draw their various plans together, understand how they interact and get the maximum leverage from their efforts by planning holistically and sustainably for the future, in consultation with the community.The framework (available from the Office of Local Government website: <http://www.olg.nsw.gov.au/councils/integrated-planning-and-reporting>) shows the linkages of the Community Strategic Plan with the, the State/Regional Plans, the resourcing strategy, including the land use strategy, and the local delivery programs and operating plans including mitigation and disaster response and recovery.While asset registers are maintained by all councils in NSW, it is acknowledged that there is significant variation in the capability and capacity of local councils in relation to asset management. However, in most parts of NSW asset management and planning capability is improving.A number of councils in NSW have already built climate change adaption into their asset management planning. Over time, as infrastructure management capability improves, it is anticipated that this will increase. |
| Funding arrangements for recovery | Information requestThe 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.  | The following information is provided in response to this Information Request. The table shows a breakdown of 122 declared natural disasters in NSW between 2008-09 and 2012-13 by NDRRA Eligible Expenditure Range.

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| **Number of Declared Natural Disasters in NSW between 2008-09 and 2012-13 by NDRRA Eligible Expenditure Range** |
| NDRRA Eligible Expenditure Range | Number of Natural Disasters in this range | Total Eligible Expenditure for Declared Natural Disasters in this range |
| < $1m | 48 | $15,189,322  |
| > $1m and < $2m | 20 | $28,601,166  |
| > $2m and < $3m | 8 | $21,229,819  |
| > $3m and < $4m | 9 | $31,278,165  |
| > $4m and < $5m | 4 | $17,997,528  |
| > $5m and < $10m | 15 | $115,527,307  |
| > $10m and < $20m | 4 | $67,940,735  |
| > $20m and < $30m | 3 | $70,204,936  |
| > $30m and < $40m | 2 | $72,907,969  |
| > $40m and < $50m | 3 |  $125,049,041  |
| > $50m and < $60m | 2 |  $116,586,497  |
| > $60m and < $70m | 0 | 0 |
| > $70m and < $80m | 0 | 0 |
| > $80m and < $90m | 0 | 0 |
| > $90m and < $100m | 1 | $95,533,580  |
| > $100m | 3 | $624,587,982  |
| Total | 122 | $1,402,634,047  |

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| Funding arrangements for recovery | Information requestShould 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?
 | NSW Government agencies suggest that there should be a more explicit definition of counter disaster operations under the Natural Disaster Relief and Recovery Arrangements (NDRRA). Although the Australian Government released a new NDRRA guideline about Counter Disaster Operations in October 2014, some interpretation by States and Territories is still required. The guideline would benefit from further explanations and examples to illustrate what States and Territories could reasonably be expected to incur for Counter Disaster Operations.NSW Government counter disaster operations expenditure is managed in accordance with established guidelines and audited as a matter of routine. Guidelines and processes for managing counter disaster operations expenditure are designed to ensure that activities that are the normal responsibility of State and Territory governments are not included as eligible expenditure under the NDRRA.Emergency response agencies in NSW routinely utilise the assets of Local Councils for counter disaster operations. The engagement of council assets and operators are undertaken under the same or similar contract arrangement that emergency response agencies have with other vendors. The NSW Government recognises that Local Councils are well placed to assist with natural disasters due to the assets they have available and their ability to deploy them at short notice during emergencies. |
| Funding arrangements for recovery | Information requestWhat 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?  | NSW Government agencies suggest the use of marginal reimbursement contribution and assistance triggers that are based on sound redistribution principles and which take account of a jurisdiction’s risk exposures and factors within its control. Revenue-based triggers are inherently a weak basis for providing natural disaster assistance, as they do not reflect a jurisdiction’s potential loss, which in turn reflects the jurisdiction’s risk exposure and asset values. Such triggers also do not reflect the jurisdiction’s efficiency (e.g. in planning and regulation) and choices (e.g. decisions about mitigation), and they may contain factors that are outside the control of the jurisdiction.The trigger for an upfront grants model (under the Commission’s reform option 3 should be established at a level which ensures that the model operates as an effective safety net. However, further definition and development is required in relation to the concept of a ‘safety net’. |
| Transitional requirements | Information requestTo 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?
 | NSW Government agencies suggest that the National Impact Assessment Model (NIAM) is an appropriate tool for the earliest stages of impact assessment and to guide recovery activities. With ongoing use and refinement, it is expected that the NIAM will develop into a reasonable predictive tool for reconstruction costs for much of the built environment. However, it is less likely to be a useful tool for roads assessment. The development of the tool is currently being progressed at a State level involving input from across the disaster recovery government agencies and with significant liaison between States. This is the best approach to further development of the tool. Oversight by the Australian Government Reconstruction Inspectorate is unlikely to accelerate development of the tool.NSW Government agencies note a number of issues with benchmark cost estimates. Recovery reconstruction is almost invariably associated with extraordinary demand and capacity constraints in the construction industry and costs are invariably higher than in normal times. Reconstruction cost estimates based on standard industry benchmarks are invariably unachievable. Also, the damage sustained during disasters can generate additional costs. For example, a burnt building containing fibro and asbestos has dramatically increased demolition and disposal costs, compared with the same building demolished in a planned manner. |
| Transitional requirements | Information requestWhat 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? | NSW Government agencies suggest that the establishment of top-up insurance arrangements should be carefully studied to ensure that they realise the incentives that they are intended to generate.In addition to providing options to the States to vary thresholds and recovery rate, the insurance option should address the more pressing issues around the availability of road insurance. As proposed in the 2011 review of State insurance arrangements, the Commonwealth should spearhead the investigation of alternative insurance mechanisms for roads.Top-up schemes could be operated on a self-indemnity model. Member States would opt for cover criteria within the scheme which sits outside of their insurable risk arrangements. Contributions could be assessed actuarially based on past NDRRA experience of the member, natural disaster history risk assessed against exposed assets and reinsurance expense for contribution calculation. Reinsurance could be purchased at levels assessed by the Australian Government based upon risk appetite and overall exposure. A scheme should be able to become operable inside a space of 24 months. With the current exception of roads, public assets of all NSW Treasury Managed Fund member agencies are fully indemnified for replacement in the event of damage. However, it would make sense to offer an insurable aspect for other broader eligible expenses for which State government is potentially at risk and has an option to insure within the Australian self-indemnity top-up scheme.There would be merit in the Australian Government also investigating the potential for insurance linked securities as a means of financing loss from natural perils within top-up schemes. |
| Transitional requirements | Information requestWhat 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? | NSW currently meets most of the Commission’s proposed accountability requirements. For example:* NSW completed a State Risk Assessment in 2011, using a methodology that was consistent with the National Emergency Risk Assessment Guidelines (NERAG) and International Standards Organisation requirements
* NSW has adequate insurance arrangements
* NSW has transparency of natural disaster liabilities in its state budget
* NSW has legislative requirements relating to local government asset management strategies

To meet the remaining accountability requirements, NSW would need to:* Update its State Risk Assessment in accordance with the NERAG (planned for 2017)
* Increase the use of cost-benefit analysis in its mechanisms to prioritise mitigation spending

NSW Government agencies suggest that the reforms are similar in direction to those espoused in the Reform of the Federation (RF) process, and any changes to current arrangements for natural disaster funding should be considered in the broader changes to roles and responsibilities under the RF White Paper process. This will allow jurisdictions to work collaboratively with the Commonwealth through an established process that can consider a broad reform agenda. The RF White Paper is expected to be finalised by end of October 2015, with a Green Paper due to be released in early 2015. Deferring implementation in line with the RF will provide the States with greater leverage in terms of aligning revenues to support the shift of obligations from the Commonwealth to the States.Any shifts in roles and responsibilities needs to consider shifts in funding capacity. Priority should be given to overall funding adequacy and certainty accompanied by clear accountabilities.Implementation of the proposed accountability requirements should be aligned with the Reform of the Federation process. However, if this is not feasible, implementation can be phased and subject to:* Agreement on a revised NDRRA determination and guidelines
* Development of standard costing and benchmarks, as recommended by the Productivity Commission
* Development of standard Cost Benefit Analysis methodology including standard costing and benchmarks in calculating economic costs and benefits
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| Information | Information requestIf 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?
 | NSW Emergency Services Organisations are well advanced in hazard mapping and modelling. Jurisdictionally, each state agency has its own arrangements in place, and for specific hazards, combat agencies are legislated and best placed to develop guidelines, prioritised according to risk of vulnerable communities and a comprehensive, valid, agreed emergency risk management process. For bush fires, NSW has a bush fire risk management planning framework which produces a publicly available bush fire risk management plan for every local government area with a bush fire risk across the state. The policy and guidelines for this plan are produced by the NSW Bush Fire Coordinating Committee and implemented by local Bush Fire Management Committees, incorporating extensive community consultation measures*.*For floods, there are existing mechanisms and national reference groups in place for collation of hazard information. These include the National Flood Risk Information Portal (NFRIP), various national guidelines and cross functional and jurisdictional working groups (e.g. Emergency Management Spatial Information Network Australia (EMSINA), the National Flood Risk Advisory Group (NFRAG), and the Australian Tsunami Advisory Group (ATAG)). The NSW Flood Database project and NFRIP are good examples of interagency cooperation and partnership to deliver flood risk information to stakeholder agencies.NSW government agencies suggest that guidelines should be improved for collection and dissemination of hazard mapping and modelling. To this end, an all-hazards, risk-based emergency risk management approach should be led by the Commonwealth Government such as the Attorney General’s Department (EMA), in partnership with other appropriate State and Commonwealth agencies.There are already existing mechanisms and national reference groups in place for collation of hazard information. **Differences between modelling and mapping:**It is important to clearly articulate the differences between modelling and mapping. It is also important to acknowledge that different approaches may be needed for modelling and mapping.Modelling of hazards relates to understanding hazard behaviour typically using models in studies. For modelling, guidelines need to be: * Hazard specific, aimed at outlining outputs rather than fixed methodologies or approaches and be scalable purpose dependent upon the type and scale of the problem so they are fit for purpose
* Industry and technically led and could be developed by the relevant national or jurisdictional technical committee or group. For example, for flood, the National Flood Risk Advisory Group (NFRAG) developed generic specifications that provide a consistent basis for specifications for individual flood studies. Individual states could then update specifications for studies in their own jurisdiction based upon these specifications.

Mapping is generally an output from a study or investigation or for information from a historic event that provides spatial information for management and dissemination. For mapping, guidelines should be:* Developed in full consideration of the needs of end users for the mapping product
* Cover the major natural hazards that are location specific, i.e. flood, bushfire, Tsunami, coastal. These are best developed at a State or jurisdictional level to reflect user needs including land use planning systems and requirements
* Based on standards developed at a national level in consultation with jurisdictions, working and industry groups and considering the needs of the end user. This work would be able to draw on existing work. This should not require the aggregation of all hazard data but rather target essential data to answer relevant questions. E.g. provision of strategic layers on flood risk in NSW (1% Flood, historic floods, probable maximum flood layers) where licensing allows, rather than all information from studies
* Mapping guidelines should cover the major natural hazards that are location specific, i.e. flood, bushfire, Tsunami, coastal. These are best developed at a State level to reflect user needs including land use planning systems and requirements
* Prioritisation for guidance should consider needs based upon gaps in the availability of data for end users and benefit of improved consistency.
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