

SPECIAL COUNCIL MEETING 21 OCTOBER 2014	3.7
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SUBMISSION TO PRODUCTIVITY COMMISSION – NATURAL DISASTER FUNDING ARRANGEMENTS

Linda Cardew: Chief Executive Officer

RECOMMENDATION:

That Council resolves to:

- 1. Issue the attached submission from Douglas Shire Council to the Productivity Commission's Inquiry into Natural Disaster Funding Arrangements.**
- 2. Endorse the attendance by the Mayor and the Chief Executive Officer at the Productivity Commission's Hearing in Townsville on 30 October 2014, to present the issues detailed in the submission.**

EXECUTIVE SUMMARY:

This report proposes Douglas Shire Council makes a written submission in response to the Productivity Commission's Inquiry into Natural Disaster Funding Arrangements (September 2014) and that the Mayor and Chief Executive Officer present these issues at a Hearing to be conducted by the Commission in Townsville on 30 October 2014.

The Commission's Report and draft Recommendations cover a broad range of issues of national relevance to NDRRA funding, with only several issues of specific interest and relevance to Douglas Shire Council. The attached submission therefore addresses only the following issues as raised by the Commission:

- The importance of financial sustainability
- The use of day labour
- Insurance for roads
- Road asset conditions
- Risk mitigation
- Administrative perceptions.

BACKGROUND:

The Australian Government has asked the Productivity Commission (the Commission) to undertake a public inquiry into the efficacy of current national natural disaster funding arrangements, taking into account the priority of effective natural disaster mitigation and the reduction in the impact of disasters on communities.

The Commission has been asked to specifically report and make findings on:

- the effectiveness and sustainability of current arrangements for funding natural disaster mitigation, resilience and recovery initiatives
- risk management measures available to and being taken by asset owners – including the purchase of insurance as well as self-insurance options
- the interaction between Commonwealth natural disaster funding arrangements and relevant Commonwealth/State financial arrangements

- options to achieve an effective and sustainable balance of natural disaster recovery and mitigation to build the resilience of communities; and
- projected medium and long term impacts of identified options on the Australian economy and costs for governments.

The Commission's Terms of Reference are available via:

<http://www.pc.gov.au/projects/inquiry/disaster-funding/terms-of-reference>.

The Commission's draft report was released in September 2014 and is available in two volumes via:

http://www.pc.gov.au/data/assets/pdf_file/0009/145287/disaster-funding-draft-volume1.pdf

http://www.pc.gov.au/data/assets/pdf_file/0010/145288/disaster-funding-draft-volume2.pdf

COMMENT:

The continuation of adequate disaster funding arrangements is of critical importance to all councils affected by natural disasters nationwide. The Commission proposes a number of changes to the current disaster funding arrangements, including a reduction in the current levels of Commonwealth funding, which would have a significant detrimental financial impact on Douglas Shire Council if adopted without a commensurate increase in funding from the State Government.

Representative local government associations including the Australian Local Government Association (ALGA), the Local Government Association of Queensland (LGAQ) and the Far North Queensland Regional Organisation of Councils (FNQROC), are making submissions on behalf of their members. State Governments, including the Queensland Government, and other organisations and agencies such as the National Sea Change Task Force, the Outback Regional Roads and Transport Group and the Institute of Public Works Engineering Australia are also making submissions. Individual councils consider the issues to be such importance that many are preparing their own submissions to support broader regional initiatives.

Douglas Shire Council does not have the resources or time to prepare a highly detailed response to the Commission's 550 page draft report released in September 2014, and the submissions of others will comprehensively respond the Commission's issues and recommendations.

However, in future, natural disasters will continue to be experienced by Douglas and as demonstrated by the \$14million damage caused by the two declared disaster events in February and April in 2014, an adequate level of Commonwealth and State funding is essential to support Douglas in the restoration of its essential public assets. This report therefore proposes that Douglas Shire Council also convey its views to the Commission, commenting only on the proposals that have specific local relevance.

The relevant issues are:

- The importance of financial sustainability (comment on the detrimental impact that proposed funding changes would have on Douglas' financial position)
- The use of day labour (comment on the current restriction on the use of day labour)
- Insurance for roads (comment on the proposal that councils should investigate the purchase of non-traditional forms of insurance for roads)
- Road asset conditions (comment on the maintenance of asset registers)
- Risk mitigation (comment on various measures which may be adopted to mitigate the risk of natural disaster damage).

The attached submission also provides a summary of perceptions drawn from the recent disaster experiences and research undertaken by Council officers.

PROPOSAL:

It is proposed that the attached submission be forwarded to the Commission and that Council support the presentation of the issues detailed in the submission by the Mayor and Chief Executive Officer at the Commission’s hearing in Townsville on 30 October 2014.

CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE:

Council’s Corporate Plan provides that “Strategic planning and partnerships with regional, state, national and international stakeholders will be strengthened through focus on key goals, opportunities and positive outcomes” and includes the following relevant themes and goals:

Engage, Plan, Partner

- Goal 3 To ensure effective disaster management planning to support the Douglas communities.
- 4.3.1 Provide leadership in preparing for and responding to disasters through the coordination of the Local Disaster Management Group and appropriate resourcing.

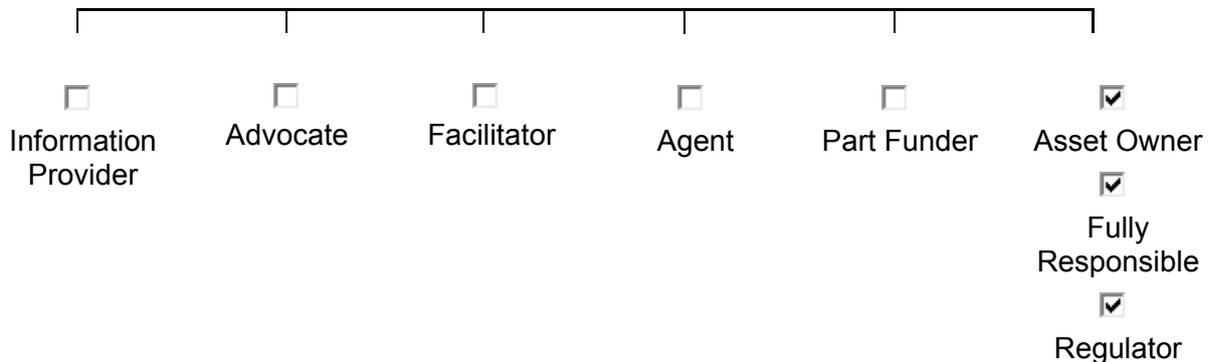
Governance

- Goal 1 To develop a financially sustainable organisation through sound strategic planning.
- 5.1.1 Establish and develop long term financial, resource and infrastructure planning to ensure ongoing capacity to fund operations and capital works programs.

COUNCIL’S ROLE:

Council can play a number of different roles in certain circumstances and it is important to be clear about which role is appropriate for a specific purpose or circumstance. The implementation of actions will be a collective effort and Council’s involvement will vary from information only through to full responsibility for delivery.

The following areas outline where Council has a clear responsibility to act:



Asset Owner	→	Meeting the responsibilities associated with owning or being the custodian of assets such as infrastructure.
Fully Responsible	→	Funding the cost of a program or activity
Regulator	→	Meeting the responsibilities associate with regulating activities through legislation or local law

FINANCIAL/RESOURCE IMPLICATIONS:

The Commission's draft report details proposals that will have a significant and detrimental effect on the financial sustainability of Douglas Shire Council if adopted. The draft report also provides the opportunity to comment on other issues, such as the restriction on the use of day labour in the restoration of essential public assets, which if removed, will lead to greater efficiencies in responding to community needs and reductions in costs. It is therefore appropriate to provide comments on these issues.

The Productivity Commission's Hearing in Townsville is scheduled on the day following the close of the LGAQ conference in Mackay at which both the Mayor and CEO will be present. The Mayor and CEO propose driving to the Hearing from Mackay. One night's accommodation will be required in Townsville on 29 October before returning to Mossman on 30 October 2014.

RISK MANAGEMENT IMPLICATIONS:

There is a risk that the draft recommendations will be adopted to the detriment of Douglas Shire Council (and other Councils affected by natural disasters). This risk may be mitigated by providing responses to the Commission's proposals to afford the Commission a greater level of understanding regarding the specific consequences for remote, rural councils the size of Douglas.

The risk is also addressed by Douglas adopting a visible, public stance to support the LGAQ, FNQROC and member Councils.

SUSTAINABILITY IMPLICATIONS:

ECONOMIC: Endorsement by the Commonwealth Government of the Commission's draft recommendations will have a significant, detrimental and probably irreversible impact on Council's financial sustainability over time unless alternative disaster funding is provided.

Council's inability to restore public infrastructure will in turn lead to a decline in the tourism industry and economic loss to the area.

Council's inability to adequately fund the rebuilding of its roads and bridges will impact on access and connectivity for the region's agricultural industries, leading to economic loss.

ENVIRONMENTAL:

Inadequate funding will result in the deterioration of essential public infrastructure assets, which will, in some locations (such as the Wet Tropics World Heritage Area) lead to environmental degradation.

SOCIAL: Inadequate funding for the restoration of essential infrastructure, and as a consequence, Council's inability to fund social infrastructure such as community and sporting facilities, parks and public spaces, may cause social trauma, anxiety and dislocation of community groups.

INTERNAL/EXTERNAL CONSULTATION:

FNQROC, the Mayors and CEOs of member councils, and Council staff have been consulted in relation to the Commission's draft report.

ATTACHMENTS:

Douglas Shire Council – Submission to the Productivity Commission - Natural Disaster Funding Arrangements (October 2014).



Submission to the Productivity Commission - Natural Disaster Funding Arrangements

1. Douglas Shire Council profile

Douglas Shire is a coastal Council located in Far North Queensland approximately 1,800 kilometres NNW of Brisbane. Comprising an area of 2445 km from north of Ellis Beach in the south to the Bloomfield River in the north, the Shire is characterised by World Heritage listed rainforest, productive agricultural land and mountainous terrain. The local economy is based largely on tourism and agriculture.

The main residential areas are situated on the coast, and are exposed to regular cyclone activity and the threat of storm surge. Unlike many outback towns where the main road network is managed and maintained by the Queensland State Government, the rural and remote communities within the Shire are almost entirely reliant on 373 kms of local road network for which Douglas Shire Council is responsible. Over 300 km of these roads are located in rural areas, with 150 km of roads located in remote areas with extreme terrain, numerous creek crossings and bridges. Notwithstanding that many of these roads are unsealed, the ability of these roads to connect communities and to provide important links to the movement of people, goods and services is critical. In many cases there are no alternate access roads.

Much of Douglas Shire receives over four metres of rain per year, with 300-400 mm in a day not uncommon. Extreme weather events, monsoonal flooding and tropical cyclones cause landslips and significant damage to roads, bridges, causeways, culverts and essential infrastructure, isolating communities, preventing access, and creating significant economic loss as a result of the impacts on rural agriculture and the tourism industry.

Douglas Shire Council de-amalgamated from Cairns Regional Council on 1 January 2014. This submission therefore contains information and data based on Council's first 10 months of operation. It is expected that the historic experience of disasters in this area since 2008 will be covered by Cairns Regional Council.

Douglas Shire Council has a general rate base of \$13.1M, 9,285 ratepayers and an annual budget of \$38.7M. In 2014 Douglas experienced two declared disaster events resulting in damage of more than \$14 million.

2. The financial sustainability of Douglas Shire Council

It is assumed that due to its location in Far Northern Australia, Douglas Shire will continue to experience ongoing extreme weather events and many will be declared as disaster events. It is critical that Council has the financial capacity to restore its essential public assets to the standard required to enable the community to function adequately, and to the standard expected of local government as the asset owner. It needs to meet its asset management audit responsibilities and comply with all statutory requirements and accounting standards. The "do-

nothing” approach to the restoration of assets following a disaster event is not a feasible or responsible position to take.

It is important to note that Council bears an additional financial impost regarding the restoration of assets located within the Wet Tropics World Heritage Area. Costs are increased substantially as a result of the environmental and road maintenance codes applicable to the Wet Tropics. The restoration of bridges and unsealed roads is not as straightforward in a World Heritage listed area as it may be in other parts of the State.

The funding reforms proposed by the Productivity Commission will impact significantly on Council’s financial sustainability. If adopted, Council simply will not be able to meet the cost of the restoration of its essential public infrastructure on an ongoing basis. If the Commonwealth’s contribution is reduced to 50% from the existing 75%, and the Queensland Government is unable to increase its contribution, in just a few years, the compounding effect of a 25% shortfall in restoration costs per disaster event, will be unmanageable for Douglas. Council has no prospect of raising adequate own-source revenue from its limited ratepayer base in this rural community where the average income is lower than the state average, and unemployment is higher than the state average.

The following table shows the income and unemployment in Douglas relative to the State of Queensland.

Description	Average Income	Unemployment
Douglas	\$37,529 per annum	6.0%
Queensland	\$45,711 per annum	5.9%

Further, in the event of a major disaster, such as TC Larry and TC Yasi, communities are frequently left with no resources and no income. Raising rates in such circumstances is completely unfeasible. Where crops are lost in the agricultural industry and tourism is impacted, both will have a negative flow to employers.

The following table indicates the level of annual general rate increases that would need to be applied over a two year period to meet the funding shortfall. This table does not take into account the very serious impacts (such as were experienced following TC Larry) where businesses closed, crops were damaged and local residents were forced to leave town due to inadequate accommodation and insufficient jobs. In this situation the compounding impacts were experienced by the entire community, left with little resources to pay the rates at existing levels.

General Rates	Shortfall	Funded 1 Year	Funded 2 Years
\$13,102,440	\$1 Million	7.63%	3.82%
	\$2 Million	15.26%	7.63%
	\$3 Million	22.90%	11.45%
	\$4 Million	30.53%	15.27%

Funding option over two years provided as Council has two years to complete restoration works. Where there are significant funding shortfalls, the consequences for Douglas Shire will be an inevitable fiscal decline leading to a financially unsustainable Council and/or the isolation or extinguishment of remote settlements over time, including small Indigenous communities. Council’s ability to maintain access to communities via the local road network throughout the wet tropics in Douglas Shire would be significantly impaired. The consequential impact on the tourism industry would be significant economic loss. The inability to restore the local road network following disaster events would impact negatively on the agricultural industry, largely sugarcane, that requires an intricate local road network for the haulage of cane to the mill.

In 2014 Douglas Shire Council expended \$728,104.42 in meeting the cost of emergent works and managing the cashflow until such time as the costs are wholly or partially refunded. Council has spent several hundred thousand dollars of its own revenue in meeting other disaster costs, including the trigger points for two declared events, and is continuing to fund additional works

that are not covered by the NDRRA such as multiple sewer system collapses, cleaning and reactivating water intakes, works on in-eligible assets such as boat ramps, and the roads around boat ramps, and the restoration of parks and public spaces, recreational walking and cycling tracks.

The NDRRA program has already been reduced to exclude non-essential infrastructure such as sporting/community facilities, parks and playgrounds and foreshore areas. This is already producing savings to the Commonwealth Government, however Council still bears the additional costs of the restoration of these facilities as they comprise the infrastructure required to support life in a small rural community.

Council is also required to undertake mitigation and betterment works at its own cost and will continue to fund a wide range of disaster preparation planning and activities.

If the proposal to increase the threshold for a disaster event from \$240,000 to \$2million is accepted, the consequences over time will be ruinous if extreme weather events do not meet this threshold. Douglas' disaster costs for 2014 are in excess of \$14million. Douglas has insufficient cash reserves to meet this cost, and maintain an appropriate level of reserves for the conduct of its day to day business. If it could obtain loan borrowings to meet this cost for the first event, it would be difficult if not impossible to obtain and repay additional loans required by future disaster events.

3. The use of day labour

There is currently a restriction on the use of day labour and Council notes there is no proposal by the Commission to currently remove this restriction, although the Commission's draft report notes the restriction is an impediment to "pursuing the most efficient recovery options".

The ability to use day labour is particularly important in Douglas Shire where the available season for the delivery of restoration works is extremely limited. In 2014 the wet season continued long after the disaster event, to the extent that some parts of the Shire that suffered extreme damage could not be accessed for the purposes of damage assessment until some months later. The availability of qualified contractors and suitable equipment is limited in the Shire, and the distances to be travelled to undertake the works means that in some areas either bush camps need to be established for contractors or alternatively those workers are required to return to temporary paid accommodation at the end of each day. Contractors are also often not willing to come from Cairns or further south.

It is essential that Council is able to package works and manage a mix of day labour and contractors to undertake restoration activities across the Shire in a manner that provides both value for money and optimises the limited available dry season. At the time of this submission, the official start to the 2014/2015 cyclone season is less than two weeks away. Douglas has had to bear the risk of undertaking some essential restoration works using day labour to ensure that access is maintained to some remote communities before the wet season starts. If this work is not undertaken those communities will potentially be isolated for some months - clearly an untenable position.

By removing the restriction on the use of day labour, a more dependable and reliable service delivery structure will be achieved. Council is the party best positioned to determine community and infrastructure priorities, and can mobilise swiftly and cost effectively without the logistical constraints and costs brought about by the sole use of external contractors.

The use of day labour, whether or not in conjunction with external contractors, allows Council to demonstrate, through efficient and targeted responses to its communities, that it understands and is capable of a timely response to its community's needs. The community's resilience and ability to recover from disaster events will be supported by efficient restoration. The situation in Douglas is that essential restoration works could have been scheduled earlier if this restriction on day labour was not in place.

To achieve a substantial increase in efficiencies and a reduction in costs, Douglas considers the streamlining of administrative processes to be essential. The employees of Douglas Shire Council (as with other rural councils in Far North Queensland) are practical, down to earth locals who understand, live and work with local conditions and extreme weather events. They bring a special knowledge to the management of disaster-related works that in turn promotes efficiency

and value for money because they know what works and what does not. It is common sense to allow day labour and contractors to work together in remote areas on restoration works. To require compliance with highly complex bureaucratic processes increases costs and extends timeframes for responses. The credibility of Council is undermined as the community waits for work to begin, showing little tolerance for explanations around administrative compliance. They perceive (as do councils) that there is a massive duplication of effort and red-tape, and that the demand for information is denying the capacity to undertake operational works within the limited timeframes available.

There is also little value for money achieved through the extended application and approval timeframes and processes.

4. Insurance for roads

Council considers draft recommendation 3.4 which urges local government to further investigate non-traditional insurance products for roads, to be completely unworkable. Neither traditional nor non-traditional forms of insurance would be affordable for Douglas Shire Council.

The impact of disasters on roads in the wet tropics is substantial and quite different to the consequences of natural disasters such as fire in the southern states. Repeated torrential rain and extensive flooding causes extensive damage to the surface and substrate of both sealed and unsealed roads. Repeated disaster events will result in the insurance premiums being entirely outside the financial capacity of Council, even if insurance could be obtained. Further Douglas acting alone, or in conjunction with neighbouring councils, does not have the capacity to explore the possible provision of various non-traditional forms of insurance through international markets.

Council also notes with concern the suggestion that non-traditional insurance products should be considered. As a new Category 3 Council, yet to complete one full year of operations, Douglas has adopted a conservative risk profile in all its statutory and corporate activities, including its management of NDRRA works. Council is mindful of the direction of the State Government and the expectations of its community that it is to be a financially sustainable Council. It therefore has in place budgets for operational and capital works, and the appropriate management of its investments, to ensure this goal is achieved. Douglas cannot be placed in a position where it is required to purchase non-traditional products that are influenced by changing international marketplaces.

5. Road asset conditions

Council notes that the draft recommendation 3.4 requires that “local government should compile and publish detailed registers of road asset conditions and maintenance for all roads over which they have jurisdiction (and have these registers independently audited)”.

As a new Council, Douglas is finalising its asset register after de-amalgamation from Cairns Regional Council. All work is being conducted as required by the Local Government Regulation 2012, and in due course Council will adopt a long-term asset management plan to cover a period of at least 10 years. The Queensland audit office will undertake a review of Council’s asset register on an annual basis. It is Douglas’ intention to undertake a full condition assessment of its entire road network within the next 12 months, enabling the findings of the assessment, including valuations, to be included in long-term planning processes for renewals and replacement.

This planning is significantly impacted by the unpredictable and extreme weather events. Council’s ability to mitigate the financial consequences is again highly dependent on its ability to fund restoration works when required. Long-term planning is meaningless in the absence of adequate funding to restore assets to the pre-disaster condition.

6. Risk mitigation

Local government continually examines ways of mitigating or avoiding risks and is keenly aware that for both communities and Council rebuilding is both expensive and disheartening. Repeated disasters break down the collective resilience of the community where individual members are already suffering from personal, financial and economic loss.

Any measures that assist in building capacity to respond to natural disasters will be welcomed by Douglas. With the expected increase in intensity of cyclone activity due to climate change and the possibility of increased inundation of our coastal communities as a result of storm surge, mitigation strategies will be needed more than ever before. Incomplete flood data and the variable quality of information in various areas means that flood risk and insurance prices are difficult to quantify. Adequate funding over a suitable period of time to enable flood mapping studies to be completed will deliver valuable benefits to consumers and to councils.

As a new Council, Douglas is still identifying and quantifying the broad range of responsibilities in relation to cost shifting from other levels of Government, and the resources needed for risk management and planning. There is little time to undertake this work to the extent required, particularly for disaster management, while dealing with the establishment of the new Council and the delivery of its daily business. Changing State and Commonwealth policies and an inability to source reliable, robust information on which to base risk controls, means that local councils can feel isolated and unsupported at a State and Commonwealth level. Attracting qualified staff to remote areas is in itself challenging, particularly where strong project management expertise is required. Land use planning mechanisms as a means of risk mitigation is something mature Councils still find difficult. For a new Council, time and resources are required.

7. Perceptions and conclusion

Douglas Shire Council understands the inevitability of ongoing extreme weather events and as a new Council of just over three months operation was confronted with two declared disaster events in 2014, resulting in damage in excess of \$14 million. The imperative for this new Council was to undertake emergent works to ensure that the communities isolated as a result were able to function to a basic level as quickly as possible and then to establish a governance, project and risk management structure for restoration works that is robust and defensible.

Council's process for damage assessment, the preparation of funding submissions and subsequent procurement has been characterised by a conservative and structured approach, coupled with extensive research to identify what risks and to what extent Council may be impacted by current government funding and acquittal policies. Our most fundamental question that has remained largely unanswered is "how can we structure our management of disaster restoration works to ensure that 100% of the funding approved by the Queensland Reconstruction Authority (QRA) is actually received?" After several months of enquiries, we still have not been able to identify a single Council in Queensland that has received 100% of the funding initially approved by QRA after the State and Commonwealth audit processes had been completed.

This situation is of significant concern to Douglas Shire Council. If we have approvals for \$14 million, our research and discussions with others more experienced than Douglas, leads us to believe that there is a real risk that despite the best project management practices and a strict adherence to the approved scope, an amount which could be as large as 10% of the funding originally approved, may be withheld. When Douglas asks how it can mitigate this risk we are most commonly advised to reduce the total scope of works undertaken. Although Douglas cannot withstand a possible funding shortfall of \$1.4million, failure to restore essential assets to their pre-disaster condition will lead to the further rapid deterioration of those assets, and the decline of the communities that rely on that infrastructure.

In discussions with government, other councils, consultant engineering firms, and contractors, all of whom are experienced in NDRRA restoration works, several common themes have emerged:

- a perception that the policy landscape changes frequently, creating uncertainty and inability to adequately identify and plan for the management of risks
- a lack of clarity around funding eligibility
- wide-spread frustration with what is perceived to be an excessive demand for administrative information and its priority over timely operational works
- insufficient agency understanding of the competing interests and challenges immediately following a disaster event
- insufficient agency understanding of rates and logistics in remote areas; and
- community backlash regarding perceived delays due to tender processes and the appointment of out-of-area contractors.

This year has seen Douglas' first disaster experience as a new Council. As the next cyclone season starts officially on 1 November 2014, Council faces the prospect of the delivery of the current \$14 million of restoration works, much of which is to occur in remote locations, within the remaining dry months before June 2016.

Douglas Shire Council would welcome the provision of clear and concise information, unambiguous policies, funding certainty, and funding support to achieve those measures that will make communities more resilient in future: flood mapping data and technology, support with strategic and development planning, recognition of the logistics and costs required to delivering the works, and recognition that Councils are highly motivated and better placed than other levels of Government to prioritise and deliver these works for their communities.

Linda Cardew
Chief Executive Officer
Douglas Shire Council

20 October 2014