AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION

SUBMISSION TO THE NATURAL DISASTERS INSURANCE REVIEW PANEL

15 JULY 2011

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Introduction

The Australian Local Government Association (ALGA) welcomes this opportunity to make a submission to the Natural Disasters Insurance Review Panel (the Panel).

ALGA represents the interests of more than 560 councils at the national level. ALGA is a federation of Australia's associations of local government in each state and territory, and includes the ACT Government as a direct member, reflecting the latter's unique combination of municipal and territory functions. Given this federated nature, ALGA's submission should be read in conjunction with any submissions put forward by its member associations and/or individual councils.

ALGA plays an active role in national emergency management. It is a full member of the Standing Council for Police and Emergency Management, and ALGA officials participate on the National Emergency Management Committee and other national working groups, including the Risk Assessment, Mitigation and Measurement Sub Committee and the National Flood Risk Assessment Group.

ALGA and its member state and territory local government associations appreciate the reasons behind the Commonwealth Government's announcement on 4 March 2011 to undertake a review of issues relating to the arrangements for insurance of assets of private individuals, businesses and government, for loss and damage associated with flood and other natural disasters. This submission seeks to provide a local government perspective on issues raised in the Panel's Issues Paper released in June 2011.

In summary, ALGA's submission draws upon internal research which highlights that the issues surrounding the insurance of many local government infrastructure assets are complex and changes to existing arrangements would potentially have significant cost implications for councils, and the ratepayers they serve. Any reduction in the role of the Commonwealth in providing a financial safety net for the states (and local governments), by making access to the Natural Disasters Relief and Recovery Arrangements (NDRRA) more restrictive, will simply lead to a direct increase in the level of costs borne by councils and communities.

This submission strongly asserts the need for greater focus on providing sufficient resourcing for activities aimed at the prevention of and preparation for natural disasters rather than the diversion of scarce resources into costly and probably marginally effective insurance arrangements. These activities could include a range of practical mitigation efforts to either reduce the risk of catastrophic flooding or better prepare the community to deal with such events. Mitigation efforts could be in the form of flood levees and warning systems, improved urban planning practices, enhanced building standards, community education programs or selected interventions such as strategic buy back of properties and/or strengthening of key infrastructure assets.

Local Government and Emergency Management Responsibilities

It is well understood that natural disasters and other types of emergencies rarely conform to strict jurisdictional boundaries. It is also accepted that natural disasters impact communities in many ways and that managing the diverse needs of community is a complex task.

Local government plays an important role in seeking to prevent potential impacts of disasters and at the same time councils are continuously seeking ways to work with their local communities to effectively manage a range of potential social, environmental, economic or physical threats.

Recent catastrophic natural disasters in Australia and around the world point to the need to continually develop and enhance emergency management practices at all levels of government, as well as those of the business and individual household sectors. It is evident that all levels of government must ensure the most up-to-date information and technology are used to both educate and warn the community of impending threats, and also guide in the response and recovery phases.

From a local government perspective, the key elements of emergency management at the national level are the mitigation of risk, the promotion of community safety and warning systems, engaging partners and communities, protecting built and natural environments and a serious ongoing investment in building community resilience. It is critical that this process is undertaken through a whole-of-government, multi-agency, and "all hazards" approach. This is something that ALGA has strongly supported at both Council of Australian Government (COAG) and ministerial council level.

Given the potential impacts of climate change and the nature and impact of natural disasters in recent years, there is an equal recognition that local governments will have a greater role in the response to and recovery from an emergency or disaster event. As an institution that is democratically elected and has a wide scope of statutory responsibilities ranging from asset and environmental management to land use and community safety planning, it is not surprising that natural disasters and issues surrounding emergency management are becoming ever more central to the operations of local government throughout the nation.

Costs of recent floods for local government.

Severe flooding has impacted virtually every state and territory in Australia in the past six months. In particular, many Queensland communities were devastated by extreme weather events early this year and are still in the process of undertaking a range of recovery and reconstruction initiatives.

The Local Government Association of Queensland (LGAQ) estimates the floods will cost Queensland councils in excess of $1 billion. In total, 51 of the 73 council areas were disaster declared. The extent of damage was so severe that some council assets were partly under water for several months. Reconstruction efforts will be underway for years and the psychological impact for some householders will be lifelong.

Given the physical size of Queensland, the damage to road infrastructure alone was extensive. Ninety-thousand kilometres, or 60 per cent of the road network that councils are responsible for, were damaged by the flood waters. In addition to the transport network, there was also considerable damage to water and sewerage services and other public assets owned and operated on behalf of the community.

The other states have also had their share of flood related damage. Victoria experienced four flood events between September 2010 and February 2011. The impact of these combined floods affected 70 of the State's 79 local government authorities, with many of the same councils and towns flooded several times. The January floods saw river heights peak at levels not seen for 130 years. The Victoria Government has estimated that the cost of the damage to all parties will be in excess of $900 million.

In South Australia, the two most significant flooding events occurred in December 2010 and February 2011. Twelve councils sustained significant damage to road infrastructure with eight having costs in the vicinity of $1m or more and, of these, two sustained some $10m in damages. The total estimated damage bill is in the order of $30 million.

Numerous councils in regional Western Australia experienced damage as a result of severe thunderstorms that occurred in late January and mid February. Damage to roads and some buildings, and subsequent personal hardship and distress were the result. Further severe rainfall from cyclonic conditions later in February and March resulted in further infrastructure damage in communities in the north-west. The community of Warmun was completely destroyed, and severe flood damage to roads and bridges was incurred.

For the 2010/11 financial year, NSW has had 152 Natural Disaster Declarations in 103 Local Government areas due to the impacts of severe flooding. Figures provided by the NSW Roads & Traffic Authority (RTA) suggest that the funding assistance to Councils for restoring the flood damaged roads & bridges to a pre-disaster standard will total over $375 million.

The costs to local governments and their communities from natural disasters, be they floods, cyclones, severe low pressure systems or bushfires, can be significant. Aside from the need to protect the safety of people, their pets and livestock, the costs carried by the community in replacing damaged or destroyed structures and supporting infrastructure (in the form of roads, culverts, bridges, jetties, sewerage and water treatment works, utilities and community facilities including parks or recreational walking and cycling tracks) is substantial. Much of these infrastructure assets are uninsurable or it is difficult to obtain value for money coverage for a variety of reasons that will be explained later in this submission.

The recent natural disasters described above have had a profound effect on the entire Australian community. The challenge facing many communities in the rebuilding process is substantial and local governments are playing significant roles in the recovery processes that are now well underway.

The challenge of building more resilient communities

Governments at all levels accept the need to manage the risk of natural disasters and have recognised the need to also share in this responsibility. To improve Australia's ability to withstand and recover from future disasters, COAG adopted the National Strategy for Disaster Resilience.

The Strategy focuses on the shared responsibility of governments, business and communities in preparing for, and responding to disasters. It sets out concrete steps governments at all levels can take to reduce risks posed by natural disasters and better support communities to recover from disasters. Specific actions include steps to support improved risk-based planning decisions, ensuring the provision and construction of more resilient infrastructure, improved community education and the need for state jurisdictions to strengthen their commitment to make provision for greater levels of insurance in dealing with a range of assets for which they are responsible.

It is this specific question of greater levels of insurance coverage that has led to ALGA commissioning external experts to ensure that the perspectives of local government are fully incorporated into the National Disasters Insurance Review and the work undertaken by the National Emergency Management Committee in implementing the new National Disaster Resilience Strategy endorsed by COAG on February 13, 2011. ALGA also wanted to better appreciate the impact on local governments of the recent changes to the Natural Disaster Relief and Recovery Arrangements (NDRRA), announced by the Commonwealth earlier this year.

To this end, ALGA contracted JAC Comrie Pty Ltd to investigate and report on a number of matters related to the above issues. The findings of this report, together with subsequent discussions with our member associations, are reflected in this submission.

JAC Comrie Pty Ltd surveyed the Local Government Associations in each state and the Northern Territory in May 2011 to gather information regarding each jurisdiction's legislative requirements and practices in relation to insurance and emergency management planning. A copy of the survey request is attached as Attachment 1. Attachment 2 provides a summary of the responses by each local government association.

Current local government practices in relation to insurance

Public liability/professional indemnity insurance

Every state/territory local government authority has some degree of public liability and professional indemnity insurance with a substantial amount of cover (ranging from $50m to $400m for each occurrence).

Public liability/professional indemnity cover for all councils is a requirement in New South Wales, Queensland, South Australia and Victoria. There is no such legislative requirement in the Northern Territory, Tasmania or Western Australia.

Councils in each state have access to public liability/professional indemnity cover through state-wide mutual liability schemes. Generally, these schemes appear to operate effectively, providing affordable cover and re-insurance opportunities through a competitive world-wide market.

Only a limited number of very large councils have some additional level of insurance outside these schemes, usually consisting of specific insurance cover for major incidents over an agreed value.

Real property and infrastructure insurance

Unlike public and professional liability, no jurisdiction legislates for councils to insure their real property or infrastructure assets. Real property refers primarily to local government buildings and infrastructure assets cover items such as roads, culverts, bridges, treatment facilities, swimming pools and recreational facilities.

It appears to be common practice for local government authorities to have some level of insurance of their real property. Only a limited number of councils in some states have secured insurance for specific items of infrastructure and the vast majority of council infrastructure assets are uninsured. The reasons for this lack of insurance cover being either the:

- relatively high cost relative to perceived risk;
- high deductibles in relation to flood and earthquake insurance; and

- in many cases, the inability to get flood and earthquake cover, particularly in Northern Australia within the expected cyclone area[1].

The largest class of infrastructure assets for many local governments is that of roads and ancillary infrastructure. Advice received from state and territory local government associations indicates that there is no council in Australia that currently insures roads (although some have secured insurance for selected bridges). This situation is no different at the state level. That is, the state and territory governments do not currently insure their roads.

Local Information regarding amounts paid by local governments in premiums for insurance of their real property and other assets is commercially valuable and is therefore not readily available. In many jurisdictions most or all councils are part of mutual pools but the amount of premiums paid by each council is not publicly available or generally known by other councils. In any event the extent of cover may vary between councils. Some councils insure their assets with private underwriters and there is competition between individual underwriters and between underwriters generally and the mutual self-insurance pools for business from councils.

There is no evidence to suggest that a council's willingness or ability to insure is related to the flood mitigation measures they may or may not have undertaken. In addition, it is generally the perception of local governments that insurers do not seem to take account of disaster mitigation measures adopted by councils in their willingness to provide insurance.

Local government associations have advised that generally, council decisions on the level and type of cover have not been influenced by the availability of disaster relief provided by states/territories.

Having said that, any arrangement for insurance of infrastructure assets would, however, need to have regard to arrangements that exist for the reimbursement of local governments by state/territory governments for damages they incur as a result of natural disasters. Councils would be concerned if the establishment of costly (and perhaps marginal) infrastructure insurance arrangements led to them incurring additional (insurance premium) costs and a reduction in financial support from the states in the event of a natural disaster.

Potential to establish a national local government infrastructure insurance entity

Not surprisingly, the spate of recent natural disasters and their impact on councils has raised the level of interest in insurance cover for public infrastructure. The local government sectors in all states have a strong record of success in operating self-insurance pools and the mutuality of member councils provides an incentive for

[1] For example in situations in Queensland where councils are covered for floods the policies typically have an upper limit of $250,000 per council per event.

implementation of pro-active risk mitigation practices that reduces the incidence and extent of claims.

There are some major challenges, however, in extending current mutual pools to infrastructure insurance.

There is the challenge of attracting participation from a broad enough group of councils in any infrastructure insurance arrangements to enable risk to be cost-effectively spread and therefore to enable the provision of financially attractive insurance products (whether through underwriters or mutual pools). In practice an under-writer will not offer insurance or will require very high premiums/deductibles where levels of risk are high or uncertain and there is only a small group of clients (or a larger group exposed to the same risk events and profiles) seeking cover. Councils that have not had exposure in the past to major loss from a natural disaster and believe they are at little risk from for example earthquake, cyclone, flood or fire damage are likely to be reluctant to take out insurance cover, particularly if the associated premiums are significant and do not reflect differences in risk in different localities.

In ALGA's view, the lack of insurance products for infrastructure assets is likely to be the result of insurers having estimated that the premiums and conditions that would need to apply, having regard to risks and uncertainty, would be such that they would struggle to attract a sufficient broad base of councils to make such an offering viable.

The suggestion that councils have a role in subsidising a national flood risk insurance scheme

ALGA notes that the Issues Paper puts forward a proposal to introduce a national automatic flood cover scheme, under which councils, through their rating schemes, would be required to help fund premiums for high –risk properties. Regardless of the inherent merits of offering universal flood insurance, local government is opposed to using the rating system to cross subsidise other non essential local government services or private residential and commercial risks.

As asserted earlier in 2011 in the Productivity Commission report on a National Disability Insurance Scheme, it seems that the primary argument for rates as a source of funding for broad insurance proposals appears to be that they are an efficient and stable funding base. ALGA does not believe this is a sufficient justification for rates to become a funding source for an expanded flood insurance scheme. Local government rates are often seen by other levels of government as an attractive mechanism to raise funds for non-local government activities such as emergency services. Local Government has opposed, and will continue to oppose, such opportunism where the service to be provided is better and more appropriately funded from a broader revenue base.

Local government is under great financial pressure at present because of ever increasing demands for a range of community based services. Because of that focus on social services, often due to state and federal support being withdrawn, the traditional services of councils are suffering, and ALGA has documented a growing gap in infrastructure renewals which PricewaterhouseCoopers (2007) has estimated to be in the order of $14.5 billion. Local government would not in a position to sustain such additional funding demands for a national flood insurance scheme.

While existing rate revenue is insufficient to meet the demands on councils there is limited capacity among councils to increase that revenue. The Productivity Commission's research report entitled *Assessing Local Government Revenue Raising Capacity*, released in April 2008, noted significant differences in councils' scope to raise additional revenue across Australia and that there was a case to review the provision of Australian Government Financial Assistance Grants to Local Government to improve horizontal equalisation. Furthermore, the potential to raise additional revenue from council rates is becoming increasingly crowded out by the growth of state land taxes. Recent investigations into Australia's housing affordability crisis providing clear evidence of the significant growth in property based taxation by the respective state and territory governments.

Limited revenue raising capacity through council rates and existing financial sustainability challenges for councils strongly supports the view that general taxation revenue would be a more appropriate funding source.

ALGA also has concerns that imposing a cross subsidy through the local rates mechanism would be perceived by many residents as an increase in local government costs. This is based on local government's previous experience with levies in the past.

Finally, ALGA is concerned that funding a future insurance scheme from rates would establish a precedent that would place inequitable financial pressure on local governments at a time when resources have never been under more pressure. Using local government rate collection as a source of funding because of the stability of its funding base would open to the door to even more calls on the local government purse and potentially further undermine local government's financial stability.

Natural Disaster Relief and Recovery Arrangements

The Natural Disaster Relief and Recovery Arrangements (NDRRA) are an agreement between the Commonwealth and states/territories. The NDRRA provides for financial assistance to states/territories in eligible circumstances, <u>including as a result of damage to local government assets</u>. It does not provide for assistance direct from the Commonwealth to local governments suffering disaster losses. Effectively the NDRRA treats local governments as a sub-set of each state/territory and leaves arrangements for financial assistance for local governments suffering disaster losses to be determined at a state/territory level.

There is no requirement for states/territories to pass on monies they may have received from the Commonwealth as a result of losses suffered by their local governments to the affected local governments. Generally, the states/territories have largely replicated the NDRRA arrangements in regard to how they support their own councils within their state or territory but this falls short of the recommendation in the 2002 report to COAG on Natural Disasters in Australia which supported consistent model arrangements at the state level.

Under the NDRRA, the Commonwealth generally reimburses 50 per cent of expenditure by states/territories for expenditure above the initial trigger point and for 75 per cent of expenditure above a higher threshold (although eligible personal hardship and distress payments qualify for a flat 50 per cent reimbursement, independent of any threshold). Importantly, the funding assistance is based on expenditure on an annual rather than event basis.

The NDRRA specifically mentions local government in relation to the development and implementation of natural disaster mitigation strategies for likely or recurrent disasters and provides for a 10 per cent reduction in assistance to states/territories in circumstances where affected local government bodies have NOT developed and implemented such strategies.

A new Determination on Natural Disaster Relief and Recovery Arrangement Determination[2] was issued by the Commonwealth on March 21, 2011. This included NDRRA Guideline 5/2011 which deals with insurance requirements and provides that states and territories wishing to be covered by the NDRRA must have an assessment of their insurance arrangements undertaken by an independent and appropriate specialist (such as the Commonwealth Auditor-General) every three years. The initial assessment is to be completed by September 30, 2011. This is essentially the arrangement which is the subject of the agreement between the Government and Senator Xenophon.

The independent reviews of the states/territories will then be assessed by the Commonwealth against the following principles:

i. The states and territories should have insurance arrangements that are cost effective for the state/territory and the Commonwealth[3].
ii. The financial exposure borne by taxpayers under the NDRRA should be minimised.

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[2] The revised NDRRA Determination is available at: http://www.ag.gov.au/www/emaweb/rwpattach.nsf/VAP/(689F2CCBD6DC263C912FB74B15BE8285)~NDRRA+-+Determination+2011+-+Version+1+(PDF)+-+Web+update.pdf/$file/NDRRA+-+Determination+2011+-+Version+1+(PDF)+-+Web+update.pdf

iii. The onus is on the states/territories to explore and assess the insurance options available.

As the NDRRA effectively covers local government in each state and territory it is reasonable to assume that the insurance cover and risk exposure of local governments will be included in the assessment of insurance arrangements.

ALGA has received feedback from it member associations, that it is likely that most individual councils have traditionally had little awareness of the existence and finer details of the NDRRA, given the fact that the national disaster arrangements do not directly affect them. This lack of knowledge should be addressed. It is important that the states/territories liaise effectively with local government associations to ensure that each state/territory (and their local governments) benefit from assistance available from the Commonwealth. For example, where essential public infrastructure is damaged as a result of a disaster and is eligible for Commonwealth funding assistance for restoration, the NDRRA allows for restoration to a more disaster resilient standard where it is cost effective to do so and approval is so given. Whether this is widely known by local governments and betterment of local government assets are appropriately encouraged by states and territories is unclear.

It is understood that the Commonwealth has traditionally received very few applications for betterment restoration of local government assets, yet engineering assessment of flood damage to unsealed roads often recommends steps that be taken in restoration works to reduce risk of recurrence of damage in future (for example by the provision of additional or better designed culverts). At the very least it seems both reasonable and desirable for the states/territories to include similar provisions regarding allowing for betterment of assets in arrangements they have in place to provide funding assistance to councils that suffer damage to infrastructure in natural disasters.

One possible reason for the lack of betterment applications lies in the way the NDRRA works in aggregating multiple events over the course of a year to determine whether jurisdictions have achieved the necessary thresholds in eligible expenditure to qualify for NDRRA reimbursement. This is likely to have led to a cautious approach at jurisdictional level in dealing with infrastructure damage in disaster events (especially those occurring early in a given financial year).

Current disaster funding arrangements between states/territories and local government

Although not a requirement of the NDRRA, each state/territory[4] has a formal arrangement with its local governments to provide them with financial assistance in

[4] The ACT is not included in the discussion. It does not have local government as constituted in the states and the Northern Territory.

the event of financial loss from natural disasters. As previously indicated, these arrangements broadly reflect the arrangements between the Commonwealth and states/territories.

The arrangements vary between states and territories but they are based on:

- A trigger point (threshold) for each event above which funding assistance for expenditure on disaster recovery will be provided to affected local governments. This is either a specific dollar amount or a percentage of their rate revenue. In some states the trigger point is designated by the size of the council with larger councils having a higher trigger point than others, and very small councils having an even lower trigger point.
- A contribution from a council, generally a percentage of the amount spent on the disaster recovery. In some states, expenditure above a specific amount will be reimbursed 100%.
- WA has an additional arrangement for non-metropolitan councils whose roads require repair following abnormal rainfall or fire damage. A Supplementary Fund is established from a portion of vehicle registration fees and topped up by a contribution from the Rural Regional Road Groups' Road Project Grant Pool. Where an event is NOT declared as a natural disaster, but is eligible for funding from the Supplementary Pool, funding is provided on the basis of $2 for every $1 of council eligible expenditure.

The real value of the trigger points at which a state or territory will reimburse local governments for disaster relief expenditures are typically very low compared to the trigger point for the state/territory to be reimbursed by the Commonwealth. This is to be expected given the difference in scale of individual local governments annual budgets compared with that of the states/territories.

In South Australia, the trigger point for a council is that the damage sustained in a natural disaster must exceed 5 per cent of its rates revenue and 10 per cent of its works budget. The largest council in South Australia, Onkaparinga, budgeted for rate revenue of $85.4m in 2010-11 giving it a trigger point of $4.27m. The trigger point for South Australia the trigger point for Commonwealth reimbursement is $30.4m.

In Queensland, the smallest councils have a trigger point of just $50,000 and the state trigger point for reimbursement from the Commonwealth is $83.3m.

There is no direct link between reimbursements received by states/territories from the Commonwealth and amounts they may pay to their local governments that experience damage as a result of a disaster. States/territories could reimburse councils for disaster relief expenditure without receiving any reimbursement from the Commonwealth unless the aggregate disaster relief expenditure in a financial year for the state/territory exceeds the trigger point. It is less likely but also mathematically possible that states/territories could receive more funding assistance from the

Commonwealth as a result of losses suffered by their local governments than they pass on to the affected councils.

Local Governments have also expressed disappointment that under NDRRA, council's ordinary day labour, and plant and equipment costs during normal work hours are not recoverable, although costs for external contractors are covered.

The Western Australian Local Government Association (WALGA) has sought feedback from councils on the impact of cost recovery under the Western Australia Natural Relief and Recovery Arrangements (WANDRRA). Local government sector feedback and case studies indicate a necessity for policy change.

The key issues associated with cost recovery under the WANDRRA are essentially the inequity faced by the sector in obtaining appropriate contract staff compared to undertaking the works in-house through the deferment of their normal works schedule. In particular, remote regional councils of Western Australia face a financial and logistical difficulty in sourcing and engaging contractors immediately proceeding a disaster. Contractors are effectively required to enable cost recovery under the WANDRRA creating a potentially more expensive and less efficient system for local government.

In principle, councils throughout Australia should be able to engage their own works staff during normal hours (and costs be recovered through the NDRRA) instead of engaging contractors. The recovery of normal labour costs should apply not only as a one-off special fund, as was recently the case in Queensland, but as an additional provision in the NDRRA Determination.

Risk Assessment and Flood Modelling

Councils play a significant role in managing community risk. Local governments are largely responsible for local land use planning, environmental and risk management, and implementing and maintaining a range of practical mitigation measures. Many are also the holders of significant geospatial data, including information on potential flood risk and other natural hazards including bushfire, landslip and coastal inundation. However, in the absence of state government disaster management guidance and funding assistance, the quality and consistency of information at the council level is varied.

The Insurance Council of Australia (ICA) has argued that there is an issue associated with accessing flood data from some local government areas. In essence the ICA has argued that insurers' inability to access such data significantly limits their ability to quantify flood risk and price insurance, and therefore restricts the sector in being able to provide adequate insurance products.

It is ALGA's understanding that whilst many councils do make their flood mapping data publicly available (with appropriate qualifications), there are also other local government authorities that simply do not have relevant data or are more conservative in their approach to making such information freely available. This reticence arises from potential legal liability concerns, the quality of data given recent experiences and the varying methodological approaches adopted by councils in mapping flood risk. In addition to these concerns some local governments also argue that private insurance companies should have some financial obligation to actually fund and contribute to flood risk mapping exercises, rather than expect the public to fund this work in its entirety.

Without adequate information in relation to flood risk, the ICA has indicated that should flood cover become mandatory, insurance companies will not be able to properly assess their risk and may withdraw all insurance products for consumers in those areas where the risk has not be adequately assessed.

Given the above issues, ALGA believes it is time to give consideration to questions such as: who should bear responsibility for producing, maintaining and funding the development of flood maps and does Australia now need to develop and agree on national flood mapping standards? This is particularly the case when considering the growing concerns arising from climate change.

ALGA would agree with many of the initial findings in a recent report prepared by the Commonwealth Attorney General's Department. The *Report on the Environmental Scan into a National Approach to Flood Modelling* (2011) highlighted the complexity and diversity of flood modelling in Australia and noted that the impression given by the ICA that some local governments are failing Australia by not providing the flood data is more complex in reality. In summary, the report indicates that the state of play in Australia's approach to flood modelling can be described as:

a) there are many agencies, organisations and individuals involved in flood modelling;
b) there is coordination in some areas but the effectiveness varies between jurisdictions and in some instances it is often limited or ad hoc;
c) flood modelling is a complex technical task that is reliant on good quality meteorological, hydrological, geomorphologic, digital elevation and land use data;
d) some people are able to access data easily while others either cannot, or are unaware of how to, access it;
e) there are limited mechanisms to discover data and there is duplication of effort looking for it;
f) there are issues around the coordinated collection, cost, licensing and archiving of data; and
g) there is both consistency and inconsistency (or the perception of inconsistency) in the accuracy and methodology of flood modelling.

Local government is fully supportive of current national disaster resilience initiatives designed to enhance risk management processes at all levels of government and resolve any impediments to the release of flood mapping data that is held at the Commonwealth, state or local government levels to the insurance industry and other relevant stakeholders.

Mitigation Opportunities

On average each year, 50 people lose their lives as a direct result of natural disasters, 1,500 are injured, 250,000 are affected in some way, and the economic cost to communities is around $3 billion[5]. The Queensland floods and cyclone damage is going to cost the nation in excess of $9 billion alone this year. The Report to COAG on Natural Disasters in Australia (August 2002) states that climate change is likely to result in an increase in the number and intensity of severe weather events. More recent reports including the CSIRO/BOM Technical Report 2007and numerous climate change reports reinforce this finding.

The 2002 COAG Report strongly supported the need for greater mitigation efforts and recommended the establishment of the Natural Disaster Mitigation Program.

Given the nature and diversity of the local government sector, councils have been long term advocates for more to be done in the mitigation area. Councils accept that the preferred option is always to try and avoid unacceptable risks. If this is not achievable for whatever reason, the next option must be to attempt to mitigate such risks. The question of insurance only comes into the picture when these other options are not available. The local government sector continues to support such a position.

ALGA has consistently argued that it is important to help insulate local communities from the effects of natural hazards. Local government therefore endorses initiatives that build capacity in local and regional communities to identify, mitigate and adapt, as well as respond to natural disasters.

The Natural Disaster Mitigation Program, which has now expired, allocated around $20 million per annum to achieve this goal. However, funding needed to be matched by local government and state governments on a formula of 1:1:1. In recognition of the projections for more widespread and severe impacts of natural disasters exacerbated by climate change (for example, storm surge, increased inundation of land previously not considered at risk, extreme temperature variations and more severe bushfires), local government supported the consolidation of Australian Government funding for disaster mitigation (which included a separate Bushfire Mitigation Fund). This subsequently occurred under the Disaster Resilience Australia Package (Federal Budget 2009-10).

However, it would appear that the demand by state governments upon the Program is likely to reduce the availability of funding to local government to meet its increasing responsibilities in disaster management and the current level of funding for potential mitigation measures is clearly inadequate compared with the scale of damage and substantial returns for mitigation investments. ALGA has called for a

[5] Attorney-General's Department report, *Working Together to Manage Emergencies: Strategic Plan to Nationally Enhance Emergency Management in the Community*.

dedicated program for local government so that councils can build resilience and provide community members with the certainty they need in the face of natural disasters.

Following the traumatic bushfires in Victoria in 2009 and the subsequent damaging floods in Queensland, local governments have lobbied the Australian Government on numerous occasions to extend and expand on a national natural disaster mitigation program. Local government has argued that such a program would need to include a funding formula to better reflect the respective capacities of the three levels of government to contribute to disaster related costs. ALGA has previously argued for a return to a matched expenditure formula of 2:2:1, with $2 of investment provided by both the Commonwealth and State governments for every $1 provided by local government.

Local and regional communities throughout Australia have benefited considerably from a variety of initiatives funded under the previous NDMP. Given recent experiences with natural disasters in Australia and the unfortunate likelihood that events such as bushfires, floods and cyclones will intensify because of climate change, the need to encourage and assist mitigation strategies is greater than at any previous time.

If the Australian Government is to continue to provide real leadership in this area, it is important that a future mitigation funding program is properly resourced over a sufficient length of time. It is widely acknowledged that well targeted mitigation projects have demonstrated substantive value by either diverting or significantly reducing the extensive costs faced by communities when dealing with a range of natural disasters. Local and regional communities throughout Australia have benefited from a variety of previously funded projects, such as the construction of levees in Lismore and Charleville.

Calls for further dedicated mitigation funding have been unsuccessful. ALGA is disappointed in this response. The 2002 Report to COAG supported the need for greater mitigation expenditure, noting that the Commonwealth could expect to benefit directly through reductions in future calls on the NDRRA. Not only has there been no more substantial commitment to mitigation but the Commonwealth instead introduced its own personal hardship and distress payment (the Australian Government Disaster Relief Payment) in direct competition with state and territory arrangements in this area. Commonwealth financial exposure has increased dramatically (with AGDRP expenditure in the order of $750m for the recent floods) without gains in the area of reduced risk. ALGA will continue to call for greater mitigation funding.

Collecting and Storing of valuable data

As previously argued, local government possesses geospatial and other information that may be critically important when responding to natural and civil disasters or health-related or terrorism emergencies. However, this information is not generally accessible to the Australian and state and territory governments due to governance and technological barriers.

Intervention is needed so that local government data may be incorporated with other information sources, including those managed by various agencies or emergency management stakeholders. The Trusted Information Sharing Network for Critical Infrastructure Protection, the National Information Management Advisory Group and the National Counter Terrorism Committee have all recognised this vulnerability.

While there are some plans in some jurisdictions, the capacity to integrate local government information into across-jurisdictional emergency management response does not currently exist.

In this context, ALGA argued in its 2011-12 Federal budget submission that a proposed "smart network" would support the ability for local government to participate more productively in the emergency management arena. It is proposed that specific resources be allocated to build an integrated solution that leverages existing infrastructure such as the AusDIN Portal. This "smart network" may integrate virtual spatial information libraries, operational and surveillance data and communication and notification functions. The system has the potential to increase intelligence gathering capacity and local government's ability to coordinate cooperate and respond to major emergencies.

In the event of a regional disaster where there is a total failure of information technology infrastructure, there will need to be continuing operations and delivery of local government services. In this context, the proposal develops and implements a national disaster recovery capability that would:

- be a secondary offsite data repository for councils;
- enable council business functions to be delivered remotely over appropriate telecommunications technologies following a disaster; and
- augment spatial data libraries using an all-hazards emergency management approach, including counter-terrorism, so that complete, accurate information is accessible to agencies responsible for managing crises.

The initiative will assist local government to support communities in their recovery, particularly in the first crucial weeks after a major disaster, where research shows the ongoing psychological and economic implication of the event can be minimised.

Summary and Conclusion

Recent natural disasters experienced in Australia have underlined the importance of building stronger community resilience. Communities which understand the risks and the limit of what governments can do, the importance of people taking responsibility to prepare for disasters by having a plan, by preparing property to withstand a variety of natural hazards, by having insurance where appropriate (and reasonably available) will ensure Australians are much better placed to deal with future challenges.

There are many implications for local government in dealing with the growing threats arising from natural hazards such as flooding. This is why ALGA is working as a member of the National Emergency Management Committee to encourage state governments to work with councils on implementation of the National Disaster Resilience Strategy. Specific issues for local councils include the identification of priority hazards at the local level and communicating those hazards to property owners, ensuring that local and regional land use planning takes account of identified hazards, identifying opportunities to mitigate risks and partnering with other levels of government to fund mitigation measures.

The National Disaster Resilience Strategy also reinforces that all levels of government must work more closely with communities at the local level and that building resilience is a responsibility that is much broader than only involving those traditionally involved in emergency services operations.

While councils generally appear to have adequate insurance arrangements for buildings and other property, they do not as a rule insure roads and bridges. It is not common practice for governments (local, state or federal) to insure these types of assets anywhere in Australia. Consequently, this type of insurance is not readily available in the market.

As argued in this submission, this raises a number of issues for local government, chief of those being the potentially enormous increase in insurance costs to councils should the changes made to the NDRRA to force councils to try to obtain insurance.

Any reduction in the role of the Commonwealth through reducing the funding it makes available to the states through the NDRRA, will simply increase the risks and costs borne by councils (cost shifting). There is not likely to be an overall saving for taxpayers, just a shifting of the burden from federal taxes to local taxes (rates).

Given this, ALGA opposes any changes to existing arrangements that could require local government authorities to insure their infrastructure assets.

It should be noted that there would be a significant professional and administrative costs involved in researching, preparing and taking to the market a proposal for obtaining best possible pricing to cover billions of dollars in assets that have not previously been covered by insurance. Given that such a project would require detailed individual analysis of existing council insurance programs, asset registers and compilation of asset risk profiles, the direct costs alone for local governments across Australia would be in the order of millions of dollars.

Similarly, local government would oppose any proposal that would introduce a national flood insurance cover scheme, whereby Councils, through their rating schemes, are required to help subsidise premiums for high –risk properties. Local government is already constrained financially and ALGA does not support proposals to fund non local government services or private residential and commercial risk from rates.

In relation to the question of measuring flood risk, the argument put forward by the insurance sector that there is a problem with some councils making their flood mapping available underestimates the real challenges facing all levels of government in accurately modelling flood impacts. As such, ALGA believes it is time to give serious consideration to resolving the questions of who should bear responsibility for producing, maintaining and funding the development of flood maps and whether the nation would benefit by developing and adopting a set of national flood mapping standards?

Many of the questions posed in the Natural Disaster Insurance Review Issues Paper are important in trying to address the current difficulties many households and businesses face in dealing with the impacts from flooding and other natural hazards. ALGA is of the view however that questions relating to insurance should follow action to more properly assess how much more can be done in mitigating against such disasters in the first place.

Local government would welcome more assistance and funding to undertake value for money mitigation efforts. Physical infrastructure provision, together with enhanced strategic and development assessment planning, consistent geospatial mapping technology, improved building standards and targeted community and business education programs would over time lead to considerable savings for all levels of government , the business sector and individual households.

For further information in relation to any of the matters raised in this submission, please contact Adrian Beresford-Wylie on 61229400.

Attachment 1 - Survey form sent to the local government associations

REVIEW OF LOCAL GOVERNMENT NATURAL DISASTER INSURANCE ISSUES

MEMO TO STATE/TERRITORY LOCAL GOVERNMENT ASSOCIATION CEO's

ALGA is conducting a review of arrangements associated with the funding of remediation works arising from natural disasters from a local government perspective. Part of the reason for the review is to enable ALGA to respond to the Natural Disasters Insurance Review that has been set up by the Commonwealth to review natural disaster arrangements as they affect the relationship between the Commonwealth and the States and Territories.

ALGA has appointed a consultant, John Comrie (JAC Comrie Pty Ltd) to research and prepare a report on this issue.

To assist John in his work for ALGA in this regard could you please supply the following information as it applies in your jurisdiction:

1. The funding arrangements that exist between the State or Territory and local governments in relation to disaster relief and remediation works, eg;
    i. Is there a formal arrangement in place?
    ii. The nature of the funding arrangements (activity eligible for funding support, any threshold limits and funding share arrangements etc)?
2. Are there legislative requirements for local governments to have public liability insurance or to insure their assets?
3. If local governments are required to insure their assets, are there stipulations as to the level of coverage (e.g. monetary limits, and types of assets – eg have any requirements traditionally been interpreted to include roads, bridges and other local government infrastructure)?
4. Over and above any legislative requirements, what is the practice of local governments in regard to public liability insurance and infrastructure insurance (e.g. are all assets insured, some assets insured - in particular what classes of infrastructure are insured?)
5. Do local governments have any difficulties getting suitable insurance cover (limitations on the cover, cost, high deductibles, automatic reinstatement of cover etc.)?
6. Where local governments are not required to insure, how many fail to take out suitable insurance cover and how if at all does this affect their access to any available natural disaster funding?
7. Is there any evidence to indicate that local governments have sought or would wish to insure their infrastructure assets but have been unable to secure suitable, cost-effective cover?
8. Where local governments are able but are choosing not to insure is there any reason to believe this may at least in part be because they have access to reimbursement for loss

under arrangements for disaster relief between the State or Territory and local government?

9. What sources of insurance cover for public liability and property loss exist and are utilised by local governments? E.g. does a collective local government ‘insurance’ scheme exist? If so do most/all local governments participate? Do some local governments insure directly with private insurers?

10. Where councils self-insure, what arrangements do they have to cover significant losses from disasters?

11. The Commonwealth is now requiring States and territories to have independent assessments of their insurance arrangements in relation to disasters – do you know what impact this will have on the arrangements for disaster relief between the State or Territory and local governments?

12. Are local governments required to have disaster mitigation plans (e.g. floods, bushfires etc.)?

13. What account of such disaster mitigation plans is taken by insurers?

14. What if any assistance is provided to local governments to develop disaster mitigation plans by other parties, eg the Commonwealth, State or Territory, LGA, or insurers?

15. Do local governments have community programs encouraging individuals/businesses to:

    i. plan for disasters

    ii. have appropriate insurance for their property?

16. Are there other factors relevant to the review that you wish to provide comment on or further information you wish to provide? If so please do so.

This review is of an urgent nature and your response to this request by April 29 would be appreciated.

Adrian Beresford-Wylie
Chief Executive
Australian Local Government Association

13 April 2011

Attachment 2 - Summary of responses to the survey form

Arrangements between states/territories and local government in relation to disaster relief and remediation works	NSW	Grants are available to meet the additional costs of emergency work to restore essential services, including the provision of emergency levee banks, which are in excess of normal operations. Grants are available to meet 100% of eligible emergency works and 75% of eligible restorations works up to $116,000 with 100% cost recovery beyond that level. Grants are available to help Councils to permanently restore roads and bridges to pre-disaster standards. These grants meet 75% of the first $116,000 expenditure and 100% beyond that level. This assistance is administered by the Roads and Traffic Authority. However, when a severe natural disaster occurs causing damage to these assets in excess of $240,000 (including roads, bridges and Crown lands), the NSW Treasurer or his delegate may issue a Natural Disaster Declaration. Under these circumstances the Australian and NSW Governments provide financial assistance to local government through Natural Disaster Relief and Recovery Arrangements for emergency work and restoration of damaged local assets. Currently, insurance cover is not a criteria for natural disaster funding.
	NT	NT Treasurer's advance for disaster recovery accessed by Department of Housing, Local Government and Regional Services for the local government sector. Threshold of $240,000 for a disaster event.
	QLD	Each local governments trigger point/contribution level amount (applicable to each NDRRA disaster event) is determined as follows: a) Larger local governments - 1% of General rate Revenue; b) Other Local Governments - 0.25% of Queensland's NDRRA base expenditure amount (i.e. in 2009/10 0.25% of $70,719,750 = $177,000); and c) For smaller local governments with a rate revenue base of less than $3,000,000, a lower threshold of $50,000 may have applied if an approved disaster risk assessment was completed prior to 2004. Each local government must have eligible damage exceeding their trigger point and are required to contribute 25% of eligible expenditure up to their maximum calculated trigger point level. (For example, if a Local Government trigger point is $200,000 total expenditure needs to exceed $200,000 to be eligible. The Local Government pays 25% or up to the trigger point whichever is lesser.) Two issues – day labour costs of council staff not covered (but contract costs are) and disaster funding does not apply to council trading activities, including water, sewer, waste management and public transport.
	SA	Councils have access to Local Government Disaster Relief Fund. Damage sustained must exceed 5% of a council's rate revenue and 10% of its Works budget and be beyond the financial capacity of the council to manage. Councils are expected to contribute at least 10% of the remediation works and the amount is not capped. All applications are

		considered on an individual basis.
	TAS	The arrangements are made under the State Disaster Relief and Recovery Arrangements. The thresholds are calculated in the same way as under the NDRRA. A council's first expenditure threshold is 0.225% of its total general rates revenue and general purpose grants receipts two financial years prior and its second threshold is 1.75 times that amount. A council will be reimbursed 50% of its eligible expenditure between the first and second thresholds and 75% of expenditure on eligible expenditure above the second threshold.
	VIC	Formal arrangements under the National Disaster Financial Assistance program. 100% of costs for emergency protection works for local councils 75% of the cost to restore assets between \$10,000-\$100,000 100% of costs above \$100,000. *Emergency protection works* – including works undertaken to protect community assets and to restore essential public services; and/or *Restoration of municipal and other public assets* – including repair of roads and bridges, reserves and associated community facilities, and destroyed public buildings.
	WA	Formal agreements with regard to the NDRRA are in place between Federal and State governments. WANDRRA is the local State arrangement for relief after disasters have been a declared event. Local government must have sustained damage to their infrastructure in excess of the \$250,000 threshold set by the State. Local government must also contribute 25% of the total cost of restoration up to an agreed threshold determined by the rates revenue of the local government. The limit of each local government's contribution is the greater of: 1% of Total Rates Levied; or 0.25% of the State's 1st Threshold under the NDRRA agreements which has been rounded down to \$109,100. A Supplementary Fund is established and maintained (from state revenue from vehicle registration) to assist non-metropolitan Councils in repairing roads affected by abnormal rainfall and fire damage. The Supplementary Fund commences each financial year with a minimum balance of \$4 million. Top up is provided from the Rural Regional Road Groups' Road Project Grant pool (effectively all non-metropolitan Councils contribute to the pool in proportion to their share of Road Project Grant funding and may draw from the pool if they suffer an eligible event) Details of eligibility for funding is set out in the State Road Funds to Local Government Procedures. Where an event is NOT declared a Natural Disaster, subject to approval by the State Road Funds to Local Government Advisory Committee and the availability of sufficient funds, non-metropolitan Local Governments are provided with 100% for "opening up" costs and \$2 of Supplementary Funds to \$1 Local Government Funds for reinstatement costs.

		Where an event IS declared a Natural Disaster assistance to restore the asset to the equivalent pre-disaster standard is provided under the WANDRRA arrangements. The current issue for WA is that many regional local governments are unable to utilise contract service providers to undertake restoration works as is required currently under NDRRA determination.
Legislative requirements for local governments to insure	NSW	Councils must have "adequate insurance" for public liability and professional indemnity. No stipulation as to levels of coverage. No requirement to insure assets.
	NT	No legislative requirement.
	QLD	Councils must have insurance for public liability and professional indemnity. Public liability \$30m Professional indemnity \$10m No requirement to insure assets.
	SA	Councils must have insurance for public liability (minimum \$50m) and must have insurance to protect elected members in the discharge of their duties. No requirement to insure assets.
	TAS	No legislative requirement.
	VIC	Councils must have insurance for public liability and professional indemnity. No requirement to insure assets.
	WA	No legislative requirement.
Local governments insurance practices	NSW	Members of NSW Statewide Mutual Liability Scheme (150 councils) have \$400m public liability cover (any one occurrence) and \$300m professional indemnity cover (any one occurrence). Real and personal property is insured and some specified bridges, dams and reservoirs are insured.
	NT	All councils insure particularly buildings, plant and equipment. There is an issue with ownership of assets on Aboriginal land, but assets are insured.
	QLD	Local Government Mutual Liability Pool provides members with public liability cover of \$400 million (any one occurrence), products liability cover of \$400 million (any one occurrence and in the aggregate) and professional indemnity cover of \$300 million (any one claim). In relation to asset insurance the normal practice is for Councils to insure buildings and major structures, treatment plants, fixed plant and mobile plant. Some jetties, weirs and a very limited number of bridges may be insured. By and large Councils do not insure roads, bridges, culverts / drainage systems, airports (except for buildings) and pipelines.
	SA	Councils have elected to insure buildings, contents, electronic equipment, machinery plant and equipment as the main items of property related risks and this is insured on a replacement cost basis.
	TAS	All councils hold comprehensive public liability insurance. All councils have insurance cover for buildings.

	VIC	All councils have public liability insurance. Councils hold property insurance predominantly for buildings and facilities, again with a sector scheme in place for a majority of councils.
	WA	Typically, buildings and contents, electronic equipment and miscellaneous structures, as declared on a Schedule, plus blanket liability cover. Some, but not all, declare bridges and jetties; roads and underground infrastructure are NOT declared.
Insurance of infrastructure	NSW	Generally, infrastructure assets are not insured.
	NT	Road infrastructure is not insured.
	QLD	Most councils do not insure infrastructure assets.
	SA	Infrastructure, assets such as roads, footpaths/bridges, underground services, waste cells, wetlands/dams, flood ways, culverts, and retaining walls have generally not been assets that Councils have looked to insure. Some councils have elected to cover specific infrastructure assets (such as bridges, boardwalks, underground fibre optic services, public lighting/traffic lights, and STEDS schemes) through the LGA Asset Mutual Fund.
	TAS	Generally, councils do not insure infrastructure assets. A small number of councils that have taken cover on some specific bridges.
	VIC	Generally, councils do not insure infrastructure assets.
	WA	Some, but not all, declare bridges and jetties; roads and underground infrastructure are NOT declared.
Sources of insurance cover	NSW	NSW Statewide Mutual Liability Fund for public liability and property loss for 150 councils. 3 councils have private insurers.
	NT	Eight shire councils use mutual arrangement through CouncilBIZ. All other councils use private insurers.
	QLD	Queensland Local Government Mutual Liability Pool provides members with public liability and professional indemnity cover. Property loss cover arranged by councils individually through private market.
	SA	LGA Mutual Liability Scheme for public liability and professional indemnity insurance. LGA Asset Mutual Fund for property loss.
	TAS	Public liability insurance is provided via MAVIC, a mutual insurance arrangement which covers all Tasmanian councils General insurance is sourced by councils on an individual basis.
	VIC	78 of the 79 councils use the MAV's mutual scheme, Civic Mutual Plus, which provides cover for up to $300 million for each member). The MAV is currently investigating the feasibility of establishing a mutual scheme for council property insurance, at a lower price.
	WA	LGIS, a mutual scheme in which all councils participate
Constraints on obtaining insurance cover	NSW	No specific constraints, but where flood and earthquake insurance is available there are high deductibles.
	NT	No problem with cover. Cost is only issue
	QLD	Limited market with one dominant player. To date cover and pricing have been satisfactory, but this may change as the result of the recent

		disasters in Queensland. Cost of coverage of infrastructure assets likely to be prohibitive.
	SA	None noted to date – but there could be some impact in the reinsurance market as a result of the recent natural disasters in Australia.
	TAS	No constraints noted.
	VIC	Cost issues for infrastructure assets.
	WA	Flood insurance above a minimum level. Earthquake is a major disaster exposure.
Disaster mitigation plans	NSW	Councils are required to have emergency risk management/disaster mitigation plans, which fit into district and state emergency planning. Close liaison with relevant state bodies. In some cases liaison with Commonwealth agencies (e.g. ANSTO) and large corporations (e.g. petrol refineries). Insurers rely on council flood maps but do not generally consider disaster mitigation plans.
	NT	Councils are required to have disaster management plans, but this does not necessarily include mitigation. LGANT and the Territory government are assisting councils to develop disaster resilience plans.
	QLD	Councils must have a Local Disaster Management Group and a local disaster management plan. Various state bodies provide advice to councils on their disaster management plans.
	SA	No specific requirement, but general requirement in regard to natural and other hazards (including flooding). Rural councils and councils with a designated urban bushfire risk area must have a suitably qualified fire prevention officer. The LGA in conjunction with the LGAMLS Risk Management Department, play an essential role in assisting Councils to develop and implement emergency risk management plans.
	TAS	Requirement under state emergency legislation. No funding to develop the plans.
	VIC	Councils are responsible for coordinating and producing the Municipal Emergency Management Plan (MEMP), which is a multi agency plan for all hazards within the municipal district. The plan maps key risks and treatment options for those risks. Other emergency management agencies are required to participate on the planning committees for the MEMP, such as the fire agency (CFA or MFB), the SES, Victorian Police, etc.
	WA	Councils are required to have Community Emergency Management arrangements in place. LGIS makes services available to assist in their development. The State government provides a fund for the assessment of risk and the identification of treatment strategies at the local level through the All West Australians Reducing Emergencies (AWARE) fund.
Community programs on disaster	NSW	Some community programs run by councils and state (usually in partnership).
	NT	Community involvement in developing disaster recovery plans.

planning/insurance cover	QLD	The obligation to provide community awareness in disaster mitigation varies significantly across the state but council resources include websites, community workshops and printed material.
	SA	Collaborative approach between state and local government on emergency management and bushfire issues.
	TAS	None known.
	VIC	MEMP includes community programs and the promotion of disaster planning and preparation.
	WA	Local governments are encouraged to involve the community which includes private individuals and local business in the risk assessment process and in the formulation of local emergency management arrangements.