



Municipal Association of Victoria

Submission to the

Reforming Victoria's Natural Disaster Financial
Arrangements for Municipal Assistance Options
Paper

July 2008

This submission has been prepared by the Municipal Association of Victoria (MAV) in response to the Office of the Emergency Services Commissioner's *Reforming Victoria's Natural Disaster Financial Arrangements for Municipal Assistance Options Paper*.

The MAV is the statutory peak body for local government in Victoria, representing all 79 municipal councils within the state.

Whilst this submission aims to broadly reflect the views of local government in Victoria, it does not purport to reflect the exact views of individual councils, which have also been encouraged to make submissions to the Options Paper.

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July 2008

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1. Introduction

The Municipal Association of Victoria (MAV) welcomes the opportunity to provide input to the review of Victoria's Natural Disaster Financial Arrangements for municipal assistance.

A number of councils have endured long-term drought, compounded by large-scale emergencies such as the fires and floods of 2006-07, which have resulted in ad hoc relief payments for long-term operation of Municipal Emergency Coordination Centres (MECCs) and recovery activity.

With the increased likelihood of natural disasters due to climate change, the MAV recognises that the current arrangements must be reformed to provide budgetary assurance for councils and reduce the expectation of ad hoc state government relief packages.

In addition to increased exposure to natural disasters, MAV research has identified factors which are correlated to the greater susceptibility of councils to long-term financial distress, such as large geographic area, small populations and long road lengths. The MAV believes it is essential that these councils are not exposed to further financial challenges through inconsistent reimbursement of emergency expenditure.

There is also a clear need to revise current policy to ensure its consistency with the State's emergency management arrangements – to reflect the full scope of local government's emergency management role, particularly in the recovery phase.

The key points from this submission have been drawn from a discussion session held at the MAV on 20 June 2008, attended by representatives from 16 councils. A majority of the participants supported Option 4, with tight and unambiguous category definitions, because it offers a continued level of budgetary certainty for councils, while more closely reflecting the role local government plays in emergency management.

The MAV appreciates that Options 2 and 3 adopt the Federal expenditure classifications for state reimbursement, and would therefore streamline the administrative process for the Department of Treasury and Finance. Of these two options, Option 3 is the preferred, because it amends the threshold limits and reimbursement rates of Option 2 to provide a greater level of budgetary assurance for councils through the recognition that councils have less financial reserves than the State. However, without some alteration, it is likely that the existing arrangements or Option 4 would provide a greater level of certainty for councils, particularly for councils with high levels of revenue. Outlay for large-scale events such as those faced by Gippsland councils in recent years, would still remain a significant issue for local government, and as such, Option 3 would not be supported by the MAV in its proposed form.

Option 4 is the preferred option of the MAV due to its capacity to provide a continued level of budgetary certainty for councils following emergencies.

2. General Comments

2.1 Revenue measures

When determining council revenue, it is important to include only underlying revenue. Councils receive 'revenue' through donated and found assets (such as roads and footpaths

from a new subdivision) which is recognised financially as revenue in the profit/loss statement. However, these items are physical infrastructure and should not be considered revenue for the purposes of assessing councils' ability to accommodate unbudgeted expenditure due to natural disasters. The revenue figures provided by the Office of the Emergency Services Commissioner (OESC) indicate that 'revenue' is defined as 'own source revenue', in particular, rates and fees, fines and charges. The MAV supports this continued benchmark as a means of measuring the revenue capacity of councils and seeks a clear statement that this is the methodology which will be adopted in the event of Option 2 or 3 being accepted by the State.

2.2 Current exclusions

- Several smaller, rural councils have argued that application of the present arrangements poses a problem when there is a low supply of external contractors available to respond to an emergency. In this case, councils must redeploy their own workforce. In rural councils this is an issue once the MECC staff return to work and they need to employ temporary staff to assist with the backlog of work outside of claim time.
- The MAV has previously argued that any damage to roads caused through accelerated timber harvesting can be directly attributable to fires as this damage would not have occurred in the absence of the fires. MAV presented this argument in a submission to the *Inquiry into the Impact of Public Land Management Practices in Bushfires in Victoria* and it arose again in the meeting to discuss the Options Paper. The MAV seeks further advice on this matter.
- The MAV will be seeking further advice from the Federal Government about the definition of a natural disaster, to address emergencies such as heatwaves and windstorms which may not fit the existing criteria, but still cause significant damage. For example, recent windstorms may not have met the definition of a natural disaster while cumulatively causing damage of up to \$750,000 for one council.

2.3 Mitigation

- The MAV understands that the states are penalised by the Commonwealth if they fail to impose mitigation incentives on councils, which in turn means financial assistance to councils restoring public assets will be reduced by 10 per cent if mitigation strategies are not in place. At the 20 June meeting it was noted that councils do not have to implement these strategies themselves, they merely have to demonstrate that they are in place. These could include State Government mitigation activities such as DSE planned burning. Clear and unambiguous guidelines are needed to avoid dispute over whether the mitigation strategies undertaken were sufficient.
- The MAV seeks direct support for mitigation activity as part of the national funding arrangements. Although it was pleasing that the new model will include betterment of public assets, support could be provided for more resilient structures (e.g. the replacement of wooden bridges) before an event occurs, to minimise the level of destruction and post-event reimbursement.

2.4 Cash Flows for Smaller Councils

The ability of small rural councils to maintain acceptable working cash levels during large emergency events is an important issue that may need to be addressed. It is proposed that for those councils under the \$10 million revenue threshold, it would be appropriate for a quantum of State support to be provided as a cash advance option. This would ensure that

small councils with limited cash holdings are not required to run down their working capital ratios to unacceptable levels in the event of a disaster.

2.5 Process

- Many councils have expressed concern that the current processes can result in delayed payments or inconsistent assessments. As part of the review process a new toolkit/ set of guidelines for making claims is recommended, which includes commitments around reimbursement timeframes, and also address the VicRoads' assessment processes.
- The MAV also seeks clarification about whether expenditure would be reimbursed as claims are made or whether claims would be made at the end of a financial year.

3. Review of Options

Option 1

The current methodology provides financial certainty for councils around infrastructure reinstatement. However, it means local government is potentially exposed for community recovery activities (Category A) as funding assurance is provided for infrastructure damage only. To date, community recovery expenditure has largely been addressed by the State providing funding packages to councils, but this depends on continued ad hoc funding allocation by the State. The expectations placed on local government around planning for and delivery recovery assistance are increasing, and as such, there is a strong argument to adopt a different model to ensure the funding model consistently considers recovery-related activities. In the view of the MAV, the major shortcoming of this model is its inability to provide certainty for recovery related expenditure, particularly given local government's important role in this activity.

Option 2

This funding model adopts the Commonwealth-state approach to funding natural disasters which has obvious administrative benefits at the state level. However, such a funding model would undermine local government's continued contribution to emergency management as it provides insufficient budgetary protection. Councils of all sizes will face financial risks and will bear a large proportion of the costs for both small and large claims.

For example, in the instance of a large event resulting in several million dollars of property damage, a significant proportion would be borne by the council. Three scenarios have been modelled below in Table 1, indicating the extent to which councils would be exposed to unbudgeted financial costs with Option 2.

Table 1: Reimbursement Outcomes for Option 2

Council Revenue	Event Causing \$250,000 Damage				Event Causing \$1,000,000 Damage				Event Causing \$6,000,000 Damage			
	Gov't Contribution	Council Contribution	Gov't Contribution	Council Contribution	Gov't Contribution	Council Contribution	Gov't Contribution	Council Contribution	Gov't Contribution	Council Contribution	Gov't Contribution	Council Contribution
10,000,000	79.9%	20.1%	\$199,688	\$50,313	87.5%	12.5%	\$874,688	\$125,313	89.6%	10.4%	\$5,374,688	\$625,313
20,000,000	69.8%	30.3%	\$174,375	\$75,625	84.9%	15.1%	\$849,375	\$150,625	89.2%	10.8%	\$5,349,375	\$650,625
30,000,000	59.6%	40.4%	\$149,063	\$100,938	82.4%	17.6%	\$824,063	\$175,938	88.7%	11.3%	\$5,324,063	\$675,938
40,000,000	49.5%	50.5%	\$123,750	\$126,250	79.9%	20.1%	\$798,750	\$201,250	88.3%	11.7%	\$5,298,750	\$701,250
60,000,000	29.3%	70.8%	\$73,125	\$176,875	74.8%	25.2%	\$748,125	\$251,875	87.5%	12.5%	\$5,248,125	\$751,875
80,000,000	24.0%	76.0%	\$60,000	\$190,000	69.8%	30.3%	\$697,500	\$302,500	86.6%	13.4%	\$5,197,500	\$802,500
100,000,000	24.0%	76.0%	\$60,000	\$190,000	64.7%	35.3%	\$646,875	\$353,125	85.8%	14.2%	\$5,146,875	\$853,125
120,000,000	24.0%	76.0%	\$60,000	\$190,000	59.6%	40.4%	\$596,250	\$403,750	84.9%	15.1%	\$5,096,250	\$903,750
140,000,000	24.0%	76.0%	\$60,000	\$190,000	54.6%	45.4%	\$545,625	\$454,375	84.1%	15.9%	\$5,045,625	\$954,375
200,000,000	24.0%	76.0%	\$60,000	\$190,000	39.4%	60.6%	\$393,750	\$606,250	81.6%	18.4%	\$4,893,750	\$1,106,250

These scenarios indicate the proportion of the cost borne by councils with three events – low cost, moderate cost and high cost. In line with data provided by councils based on actual emergency events, it is assumed a higher proportion of expenditure is made on asset and infrastructure than community recovery. This modelling indicates that councils could be exposed to a significant portion of financial risk, and that this risk exists for scenarios ranging from large and small events for councils of all revenue sizes. As such, the MAV has serious concerns about the ability to apply this funding model to councils without serious risk of undermining the budgetary position of many municipalities. In short, this model does not sufficiently recognise the different capacity of councils to manage the financial risks of emergency events from the states.

Given the significant costs which would be borne by councils under a variety of scenarios, the MAV does not support the application of Option 2.

Option 3

This option adopts the expenditure classifications of the Commonwealth-state approach but amends threshold limits and reimbursement rates of Option 2 to provide a greater level of budgetary assurance for councils. However, without some alteration, it is likely that the existing arrangements or Option 4 would provide a greater level of certainty for councils, particularly for those councils with relatively high revenue.

In the view of the MAV, the benefit of this option is the consistent approach to defining emergency expenditure between the Commonwealth and State reimbursement policies. That is, category A and B expenditure will be measured, resulting in administrative savings in processing and compiling reimbursement claims for the State.

The biggest concern with Option 3 remains the quantum of expenditure borne by councils. Outlay for large-scale events such as those faced by Wellington Shire in recent years, would still remain a significant issue for local government, and as such, Option 3 would not be supported by the MAV in its proposed form.

Table 2: Reimbursement outcomes for Option 3 in current form

Council Revenue	Event Causing \$250,000 Damage				Event Causing \$1,000,000 Damage				Event Causing \$6,000,000 Damage			
	Gov't Contribution	Council Contribution	Gov't Contribution	Council Contribution	Gov't Contribution	Council Contribution	Gov't Contribution	Council Contribution	Gov't Contribution	Council Contribution	Gov't Contribution	Council Contribution
10,000,000	94.0%	6.0%	\$235,000	\$15,000	98.5%	1.5%	\$985,000	\$15,000	99.8%	0.3%	\$5,985,000	\$15,000
20,000,000	88.0%	12.0%	\$220,000	\$30,000	97.0%	3.0%	\$970,000	\$30,000	99.5%	0.5%	\$5,970,000	\$30,000
30,000,000	82.0%	18.0%	\$205,000	\$45,000	95.5%	4.5%	\$955,000	\$45,000	99.3%	0.8%	\$5,955,000	\$45,000
40,000,000	76.0%	24.0%	\$190,000	\$60,000	94.0%	6.0%	\$940,000	\$60,000	99.0%	1.0%	\$5,940,000	\$60,000
60,000,000	64.0%	36.0%	\$160,000	\$90,000	91.0%	9.0%	\$910,000	\$90,000	98.5%	1.5%	\$5,910,000	\$90,000
80,000,000	52.0%	48.0%	\$130,000	\$120,000	88.0%	12.0%	\$880,000	\$120,000	98.0%	2.0%	\$5,880,000	\$120,000
100,000,000	40.0%	60.0%	\$100,000	\$150,000	85.0%	15.0%	\$850,000	\$150,000	97.5%	2.5%	\$5,850,000	\$150,000
120,000,000	28.0%	72.0%	\$70,000	\$180,000	82.0%	18.0%	\$820,000	\$180,000	97.0%	3.0%	\$5,820,000	\$180,000
140,000,000	22.0%	78.0%	\$55,000	\$195,000	79.0%	21.0%	\$790,000	\$210,000	96.5%	3.5%	\$5,790,000	\$210,000
200,000,000	10.0%	90.0%	\$25,000	\$225,000	70.0%	30.0%	\$700,000	\$300,000	95.0%	5.0%	\$5,700,000	\$300,000

The same scenarios used in the previous tables are modelled in Tables 3-6. These tables model four minor alterations to Option 3 which provide a more acceptable level of budgetary assurance. Four scenarios are modelled including:

1. Decreasing the first threshold from 0.1% to 0.075% of revenue
2. Decreasing the ratios between the first and second threshold to 1.5
3. Increasing the funding rate for the first threshold to 75 per cent
4. Increasing the funding rate for the first threshold to 75 per cent and decreasing the ratios between the first and second threshold to 1.5

Table 3: Reimbursement under Option 3 with a decrease in the first threshold from 0.1% to 0.075% of revenue

Council Revenue	\$250,000 Event				\$1,000,000 Event				\$6,000,000 Event			
	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council
10,000,000	95.5%	4.5%	\$238,750	\$11,250	98.9%	1.1%	\$988,750	\$11,250	99.8%	0.2%	\$5,988,750	\$11,250
20,000,000	91.0%	9.0%	\$227,500	\$22,500	97.8%	2.3%	\$977,500	\$22,500	99.6%	0.4%	\$5,977,500	\$22,500
30,000,000	86.5%	13.5%	\$216,250	\$33,750	96.6%	3.4%	\$966,250	\$33,750	99.4%	0.6%	\$5,966,250	\$33,750
40,000,000	82.0%	18.0%	\$205,000	\$45,000	95.5%	4.5%	\$955,000	\$45,000	99.3%	0.8%	\$5,955,000	\$45,000
60,000,000	73.0%	27.0%	\$182,500	\$67,500	93.3%	6.8%	\$932,500	\$67,500	98.9%	1.1%	\$5,932,500	\$67,500
80,000,000	64.0%	36.0%	\$160,000	\$90,000	91.0%	9.0%	\$910,000	\$90,000	98.5%	1.5%	\$5,910,000	\$90,000
100,000,000	55.0%	45.0%	\$137,500	\$112,500	88.8%	11.3%	\$887,500	\$112,500	98.1%	1.9%	\$5,887,500	\$112,500
120,000,000	46.0%	54.0%	\$115,000	\$135,000	86.5%	13.5%	\$865,000	\$135,000	97.8%	2.3%	\$5,865,000	\$135,000
140,000,000	37.0%	63.0%	\$92,500	\$157,500	84.3%	15.8%	\$842,500	\$157,500	97.4%	2.6%	\$5,842,500	\$157,500
200,000,000	20.0%	80.0%	\$50,000	\$200,000	77.5%	22.5%	\$775,000	\$225,000	96.3%	3.8%	\$5,775,000	\$225,000

Table 4: Reimbursement under Option 3 with a decrease in the ratios between the first and second threshold to 1.5

Council Revenue	\$250,000 Event				\$1,000,000 Event				\$6,000,000 Event			
	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council
10,000,000	95.0%	5.0%	\$237,500	\$12,500	98.8%	1.3%	\$987,500	\$12,500	99.8%	0.2%	\$5,987,500	\$12,500
20,000,000	90.0%	10.0%	\$225,000	\$25,000	97.5%	2.5%	\$975,000	\$25,000	99.6%	0.4%	\$5,975,000	\$25,000
30,000,000	85.0%	15.0%	\$212,500	\$37,500	96.3%	3.8%	\$962,500	\$37,500	99.4%	0.6%	\$5,962,500	\$37,500
40,000,000	80.0%	20.0%	\$200,000	\$50,000	95.0%	5.0%	\$950,000	\$50,000	99.2%	0.8%	\$5,950,000	\$50,000
60,000,000	70.0%	30.0%	\$175,000	\$75,000	92.5%	7.5%	\$925,000	\$75,000	98.8%	1.3%	\$5,925,000	\$75,000
80,000,000	60.0%	40.0%	\$150,000	\$100,000	90.0%	10.0%	\$900,000	\$100,000	98.3%	1.7%	\$5,900,000	\$100,000
100,000,000	50.0%	50.0%	\$125,000	\$125,000	87.5%	12.5%	\$875,000	\$125,000	97.9%	2.1%	\$5,875,000	\$125,000
120,000,000	40.0%	60.0%	\$100,000	\$150,000	85.0%	15.0%	\$850,000	\$150,000	97.5%	2.5%	\$5,850,000	\$150,000
140,000,000	30.0%	70.0%	\$75,000	\$175,000	82.5%	17.5%	\$825,000	\$175,000	97.1%	2.9%	\$5,825,000	\$175,000
200,000,000	10.0%	90.0%	\$25,000	\$225,000	75.0%	25.0%	\$750,000	\$250,000	95.8%	4.2%	\$5,750,000	\$250,000

Table 5: Reimbursement under Option 3 with an increase in the funding rate for the first threshold to 75 per cent

Council Revenue	\$250,000 Event				\$1,000,000 Event				\$6,000,000 Event			
	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council
10,000,000	95.0%	5.0%	\$237,500	\$12,500	98.8%	1.3%	\$987,500	\$12,500	99.8%	0.2%	\$5,987,500	\$12,500
20,000,000	90.0%	10.0%	\$225,000	\$25,000	97.5%	2.5%	\$975,000	\$25,000	99.6%	0.4%	\$5,975,000	\$25,000
30,000,000	85.0%	15.0%	\$212,500	\$37,500	96.3%	3.8%	\$962,500	\$37,500	99.4%	0.6%	\$5,962,500	\$37,500
40,000,000	80.0%	20.0%	\$200,000	\$50,000	95.0%	5.0%	\$950,000	\$50,000	99.2%	0.8%	\$5,950,000	\$50,000
60,000,000	70.0%	30.0%	\$175,000	\$75,000	92.5%	7.5%	\$925,000	\$75,000	98.8%	1.3%	\$5,925,000	\$75,000
80,000,000	60.0%	40.0%	\$150,000	\$100,000	90.0%	10.0%	\$900,000	\$100,000	98.3%	1.7%	\$5,900,000	\$100,000
100,000,000	50.0%	50.0%	\$125,000	\$125,000	87.5%	12.5%	\$875,000	\$125,000	97.9%	2.1%	\$5,875,000	\$125,000
120,000,000	40.0%	60.0%	\$100,000	\$150,000	85.0%	15.0%	\$850,000	\$150,000	97.5%	2.5%	\$5,850,000	\$150,000
140,000,000	33.0%	67.0%	\$82,500	\$167,500	82.5%	17.5%	\$825,000	\$175,000	97.1%	2.9%	\$5,825,000	\$175,000
200,000,000	15.0%	85.0%	\$37,500	\$212,500	75.0%	25.0%	\$750,000	\$250,000	95.8%	4.2%	\$5,750,000	\$250,000

Table 6: under Option 3 with an increase in the funding rate for the first threshold to 75 per cent and a decrease in the ratios between the first and second threshold to 1.5

Council Revenue	\$250,000 Event				\$1,000,000 Event				\$6,000,000 Event			
	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council	Gov't	Council
10,000,000	95.5%	4.5%	\$238,750	\$11,250	98.9%	1.1%	\$988,750	\$11,250	99.8%	0.2%	\$5,988,750	\$11,250
20,000,000	91.0%	9.0%	\$227,500	\$22,500	97.8%	2.3%	\$977,500	\$22,500	99.6%	0.4%	\$5,977,500	\$22,500
30,000,000	86.5%	13.5%	\$216,250	\$33,750	96.6%	3.4%	\$966,250	\$33,750	99.4%	0.6%	\$5,966,250	\$33,750
40,000,000	82.0%	18.0%	\$205,000	\$45,000	95.5%	4.5%	\$955,000	\$45,000	99.3%	0.8%	\$5,955,000	\$45,000
60,000,000	73.0%	27.0%	\$182,500	\$67,500	93.3%	6.8%	\$932,500	\$67,500	98.9%	1.1%	\$5,932,500	\$67,500
80,000,000	64.0%	36.0%	\$160,000	\$90,000	91.0%	9.0%	\$910,000	\$90,000	98.5%	1.5%	\$5,910,000	\$90,000
100,000,000	55.0%	45.0%	\$137,500	\$112,500	88.8%	11.3%	\$887,500	\$112,500	98.1%	1.9%	\$5,887,500	\$112,500
120,000,000	46.0%	54.0%	\$115,000	\$135,000	86.5%	13.5%	\$865,000	\$135,000	97.8%	2.3%	\$5,865,000	\$135,000
140,000,000	37.0%	63.0%	\$92,500	\$157,500	84.3%	15.8%	\$842,500	\$157,500	97.4%	2.6%	\$5,842,500	\$157,500
200,000,000	15.0%	85.0%	\$37,500	\$212,500	77.5%	22.5%	\$775,000	\$225,000	96.3%	3.8%	\$5,775,000	\$225,000

These alterations provide more favourable outcomes to councils than Option 3. Of these, the MAV prefers alternatives one and four as they provide an acceptable level of assurance to councils given the stated policy goal of providing budgetary protection.

While the MAV prefers the adoption of Option 4, it would be willing to support Option 3 subject to modification to the funding thresholds. The preference is strongly driven by the need to ensure councils are adequately reimbursed for expenditure due to natural disasters and which minimises the long and short-term financial risk borne by councils.

Option 4

Option 4 has significant benefits for local government. It provides a similar level of financial support to councils as Option 1 with an additional benefit of providing certainty for the reimbursement of recovery-based expenses. As such, this is the preferred option of the MAV due to its capacity to provide a continued level of budgetary certainty for councils following emergencies.

The MAV believes that further benefits can be generated for the State through improving processes to categorise expenditure by Category A and B. The State would derive the administrative savings from Options 2 and 3 while providing councils with a greater level of financial assurance.

As such, there is an argument that further process refinement could result in the State obtaining the benefits of Options 2 and 3 while providing councils with the budgetary assurance offered by Option 4.

4. Recommendations

- That the State adopts Option 4 with clear guidance around the types of community support activities that would be eligible for reimbursement and timeframes in which these could be undertaken
- That the State advocates for a review of natural disaster criteria to include heatwaves and windstorms which do not fit current criteria but cause significant damage
- That a set of guidelines is produced that clearly outlines mitigation responsibilities, damage assessment processes and sets a limit on the amount taken to reimburse claims
- That the State provides guidance on whether the reimbursement would be paid at the time of claim or paid at end of financial year
- That councils with untied revenue of less than \$10 million have access to a cash advance option
- Councils with untied revenue of less than \$10 million, who can demonstrate a critical shortage of contractors and need to redeploy staff for an extended period of time, have

the option to claim for workforce salaries or temporary staff employed to assist with backlog of work when redeployed staff resume usual roles

- That should the State introduce Option 3, the following amendments be made:
 1. a reduction in the first and second thresholds to 0.075% and 0.15% of expenditure respectively
 2. define council revenue as own-source revenue, namely, rates and fees, fines and charges
 3. define council revenue as 'underlying' revenue, net of donated or found assets