



AWUEQ Submission

# Public Inquiry into Natural Disaster Funding

2014

## Public Inquiry into Natural Disaster Funding

### INTRODUCTION

The Australian Workers' Union of Employees, Queensland (AWUEQ) represents over 4,000 local government frontline workers, including construction staff who were critical to the recovery and reconstruction of Queensland's infrastructure following the 2011 cyclone and floods. These workers were part of the largest reconstruction effort undertaken in Australia as a result of unprecedented, natural disaster damage in the state.

The Commonwealth Government has asked the Productivity Commission to carry out a public enquiry into the efficacy of the national disaster funding arrangements. This includes the National Disaster Relief and Recovery Arrangements (NDRRA) which constitutes the principal mechanism for the distribution of Australian Government natural disaster funding. The Inquiry will consider the level, effectiveness and sustainability of current federal, state and territory funding on the mitigation of, resilience against and recovery from natural disaster.

### THE AWUEQ SUBMISSION

Our submission identifies three key criteria that the AWUEQ asserts must be present in any future natural disaster funding system if local communities are to be equipped to deal with the projected, increasing impact of natural disaster in the future.<sup>1</sup> These include: increased funding focus on and coordination of mitigation measures, continued application of current NDRRA funding eligibility rules and proportions from the Federal Government and permanent rule change on use of council day labour under NDRRA.

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<sup>1</sup> Increasing impact of natural disasters is projected due to growing populations living in areas vulnerable to natural disasters, and as a result of potential climate change.

## 1. Increased funding focus on and coordination of mitigation measures

All levels of government should be looking at ways to mitigate natural disasters and render community infrastructure better able to withstand them. This is a cost-effective approach, but one which: 1) is a long term strategy, as upfront investment will be required and it will take time to implement such measures, 2) will never be the whole solution as natural disaster is likely to detrimentally impact on infrastructure no matter how robust, whilst some mitigation – for instance on existing houses – has prohibitive costs attached.<sup>2</sup> Not only should more funding be directed towards mitigation but the policies that local, state and federal government implement within and across their jurisdictions should be coordinated so that they do not counter mitigation efforts.

However, the AWUEQ does not agree with the Commission's assertion that in view of the current Commonwealth funding arrangements, local, state and territory governments are economically dis-incentivised from taking actions to mitigate risk.<sup>3</sup> The reason that Queensland had, for instance, still not implemented any of the recommendations of the 2012 Queensland Flood Commission of Inquiry report a year later must be traced to the lack of action and leadership from the State Government who took power following its publication. For the current Federal Government's part, it has cut budgets of research bodies that are responsible for looking into how Australia can best prepare for natural disasters.<sup>4</sup> To date, it is the clear lack of political intent and appropriate resourcing from the current Federal and State Governments inconsistent policies and failure to invest in this area that prevents further mitigation measures from being adopted.

## 2. Current NDRRA funding eligibility rules and proportions from the Federal Government

National Disaster Funding, through the NDRRA in particular, has provided Queensland's communities with a significant proportion of desperately needed resources to meet the unprecedented challenges of infrastructure reconstruction following recent natural disasters. Through the NDRRA local and state governments (and other groups) can apply for up to 75% of funding costs after a natural event's damage exceeds specified cost thresholds.<sup>5</sup>

Given the scale, impact, and irregularity of natural disasters in Australia and Australia's geographic size, federal funding coordination is clearly a more sustainable option. It is also in the economic and social interests of Australia as a whole that the national Government takes on a major funding responsibility during such crises as, for instance, communities in

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<sup>2</sup> [http://www.deloitte.com/view/en\\_AU/au/services/financial-advisory/deloitte-access-economics/be8869f02877f310VgnVCM2000003356f70aRCRD.htm](http://www.deloitte.com/view/en_AU/au/services/financial-advisory/deloitte-access-economics/be8869f02877f310VgnVCM2000003356f70aRCRD.htm)

<sup>3</sup> [http://www.pc.gov.au/\\_data/assets/pdf\\_file/0007/136429/disaster-funding-issues.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0007/136429/disaster-funding-issues.pdf)

<sup>4</sup> <http://scienceandtechnologyaustralia.org.au/news/budget-science-cuts-and-changes/>

<sup>5</sup> NDRRA Determination 2011 (Version 1)

### Ben Swan

Queensland Branch Secretary  
The Australian Workers' Union  
Level 12, 333 Adelaide Street, Brisbane, QLD 4000  
Phone: 07 3221 8844 | Fax: 02 8005 3300  
Website: <http://www.awu.net.au> | Email: [secretary@awu.org.au](mailto:secretary@awu.org.au)

Queensland that fail to reconstruct roads will fail to make a living and therefore a contribution through tourism or agriculture

Although administration has been far from perfect (see next section), without doubt the Australian Government's revenue raising capacity has been critical to equipping all of, but notably Queensland's rural and remote, communities with the funding they need to repair roads, schools, health services and other community infrastructure. On the other hand local government and again rural and remote councils in particular, have very limited fiscal capacity – they lack sufficient numbers of people with sufficient resources to bear the considerable cost of timely reconstruction. This fact is compounded by the current Federal Government's three year freeze of local government budgets and again, the expected increased impact of natural disasters in the future.

The AWUEQ therefore rejects the National Commission of Audit's 2014 recommendation of "replacing the Natural Disaster Relief and Recovery Arrangements with a grant in the case of each major natural disaster, with the Commonwealth contribution based on a designated proportion (between 25 per cent and 33 per cent) of the estimated reconstruction costs."<sup>6</sup> The Commission of Audit has spectacularly failed to understand the capacity and needs of Australia's local communities, and has instead suggested an unsustainable funding model. With costs of natural disaster predicted to rise to \$14.4bn in Queensland by 2050,<sup>7</sup> the Federal Government should be considering what more, not less, it can do to help better financially prepare Australia's local communities. **The AWUEQ strongly supports the current designated proportions of NDRRA funding.**<sup>8</sup>

### 3. Permanent rule change on use of council day labour under NDRRA

In 2010, the Federal Government announced local government could no longer apply day labour (council employees) costs to reconstruction projects funded by the NDRRA, claiming this was a misinterpretation of NDRRA rules. This was formally changed in the 2011 NDRRA Determination.<sup>9</sup>

Unable to use their own supply of local labour, every council was forced to issue competitive tenders to find contractors to carry out NDRRA funded projects. The Australian Government felt it was important that these projects were easily identifiable as additional to a council's normal workload, and that outsourcing projects would be more cost effective than using

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<sup>6</sup> Recommendation 41: <http://www.ncoa.gov.au/report/phase-one/recommendations.html>

<sup>7</sup> [http://www.deloitte.com/view/en\\_AU/au/services/financial-advisory/deloitte-access-economics/be8869f02877f310VgnVCM2000003356f70aRCRD.htm](http://www.deloitte.com/view/en_AU/au/services/financial-advisory/deloitte-access-economics/be8869f02877f310VgnVCM2000003356f70aRCRD.htm)

<sup>8</sup> The AWUEQ understands that in the long term, if mitigation measures are appropriately invested in, there may be good reason to review the current federal funding mechanism and proportions covering NDRRA.

<sup>9</sup> NDRRA Determination 2011 (Version 1)

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council staff. However, there were and are many problems with this approach, and particularly for councils in Queensland:

- **Delays to reconstruction projects.** Many councils, especially those in remote areas, could not find contractors willing to carry out the work due to the lack of contractor capacity and competition in the area. This resulted in severe delays to the commencement of reconstruction work and therefore a slower, physical and economic, local recovery.
- **Extortionate contractor rates.** Owing to the lack of contractors in an area, councils could only attract them to carry out work at extortionate rates - between 30%-45% more than in-house costs.<sup>10</sup> In addition, there are significant costs attached to contractors setting up in a new area that had to be covered by the local council.

**Case Study:** Toowoomba Regional Council's decision to use day labour to carry out recovery work has seen cost reductions of up to 45%, without any loss of quality. Two projects that have achieved such savings are Gomoran Douglas Road and O'Donohue Road.

Mayor Paul Antonio said: "Our crews work for standard local government awards, not contractor rates. Being able to use our own workforce has certainly provided a great outcome for these projects and the community. Our crews, who know the area and do this sort of work every day, were able to get in and deliver the work quicker and cheaper than if we'd used external contractors to do the work."

- **Costly and time-consuming tender processes.** Competitive tender processes can be a time-consuming and costly exercise for councils to run, whose resources are already at breaking point.
- **Few revenue streams to cover scale of disaster.** Too few revenue streams to tap into meant remote councils simply could not afford to carry out disaster reconstruction work if NDRRA funds could not be used to cover day labour costs.<sup>11</sup>

<sup>10</sup> <http://qldreconstruction.org.au/u/lib/cms2/March-2014-Monthly-Report.pdf>

<sup>11</sup>

<http://www.warrenentsch.com.au/Media/MediaReleases/tabid/73/articleType/ArticleView/articleId/184/Government-stalls-while-Cape-roads-crumble.aspx>

**Case study:** Cook Shire Council was at crisis point as it could not meet flood damage labour costs not covered by NDRRA, of \$30,000 a day, to reconstruct one of the most used tourist roads in Australia, servicing Aboriginal communities.

Although its workforce was “already in position, working, fully trained-up and in possession of all local network knowledge and all necessary environmental permits”, work could not continue if the NDRRA rule change was not reversed. Having gone to public tender, council had also shown that its labour was 30% cheaper than contractors.

- **Threat to local jobs.** Some councils had no alternative but to use their own staff and rapidly dwindling budgets for reconstruction work,<sup>12</sup> and as a result many local councils feared they would have to lay off their staff.<sup>13</sup>

**Case study:** Local Governments in western Queensland said they would be forced to lay off workers if changes to NDRRA were not reversed.

Ed Warren, Mayor of Winton Shire said “We don't have a large rate base; rates in the total revenue in our western councils are anywhere from 12 to 20 percent. For us to carry that day labour is just absolutely impossible.” He also explained that contractors were very limited in availability and drained council resources in terms of project supervision.

- **No place for local expertise or local resilience.** The use of outside contractors resulted in lost opportunities - in utilising local expertise and knowledge, and in developing local resilience for the management of future natural disasters. This also meant a loss of local skill in using specialised equipment and plant machinery.
- **Local economies not profiting from reconstruction.** Outside contractors and council workers profited from the disaster's boost to their trade and services. This badly needed cash was therefore reinvested in outside areas, not locally.<sup>14</sup>

As a result of these issues, the Federal Government first retrospectively allowed day labour costs incurred in previous years to be eligible under NDRRA funding and then, following a Queensland Reconstruction Authority (QRA) trial of the use of day labour in disaster reconstruction in 2011, introduced a temporary Local Government Value for Money pricing

<sup>12</sup> <http://www.warwickdailynews.com.au/news/flood-repair-funds-fail-to-flow/1348317/>

<sup>13</sup> <http://www.abc.net.au/local/audio/2011/02/08/3133389.htm>

<sup>14</sup> Since April 2011, the floods have provided a boost to economic growth through rebuilding of \$10 billion

model. The model allows the use of day labour under NDRRA provided councils can convince the QRA that it represents the best value option.<sup>15</sup>

With no tender process required, the Value for Money model has enabled councils to carry out reconstruction more swiftly, whilst saving vast amounts of money. Indeed, the Local Government Association of Queensland has estimated that savings of up to 45% can be made using council, not outsourced, labour,<sup>16</sup> and claim that \$90 million has been saved already.<sup>17</sup> **The AWUEQ therefore supports and calls for the permanent rule change on the use of council day labour under the NDRRA.**

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<sup>15</sup> <http://www.qldreconstruction.org.au/u/lib/cms/VfM-Strategy.pdf>

<sup>16</sup> [http://www.lgnews.com.au/lgaq-wins-breakthrough-disaster-reconstruction-work/#.U2wGb\\_mSwSV](http://www.lgnews.com.au/lgaq-wins-breakthrough-disaster-reconstruction-work/#.U2wGb_mSwSV)

<sup>17</sup> [http://lgaq.asn.au/weekly-speak-ceo-column/-/asset\\_publisher/U3wmn7ZNDI23/content/on-the-road-with-the-president-ceo-column-23-may-2014/pop\\_up](http://lgaq.asn.au/weekly-speak-ceo-column/-/asset_publisher/U3wmn7ZNDI23/content/on-the-road-with-the-president-ceo-column-23-may-2014/pop_up)

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