Appropriation Bill 2002-2003 (No 2)

Report No 4

Standing Committee on Public Accounts

March 2003



Committee membership

Brendan Smyth MLA (Chair)
Karin MacDonald MLA (Deputy Chair)
Kerrie Tucker MLA
Secretary: Derek Abbott
Administration: Judy Moutia
For further information about the Committee, contact the secretary on (02) 6205 0142 or email to:
committees@act.gov.au
The Committee's postal address is:
Secretary
Standing Committee on Public Accounts
GPO Box 1020
CANBERRA ACT 2601

Resolution of appointment

- On 11 December 2001 the Legislative Assembly agreed to the following resolution.
 - (1) The following general purpose standing committees be established and each committee to inquire into and report on matters referred to it by the Assembly or matters that are considered by the committee to be of concern to the community:
 - (a) a Standing Committee on Public Accounts to:
 - (i) examine:
 - (A) the accounts of the receipts and expenditure of the Australian Capital Territory;
 - (B) the financial affairs of authorities of the Australian Capital Territory; and
 - (C) all reports of the Auditor-General which have been presented to the Assembly;
 - (ii) report to the Assembly, with such comments as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed;
 - (iii) inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question; and
 - (iv) examine matters relating to economic and business development, small business, tourism, market and regulatory reform, public sector management, taxation and revenue and sustainability.

Terms of reference

To consider Appropriation Bill 2002-2003 (N0 2), and report to the Legislative Assembly on 4 March 2003.

Table of contents

APPROPRIATION BILL 2002-2003 (NO 2)
Committee membershipii
Resolution of appointmentiii
Terms of referenceiii
SUMMARY OF RECOMMENDATIONSVII
1. INTRODUCTION1
Conduct of the inquiry1
2. THE APPROPRIATION BILL 2002-2003 (NO 2)3
Chief Minister's Department (CMD)3
Department of Health & Community Care (DHCC)4
Department of Urban Services (DUS)4
Department of Justice & Community Safety (JACS)4
Department of Education, Youth & Family Services4
Department of Disability, Housing & Community Services4
3. COMMITTEE COMMENTS7
Risk Management7
Alternative sources of funding8
Planning and Land Management8
Managing the Clean-up9
The McLeod Inquiry9
The Coronial Inquest10
Emergency funding10
ACT Forests

Environmental restoration	11
Costs recoverable from insurance	12
Natural Disaster Recovery Arrangements (NDRA)	12
Natural Disaster Risk Management Studies Program	12
APPENDIX 1 – ANSWERS TO QUESTIONS ON NOTICE	12

Summary of recommendations

The committee recommends that the bill be passed. (para 2.19)

The committee recommends that the ACT government's quarterly financial statements for the next five quarters include, as a discrete item, the expenditures related to the bushfires and the amounts recouped from other sources. (para 3.4)

The committee recommends that the government bring forward a statement on the risk management strategies adopted in agencies such as the Emergency Services Bureau and the hospitals to deal with major emergencies. (para 3.9)

1. Introduction

1.1. This bill was introduced into the Legislative Assembly on Thursday 20 February 2003. After agreement in principle the bill was referred to the Standing Committee on Public Accounts for investigation and report by 4 March 2003.

Conduct of the inquiry

1.2. The committee held one public hearing on the legislation on Wednesday 26 January 2003. The ACT Treasurer, Ted Quinlan MLA, appeared before the committee accompanied by the following officials:

Rob Tonkin, Chief Executive, Chief Minister's Department

Alan Thompson, Chief Executive, Department of Urban Services

Tim Keady, Chief Executive, Department of Justice and Community Safety

Meagan Smithies, Executive Director, Finance & Budgetary, Treasury

Peter Gordon, Chief Executive, Office of Business & Tourism, CMD.

Barbara Baikie, Director, Family Services, Department of Education, Youth & Family Services

Stephen Tregea-Collett, Department of Education.

Peter Matthews, General Manager, ACT Insurance Authority

1.3. The committee thanks the Minister and his officials for their participation in the inquiry and, particularly, wishes to thank departments and agencies for their prompt and efficient response to questions placed on notice before and during the hearing. The committee has included the answers to questions on notice at appendix 1.

2. The Appropriation Bill 2002-2003 (No 2)

- 2.1. The purpose of the bill is to appropriate funds to meet costs so far incurred or anticipated for the remainder of the financial year as a result of the bushfires in January 2003 which, culminating on 18 January, killed four people and destroyed a significant amount of property in the ACT. This appropriation is additional to funds already appropriated for the financial year 2002-2003.
- 2.2. The Treasurer stressed in his evidence to the committee that the amount being sought reflects known or predictable costs only.
- 2.3. A number of costs cannot be calculated at this stage. For example, the distribution of the cost of bushfire fighting services provided by New South Wales and of water-bombing helicopters has not yet been resolved. As the Treasurer noted, based on previous experience of natural disasters elsewhere in Australia, it may take up to three years to identify and finalise all costs.
- 2.4. On the revenue side the amount that the ACT will recover from insurance and from the Commonwealth's Natural Disaster Recovery Arrangement (NDRA) program will also take time to resolve. In some cases, for example the damage to the Health Protection Service at Holder, assumptions have been made about the extent to which damage is covered by insurance and funds have not been sought.
- 2.5. The bill seeks to appropriate a total of \$17 295 000 for seven ACT departments and agencies that incurred significant costs, either directly or through increased demand for services as a result of the fires.

Chief Minister's Department (CMD)

- 2.6. CMD will receive \$8.24m to cover a range of activities and expenditures. The **Recovery Task Force**, which will co-ordinate both short and long-term response to the disaster will be funded to \$2.87m and \$1.05m is appropriated for the **Recovery Centre**, which provides services ranging from counselling to planning advice in relation to rebuilding,
- 2.7. \$3.23 m has been allocated to the **clean-up of property** rendered uninhabitable by the fire, including overall project management and clean-up of insured and uninsured sites.
- 2.8. \$0.34m will be appropriated for **business grants and interest sub**sidies to assist businesses whose assets were destroyed. Grants of \$3000 are available while interest subsidies will be paid to businesses that borrow money to assist in their reestablishment.
- 2.9. The Inquiry into the operational response to the bushfires, **the McLeod inquiry**, is estimated to cost \$0.4m for the remainder of this financial year.
- 2.10. A **study of sustainable land use** for non-urban areas of the ACT will receive \$0.25m while the Canberra Tourism and Events Corporation (**CTEC**) will receive an

additional \$0.1m to respond to the down turn in tourist activity in the ACT as a result of the fires.

Department of Health & Community Care (DHCC)

2.11. This department receives a total of \$0.72m which goes predominantly to the additional costs experienced by **Canberra and Calvary Hospitals** (\$0.379m) and the anticipated increase in demand for **counselling services** (\$0.288m).

Department of Urban Services (DUS)

- 2.12. The Department's appropriation for the financial year is increased by \$3.42m. The cost of the **immediate response to the fires** overtime, hazard reduction, public safety measures, etc is estimated at \$1.32m . **Clean-up costs** in fire damaged areas totalling \$0.74m and restoration work on parks road margins, etc of \$1.0m is provided.
- 2.13. \$0.37m has been appropriated to fund additional activity within **Planning and Land Management** (PALM) in relation to building approvals, inspections and a review of land management and design issues.
- 2.14. ACT Forests will receive \$35 000 for overtime payments, consumables and plant and equipment hire.

Department of Justice & Community Safety (JACS)

- 2.15. JACS, which includes the Emergency Services Bureau, will receive \$1.93m comprising \$1.78m for the **immediate response to the fires**. This reflects costs incurred for overtime and consumables, and helicopter and other plant hire and is in addition to \$1.0m already provided from the Treasurer's advance.
- 2.16. A sum of \$0.15m has been appropriated to meet the initial costs of the coronial inquest into the deaths resulting from the fires.

Department of Education, Youth & Family Services

2.17. This department's requirement for funds flows from the provision of immediate emergency assistance. \$1.0m has already been provided from the Treasurer's Advance. **Cash grants and emergency accommodation** for those displaced by the fire and payments to households for the loss of property in the fires total \$2.43m. The operation of **evacuation and recovery centres** has been allocated \$0.204m. An amount of \$0.045m has also been appropriated for repairs and maintenance to school buildings affected by the fires.

Department of Disability, Housing & Community Services

2.18. A relatively small amount was appropriated for this department - \$0.26m. This amount is required to meet the costs of evacuation and recovery centre; counselling

and outreach services; destruction of a disability group house; free school bus travel for children relocated away from their school.

2.19. The committee recommends that the bill be passed.

3. Committee comments

- 3.1. The committee acknowledges the speed with which this Appropriation Bill has been brought forward and introduced into the Legislative Assembly. While it is not, and could not reasonably be expected to be, a complete accounting of the expenditure consequent on the bushfires the bill does provide a reasonably clear picture of the main areas of expenditure.
- 3.2. The full financial impact of the disaster will only become fully apparent over time. It is, however, clear that the figure of \$1 million per day for the duration of the emergency that was being touted in the media was an exaggeration. Officials advised the committee that the probable net cost of the fires to the ACT would be approximately \$15.0m.1
- 3.3. A total of \$2.0m has already been allocated from the Treasurer's Advance in response to the immediate needs of the bushfire emergency. \$17.1m remains in the Advance after these and other smaller disbursements. As the Treasurer noted, uncertainty as to the total costs and the amounts that may be recouped from insurance and from Commonwealth funding make it unwise to meet the unexpected costs of the bushfires by running the Treasurer's Advance down to zero.² Bringing in an appropriation bill promptly for continuing expenditure is to be preferred to relying on the Treasurer's Advance for medium term project funding.
- **3.4.** The committee recommends that the ACT government's quarterly financial statements for the next five quarters include, as a discrete item, the expenditures related to the bushfires and the amounts recouped from other sources.

Risk Management

- The committee sought advice on the approach to risk management particularly in agencies whose 'normal' function is to deal with a significant degree of unpredictable risk; for example the Emergency Services Bureau or the Accident and Emergency units of the Canberra and Calvary Hospitals.
- 3.6. This question reflected concern that these emergency services seemed to require significant additional funding to deal with what, to some extent, was a 'normal' event for them. The question did not imply any criticism of the performance of these agencies or any attempt to minimise the seriousness of the problems they faced.
- 3.7. Clearly the emergency services cannot and should not be funded every year in the expectation of a 'once in a hundred years disaster'. However it would be useful to know how far their contingency plans extend. The committee is not so much interested in funding; in a genuine emergency that will always be found. However a

¹ Committee transcript, 26 February 2003, p. 52.

² Committee transcript, 26 February 2003, p. 32.

major medical emergency, for example, must raise issues about availability of staff over an extended period. Essential medical staff can only function for so long before they have to be rested; essential consumables in areas such as surgery will begin to run out.

- 3.8. Unfortunately the Treasurer treated this subject rather casually suggesting that the time to take action was 'when we get to exceptional circumstances'. While this approach may be adequate for funding, it is not sufficient to deal with the requirement for skilled staff or other resources. It remains a legitimate concern.
- 3.9. The committee recommends that the government bring forward a statement on the risk management strategies adopted in agencies such as the Emergency Services Bureau and the hospitals to deal with major emergencies.

Alternative sources of funding

- 3.10. The committee was interested to discover whether the government had examined alternatives to funding the emergency through an additional appropriation, i.e. by savings or cuts to existing programs. It would appear that such an exercise has not been carried out. The answers given by officials were somewhat dismissive of the idea suggesting that it would have been a simple matter of abandoning programs.
- 3.11. The committee is surprised that no exercise seems to have been undertaken to identify areas where expenditure might have been deferred, existing programs delayed or reduced in scope, etc. The government has established an expenditure review committee which presumably considers possible savings, competing priorities and rescheduling of expenditure. It would be the ideal body to have carried out such a task.

Planning and Land Management

- 3.12. The government has indicated that an accelerated approval process for residents wishing to re-build has been put in place. However, the committee notes some confusion in the community about how this will operate. Members have received complaints which indicate that there is some conflict between advice being offered in the Recovery Centre and the processes followed by PALM.
- 3.13. Officials stated that residents who wish to rebuild in exactly the same style as the house they lost should find that their approval goes through easily. However those who wish to depart from the original plan of their house to take advantage of advances in energy efficient construction, for example, may find that approval is a slower process. It was put to the committee that this confusion reflected a misunderstanding of what was actually on offer.
- 3.14. Officials were confident that the advice being given at the Recovery Centre and PALM's approach to building approvals were consistent. The major part of the

³ Committee transcript, 26 February 2003, p. 4.

extra resources being appropriated for PALM - \$200 000 – is to 'streamline' the approval process.⁴

Managing the Clean-up

- 3.15. The clean-up of sites affected by the fires will be managed by Bovis Lend Lease. As was explained to the committee, the removal of rubbish from, and preparation of, so many sites for re-building would descend into chaos in the absence of an overall coordinating authority. For example, traffic planning for heavy vehicles moving through suburban streets, coordination of access to waste disposal sites and ensuring acceptable work practices on sites require central control.
- 3.16. Bovis Lend Lease will receive \$980 000 for this task. The contract was let on the basis of a single select process, i.e. it did not go to competitive tender. It was explained to the committee that Bovis are the only company with the expertise to manage a project on this scale with a presence in, and a familiarity with, the ACT.⁵
- 3.17. Generally single select processes are not desirable especially for such a large contract. However, in view of the urgency of getting the clean-up process underway the committee accepts that an extended open tendering process was not appropriate in this instance. It also notes that the government has had the costings for the project checked by an independent quantity surveyor.
- 3.18. It should be emphasised that the role of Bovis Lend Lease is to manage the clean-up process. The costs of the actual clean-up of individual sites will be met from the home owners' insurance and government subsidies. The latter is quite separate from Bovis's fee as project manager.

The McLeod Inquiry

- 3.19. The government has announced an inquiry into the operational response to the bushfires the McLeod inquiry and \$400 000 has been appropriated to fund it for the rest of this financial year. The inquiry's reporting date is 30 June 2003.
- 3.20. The funds appropriated are based on the costs of salaries for Mr McLeod and his support staff, accommodation, administrative and publishing costs. The amount appropriated, the committee was advised, may vary depending on the way the inquiry is conducted, which is a matter for Mr McLeod to determine.
- 3.21. Officials advised the committee that the costs were a best estimate because no discussions had been held with Mr McLeod how the inquiry would proceed other than a general understanding that it would be public. The committee believes that it would have been desirable to consult Mr McLeod about the likely form and approach of inquiry. This would have provided a more solid base for the estimate of expenditure.
- 3.22. The committee was reassured that both the McLeod inquiry and the coronial inquiry would be open and that, specifically, fire-fighters who wished to make

⁴ Committee transcript, 26 February 2003, p. 9-11.

⁵ Committee transcript of evidence, 26 February 2003, p. 13-14.

submissions to either inquiry would be free to do so. The Chief Executive of the Department of Justice and Community Safety stated that no direction had been, or would be, given to prevent fire-fighters participating in either inquiry and that such a direction would be quite improper.⁶

3.23. The Treasurer also advised the committee that, should the requirement arise, individual officers appearing before the inquiry would be legally represented and that the cost would be met by the ACT.⁷

The Coronial Inquest

- 3.24. A sum of \$150 000 has been appropriated for the inquest into the four deaths which occurred on 18 January 2003. The committee was advised that this is a preliminary figure which will go to the preparatory phase of the inquiry. Officials advised that the actual inquest may not start before the end of this financial year. Thus significant additional costs will be incurred in 2003-2004, particularly as the costs of legal teams assisting the coroner and representing those appearing before the inquest.
- 3.25. In response to a question as to why the inquest could not be funded from the Coroner's normal budget, the committee was told that the scope, complexity and likely duration of the inquiry are highly unusual in the ACT. As a result costs which might normally be absorbed within existing budgets, for example the provision of counsel assisting the coroner from within the Director Of Public Prosecution's office, would have to be funded separately. ⁸

Emergency funding

- 3.26. The ACT government has provided emergency funding of \$5 000 and \$10 000 for the insured and uninsured respectively, to those who lost their houses. 475 applicants have received the \$5 000 payment. It is estimated that of those, 100 people may be eligible for the full \$10 000 payment.⁹
- 3.27. Approximately 700 people have applied for the emergency grants and 190 did not meet the selection criteria. The grounds for rejection of applications include that the applicant was operating a business, that houses were deemed to be habitable, that a destroyed house was not the applicants principal place of residence and that the applicant was house-sitting or was part of a group house. Committee members also mentioned circumstances where a third-party's possessions were stored in a house that was destroyed.¹⁰
- 3.28. An appeal process is being set up for those who are not satisfied with the decision. It is intended that this process will be quicker and less complex than lodging an appeal with the Administrative Appeals Tribunal. The appeals panel will be at

⁷ Committee transcript, 26 February 2003, p. 30.

⁶ Committee transcript, 26 February 2003, p. 24.

⁸ Committee transcript, 26 February 2003, p. 31.

⁹ Committee transcript, 26 February 2003, p. 36.

¹⁰ Committee transcript, 26 February 2003, p. 38-39.

arms length from government and secretarial support to it will be provided by the Recovery Task Force.

3.29. The committee recognises that these grants are to enable those affected by the fires to purchase the basics necessary to re-establish households. They are not intended to support every individual who was adversely affected. It also recognises the potential for resentment by home owners if the residents of group houses, for example, are funded individually. However the committee hopes that the eligibility criteria will be applied in a generous manner.

ACT Forests

- 3.30. \$35 000 has been appropriated for ACT Forests. In the circumstances this seems a very small amount. However the committee was advised that this is to cover the hire of equipment during the emergency and consumables, repairs and maintenance. The amount breaks down as \$20 000 for overtime payments, \$10 000 for repairs and maintenance and \$5 000 for fuel.
- 3.31. The destruction of ACT Forests facilities resulted in the loss of all its financial records thus the full costs of operations, the value of damage sustained and the amounts that will be recouped from insurance are all best guesses at this stage.¹¹
- 3.32. This appropriation does not include any funding for additional costs that may be incurred as a result of the need to harvest fire damaged trees. These must be recovered within three months if they are to have any commercial value.

Environmental restoration

- The committee was reassured that Environment ACT has the restoration of land vulnerable to long term environmental damage as a result of the fires in hand. The priority areas are less visible than those adjacent to residential areas. Factors such as the slope of the land and the extent of the loss of cover have been taken into account in establishing these priorities. 12
- 3.34. The committee is concerned that the potential exists for major long term environmental damaged in areas that were cleared as fire breaks and access roads or areas that have lost virtually all vegetation cover.
- The large fire-breaks cut adjacent to the western suburbs of Belconnen are a particular concern. The committee notes that restoration work on the firebreaks adjacent to the outer suburbs of Canberra is not included in this appropriation.¹³ However these areas do require urgent attention.

¹³ Committee transcript, 26 February 2003, p 46.

¹¹ Committee transcript, 26 February 2003, p 41-42.

¹² Committee transcript, 26 February 2003, p. 45.

Costs recoverable from insurance

- 3.36. The committee was advised by the Insurance Authority that ACT assets are covered by two main policies, one dealing with property and the other relating to the forest assets. The costs of fire fighting and clean up, where it relates directly to the cost of protecting insured assets will also be covered by the policies. However defining those costs will be the subject of some negotiation.¹⁴
- 3.37. The Insurance Authority is currently using its own cash reserves to provide funds to agencies pending the resolution of insurance issues. Where the Authority provides funding to an agency it then recovers that amount form its own reinsurers. This process enables agencies to restore essential services or carry out other urgent works without running into cash flow problems.
- 3.38. For example the committee was advised that the Authority had received a claim for \$185 000 in relation to the replacement of street lighting and other related services. The Authority will provide that funding to ensure that the work can be done immediately.

Natural Disaster Recovery Arrangements (NDRA)

- 3.39. The NDRA reimburses states and territories for expenditure in relation to natural disasters above a threshold established by the determination. The threshold for the ACT for 2003-03 is \$8 359 313m. The committee was advised that, on current estimates, after NDRA funds have been received there will be a shortfall of approximately \$4 million in eligible areas.
- 3.40. The government has assured the committee that it will make a major effort to ensure that it recovers as much of the costs of the fires as is possible from Commonwealth sources.

Natural Disaster Risk Management Studies Program

3.41. The committee notes that this Commonwealth program provides funding for research into reducing the risk of disasters occurring or mitigating their affects. Officials advised that bids for funding under this program closed quite recently and that the ACT had not made a bid this year. However the various inquiries into the fires may give rise to studies which can be funded under this program in future years.

Brendan Smyth

Chair

Appendix 1 – Answers to questions on notice

¹⁴ Committee transcript, 26 February 2003, p 53.

The committee received answers to written questions on notice from the Department of Health, the Treasury and the Department of Urban Services.