

NDRRA: Independent Assessment of State Insurance Arrangements

Department of Treasury and Finance (Tasmania)

September 2011

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28 September 2011

Mr Paul Kingston
Procurement and Property Branch
Department of Treasury and Finance
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Dear Mr Kingston

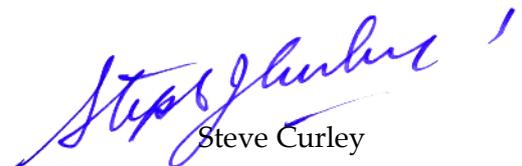
Independent assessment of State and Local Government insurance arrangements

Please find enclosed our report for the NDRRA. We would like to acknowledge the assistance of Treasury staff and numerous other stakeholders in providing information to enable our report to be prepared.

Yours sincerely



Geoff Atkins



Steve Curley



NDRRA: Independent Assessment of State Insurance Arrangements

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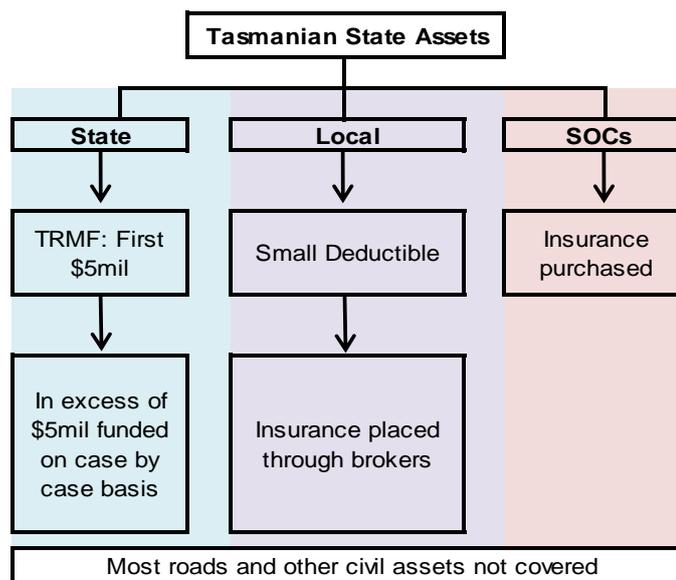


Part I Executive Summary

Finity Consulting has been engaged by the Department of Treasury and Finance of Tasmania to prepare an independent assessment of the insurance and funding arrangements in respect of natural disaster risks to state infrastructure assets. The scope is described in Section 1 of the report and is intended to meet the requirements of the NDRRA.

A summary of the current arrangements is shown in Figure 1.

Figure 1 – Summary of Tasmanian asset coverage¹



The report describes in more detail the assets and exposure to natural disasters (Section 2), the current arrangements for insurance and funding (Section 3) and the past claims experience (Section 4).

Section 5 gives our assessment of these arrangements. Presented on an exception basis, those assets and perils that are not reasonably well protected by internal funding arrangements (the Tasmanian Risk Management Fund) or commercial insurance can be summarised as follows:

- Roads and bridges are generally not covered, whether owned by State² or Local Government or by a SOC (such as Forestry Tasmania or TasRail)

¹ TRMF: Tasmanian Risk Management Fund

SOC: State owned company

² The TRMF covers state government owned bridges for costs above \$5 million, but is not adequately capitalised to meet claims of tens of millions

- For both local government and water & sewerage (which is in the SOC sector) assets at or below ground level such as drainage or reticulation systems – what might be referred to as ‘civil’ assets - are generally not covered
- A loss above \$5 million in the State Government Sector (with minor exceptions) would be funded on a case by case basis, generally relying on the State Budget
- Local government assets damaged by Flood are insured up to a ‘sub-limit’ that reflects the exposure of each individual council to flood

More detailed explanation can be found in the full report that follows. It should be read for a complete understanding of the issues and details, including the reliances and limitations in Section 6.



Part II Detailed Findings

1 Background, Scope and Assessment

1.1 Introduction

The Commonwealth established the Natural Disaster Relief and Recovery Arrangements (NDRRA) to provide assistance to the States in the form of partial reimbursement to cover disaster relief and recovery payments and infrastructure arrangements. Following the extraordinary number and extent of natural disasters in late 2010 and early 2011, the NDRRA were amended by Determination 2011 Version 1. This determination provides an updated framework for the NDRRA with detail about the types of natural disasters that are covered, details on essential public assets and conditions for Commonwealth assistance.

One of the additional requirements under Determination 2011 to obtain Commonwealth Assistance is for states to submit an independent assessment of state insurance arrangements. This assessment is to include the arrangements of local government in the state.

Finity Consulting Pty Limited (Finity) has been engaged by the Department of Treasury and Finance of the State of Tasmania (Treasury) to undertake an independent assessment of the state's insurance arrangements.

1.2 Purpose

The purpose of this report is to provide to Treasury an independent assessment of Tasmania's insurance arrangements in accordance with Clause 4.6 of NDRRA Determination 2011 that can be provided to the Commonwealth in compliance with Clause 4.6.

The state must publish this assessment taking into account the need to protect commercial in confidence material and provide the outcome to the Secretary of the Australian Attorney-General's Department by 30 September 2011.

1.3 Scope

The scope of the report is limited to insurance or other arrangements for the restoration or replacement of essential public assets damaged as a result of natural disasters (as defined in the NDRRA) for state and local government infrastructure. An essential public asset is defined in the NDRRA as 'one that is an integral part of the state's infrastructure and if lost or destroyed would severely disrupt the normal functioning of the community and if lost or damaged would be restored or replaced as a matter of urgency'.



Not all 'essential public assets' are controlled by the state or local governments. Significant infrastructure assets are owned by State Owned Companies (SOCs) which, while owned by the state government, have distinct financial and governance arrangements. We note that SOCs may fall inside or outside the NDRRA framework depending on particular criteria and inter-government agreement.

Some other infrastructure, such as telecommunications or airports, is owned by the Commonwealth government (e.g. NBN) or by private corporations (e.g. Telstra). This report does not consider commonwealth or privately owned assets.

This report therefore covers insurance and funding arrangements in respect of natural disaster risk to:

- Assets of the Crown (state government)
- Assets of local governments
- Assets of SOCs (but at a less detailed level).

1.4 Structure of the Report

We have presented our independent assessment in the following steps:

- Section 2 – Exposure information – what are the public assets and to what natural perils are they exposed?
- Section 3 – Insurance and funding arrangements – an outline of the arrangements currently in place for each sector and group of assets
- Section 4 – Claims history – any available historical information that can help understand the exposure and the effectiveness of insurance or funding arrangements
- Section 5 – Independent assessment – drawing the information together and providing our independent assessment.

The reliances and limitations in Section 6 should be read to understand the context of the report.

1.5 NDRRA Thresholds

To put our assessment in a financial context it is helpful to know the thresholds applying for NDRRA assistance.

The first threshold for NDRRA assistance is 0.225% of State revenue. For 2011/12 the first threshold for Tasmania is \$10.35m, being based on State revenue of \$4.6 billion.



Put simply, Tasmania can begin to seek NDRRA funds if the cost of natural disaster claims in a year exceeds \$10.35m. At this level the Commonwealth meets 50% of costs, and if the cost exceeds the second threshold of \$18.1 million the Commonwealth share rises to 75%.

1.6 Information Provided

Appendix A lists the sources of information for this report. Treasury provided most of the information regarding state owned assets and the TRMF.

Local government information was provided by the respective insurance brokers for the councils, following facilitation of this process by the Local Government Association of Tasmania and each council. Without this co-operation the sections of our report dealing with local government could not have been completed.

Treasury also arranged for relevant information to be provided by SOCs and directly from some inner budget agencies.

We were satisfied with the range and completeness of information available for our assessment.

1.7 Assessment Criteria

The Commonwealth will review this independent assessment in conjunction with the state, and indicates that it will be guided by the following principles:

- States have a responsibility to put in place insurance arrangements which are cost effective for both the State and the Commonwealth
- The financial exposure borne by taxpayers (Commonwealth and State) should be minimised
- State is to explore a range of insurance options in the marketplace and assess options on a cost benefit basis.



2 Exposure Information

2.1 Overview of Public Assets

In this report we have not attempted to determine whether a public asset is ‘essential’ in accordance with the NDRRA definitions. The intention has been to include for information all significant public assets and leave any judgements about whether they are ‘essential’ to the State.

The public assets in Tasmania (excluding any assets owned or controlled by the Federal Government or private companies) are grouped into three categories:

- State Government – owned by the Crown (represented by inner budget agencies) and covered by the Tasmanian Risk Management Fund (TRMF)
- Local Government – owned by the 29 local councils
- State Owned Companies – assets of state owned companies or government business enterprises that are in the nature of ‘public assets’ but are not insured by the TRMF.

Table 2.1: Significant Tasmanian public assets

State Government	Local Government	State Owned Companies
Hospitals	Local govt buildings	Water and sewerage
Schools	Sporting facilities	Dams
Public housing	Community facilities	Electricity generation
Other govt buildings	Local roads/bridges	Electricity transmission
State roads/bridges	Footpaths, culverts	Electricity distribution
	Stormwater & drainage	Railway infrastructure
	Local airports	Railway rolling stock
	Jetties	Irrigation
		Bass Strait Ferries
		Ports
		State forests

More information on the identification and values of these assets is included later in this section. Greater detail is provided in the submission from Treasury to the Commonwealth, including commercial in confidence information.

2.2 Exposure to Natural Disaster Perils

The natural disaster perils that Tasmanian assets are exposed to can be identified as follows.



Table 2.2: Tasmanian exposure to natural perils

Peril	Commentary
Bushfire	Moderate exposure
Windstorm	Moderate localised exposure (not cyclonic)
Flood	Moderate exposure; small catchments
Landslip	Moderate localised exposure
Earthquake	Some exposure
Tsunami	Potential exposure
Terrorism	Low exposure

The commentary in this Table is a qualitative assessment by Finity, and is relative to the typical level of exposure in Australian jurisdictions.

An important factor in the risk assessment for Tasmania is the geographic dispersion of its population and infrastructure assets. We did not identify any obvious ‘single point’ exposures where the destruction of one asset or a natural disaster in one location would severely impact the whole state.

2.3 State Government Assets

The TRMF maintains a register of state government assets that are covered by the fund. Table 2.3 summarises the nature and recorded values of these assets. The ‘declared value’ is that used for insurance purposes by the TRMF and is generally intended to represent full replacement value.

Table 2.3: TRMF Declared assets (\$ million)

Type of asset	Recorded Value (\$m)
Housing - excluding land value	1,274.9
Buildings	3,858.4
Contents	550.5
Infrastructure	247.5
Total	5,931.2

This table does not include roads and bridges owned by the state government. These assets are covered in Section 2.6 below.

The Housing assets comprise some 13,000 different properties across the state, mainly individual houses but also some multi-dwelling buildings.

Table 2.4 lists the largest individual building assets covered by the TRMF.



Table 2.4: TRMF Largest Individual Declared Assets³

Asset	Declared Value (\$mil)
Tasmanian Museum and Art Gallery	201
Launceston General Hospital	184
Royal Hobart Hospital	156
Risdon Prison - Ron Barwick	84
Polytechnic building, Launceston	79
Silverdome and TIS	62
Polytechnic building, Mt Nelson	62
Polytechnic building, Hobart	60
Launceston College	59
North West Regional Hospital	48

2.4 Local Government Assets

Given that the management and insurance of local government assets is the responsibility of each Council there is no central register of assets. Information on total asset values in broad categories was compiled by Treasury from the annual reports of Councils, and this was supplemented by insurance information supplied with the agreement of Councils. Insurance information was available for all 29 Councils.

Table 2.5 gives a summary of the total local government assets compiled by Treasury from Council annual reports⁴.

Table 2.5: Local government assets

Asset Type	Recorded Value (\$m)
<i>Civic Assets</i>	
Buildings & Structures	1,072.0
Plant, Equipment, Vehicles and Contents	208.2
Miscellaneous	304.1
Total Civic Assets:	1,584.3
<i>Civil Assets</i>	
Roads and Bridges	4,703.0
Stormwater	1,354.7
Land	795.2
Total Civil Assets:	6,852.9
Total Asset value	8,437.2

In the table we have shown the assets in two broad groups, that we have labelled for convenience 'civic' and 'civil'. It is reasonable to assume that all the buildings and plant (and most of the miscellaneous assets which includes airports and jetties) are generally insured, while roads, footpaths, land and underground assets such as stormwater are not.

³ The declared value for the Tasmanian Museum and Art Gallery was reduced to \$90m in 2011/12.

⁴ These figures are not the balance sheet values. The balance sheet records assets at written down values, being 'valuation' less accumulated depreciation. The 'valuation' is generally an approximate fair value based on expert valuations, but is frequently several years old. In compiling the figures Treasury has extracted the 'valuation' figures from notes to the accounts.

The total values of buildings and plant (the assets normally insured) of all Councils amount to about \$1.6 billion, which is about 20% of the values of state government assets covered in the TRMF.

Individual Councils also submit asset registers with declared values for insurance purposes. These declared values are typically an estimate of full current replacement values, and would not be expected to be the same as the valuations for balance sheet purposes.

Based on the insurance information available, we estimate that the total declared value of insured assets for local government in Tasmania is about \$2.3 billion. This is about 42% more than the total recorded value for accounting purposes.

2.5 SOC Owned Assets

Table 2.1 identified the broad nature of the assets that are owned by the various SOCs. Table 3.4 in the next section summarises the insurance arrangements, but no detailed information on exposure is included.

2.6 Civil Assets – Roads & Bridges, Water & Sewerage, Stormwater

2.6.1 Roads and Bridges

According to the information provided to us, roads and most bridges in Tasmania are not insured. The exception is state government owned bridges, which are covered by the TRMF for any costs above \$5 million (discussed further in Section 3.1.5). These assets are vulnerable to some forms of natural disaster, especially floods.

Table 2.6: State Roads and Bridges

	State		Local		TAS Total	
	Distance (km)	Recorded Value (\$m)	Distance (km)	Recorded Value (\$m)	Distance (km)	Recorded Value (\$m)
Roads	3,359	3,886	14,324		17,683	
Bridges		1,473				
Total		5,359		4,703		10,062
Split of value between roads and bridges not available for local government						

The state government is responsible for about 3,400km of roads, and the valuation is based on an average replacement cost of \$1.1 million per km. Along with these roads the state government owns 925 bridges with a total valuation of \$1.5 billion.

The recorded value of local government roads and bridges combined is slightly less than the state government total, for nearly three times the total road lengths. This indicates that the average valuation per kilometre for local government roads is about one quarter of that for state roads.



There are also some private roads in Tasmania not shown in the table above. Forestry Tasmania owns many kilometres of roads and tracks (mainly unsealed). Other SOCs such as Hydro Tasmania own some private roads, but these are not very extensive.

2.6.2 Water and Sewerage

The water and sewerage assets in the state are noteworthy because of the ownership structure. As part of reforms in 2009, responsibility for water and sewerage was moved from local councils to three new corporations. While we have included these corporations with SOCs, they are not actually owned by the Tasmanian state government. They are owned by the 29 local councils, with each Council having a shareholding in the company serving its location.

Table 2.7: Water and Sewerage Values

	June 2010 value - 'cost' model (\$mil)
Southern Water	2,675
Cradle Mountain	1,260
Ben Lomond	1,163
Total Water and sewerage:	5,098

The estimated replacement cost of the Water and Sewerage property, plant and equipment total \$5.1 billion. These replacement values are based on an independent valuation model (referred to in the company annual reports as the 'cost model') aimed at determining the replacement cost of these assets.

We note that these replacement values are much higher than the values shown in the companies' balance sheets, totalling \$1.9 billion. The balance sheet values are 'book value', which is based on a present value calculation of expected cash flows.

2.6.3 Stormwater

In the local government sector there is a large amount of civil infrastructure grouped under the broad description of 'stormwater'. These assets are generally not insured and rarely well identified since they are frequently quite old and much is underground. The valuations totalling \$1.4 billion should be regarded as very approximate and likely to understate the true replacement value.



3 Insurance and Funding Arrangements

The scope of this assessment includes both State and Local Government assets that are at risk of being damaged as a direct result of a natural disaster. As the State and Local Government operate under very different models we have looked at this assessment in two parts (State and Local Government) and then deal briefly with SOCs.

3.1 State Government Risks

The Tasmanian Risk Management Fund (TRMF) is the main vehicle for funding insurable risks of the State Government. Established on 1 January 1999, TRMF covers inner-budget agencies and approved agency-related entities to meet the costs of losses that, in the private sector, would typically be covered by insurance. The TRMF is a typical example of a 'self insurance pool'.

3.1.1 Which Agencies are Covered by TRMF?

Table 3.1: Agencies in and out of the TRMF (Property cover)

In	Out
<i>Inner-Budget agencies</i>	<i>SOCs</i>
Dept of Economic Development, Tourism and the Arts	Tasmanian Railway Pty Ltd
Dept of Education	Southern Water
Dept of Health and Human Services	Cradle Coast Water
Dept of Infrastructure, Energy and Resources	Ben Lomond Water
Dept of Justice	Tasmanian Irrigation Company Pty Ltd
Dept of Police and Emergency Management	Hydro Tasmania
Dept of Premier and Cabinet	Transend Networks Pty Ltd
Dept of Primary Industries, Parks, Water and Environment	Aurora Energy Pty Ltd
Dept of Treasury and Finance	TT Line Pty Ltd
House of Assembly	Forestry Tasmania
Integrity Commission	Tasmanian Ports Corporation Pty Ltd
Legislative Council	
Legislature-General	
Office of the Director of Public Prosecutions	
Office of the Governor	
Office of the Ombudsman	
Tasmanian Skills Institute	
Tasmanian Audit Office	
+ 32 Agency-related entities	
50 in Total	11 in total

3.1.2 Which Assets and Perils are Covered by TRMF?

It is important to note the TRMF is established to cover a broad range of insurable risks, including workers compensation, public liability, medical professional liability, motor vehicle and a number of other risks in addition to property.

In respect of property assets, which are the subject of this report, the cover provided by the TRMF covers all natural disaster perils that are relevant to NDRRA. There are no

exclusions related to individual perils. In particular the TRMF covers damage caused by flood or terrorism without distinction from other causes.

As a general rule the TRMF covers all assets owned by a covered entity or for which the entity is responsible. The major exception to this is that TRMF does not cover any road assets with the Department responsible for the roads ‘electing’ to take a 100% excess on any claim for road damage. There are other exceptions, which are enumerated in the Table below.

Table 3.2: TRMF asset coverage exceptions

Asset	Exception
Tasmanian Museum and Art Gallery collection	Reinsurance taken out to meet the cost of losses up to \$45 million in excess of \$5 million
State owned roads	100% excess retained by DIER agency
State owned bridges	\$5 mil excess retained by DIER agency, with unlimited TRMF cover beyond but no reinsurance
Housing	Aggregate cover of \$5 million in excess of \$14 million for total annual claims

The cover provided by the TRMF for the Housing portfolio is on an aggregate basis. Housing is responsible itself for the first \$14 million in damage costs in the 2011-12 financial year, from whatever combination of causes and locations. The TRMF meets the costs of any losses/damage above this excess, to a maximum of \$5 million.

The TRMF coverage for state owned bridges applies for any claim amount in excess of \$5 million. It is important to note, however, that the TRMF does not buy reinsurance for this risk and does not have adequate capital to meet a claim for tens of millions.

3.1.3 Limit on Cover Provided by TRMF

The financial structure of the TRMF (provisioning and setting of annual contributions) is established to cover general property risks up to a limit of \$5 million, with Housing assets covered on an aggregate basis. Bridges are covered for an unlimited amount but without funding or reinsurance.

3.1.4 Funding and Capital Structure of TRMF

TRMF operates on a typical ‘group self-insurance’ basis. Accounts are prepared annually that include provision for outstanding claims (dominated by liability and medical indemnity coverage). Contributions may be increased or decreased from year to year in response to deficiencies or surpluses in funding level.

The aim is to collect sufficient premiums to fund the following year’s claims and expenses, subject to funding adjustments as described above. The required premiums are recovered from the agencies based on recommendations by the TRMF’s actuary.

Internally the TRMF operates several notional accounts for different types of coverage, each of which is intended to be individually funded. One of these accounts is property.

In 2010/11 the total fund income was \$58 million (contributions to the Fund were \$43m) and the balance of the Fund at 30 June 2011 was \$179m. The total contributions (or premiums) for property risks was about \$4.7 million. The TRMF is approximately fully funded (i.e. its assets and liabilities were of similar values).

3.1.5 Risk in Excess of \$5 million

The TRMF generally does not purchase any insurance for losses in excess of \$5 million. The only exception is the purchase of insurance for the Tasmanian Museum and Art Gallery Collections, for which insurance for \$45 million excess of \$5 million is arranged.

The policy position of the government is that ‘the funding of the costs of any claim over \$5 million is determined post-event on a case by case basis – through either a contribution from the Consolidated Fund, an increase in contributions over time, or a combination of both’.

Without an explicit structure to deal with claims in excess of \$5 million, any cost above \$5 million would be the responsibility in the first instance of the relevant agency. It would then immediately become the responsibility of Treasury and the whole-of-government because such losses are, by definition, non-budget items.

Recent precedents in dealing with large claims are described in Section 4.2.

3.2 Local Government Assets

Assets owned by local governments are either insured in the commercial market by each Council or are uninsured. In general ‘civic’ assets (buildings, machinery, etc – assets ‘above ground’) are insured, while ‘civil’ assets (roads, bridges, pipelines, land, etc – assets ‘at or below ground’) are not insured.

3.2.1 Individual Council Assets

The largest individual assets (other than ‘civil’ assets) are as follows:

Table 3.3: Largest individual Local Council civic assets

Asset	Declared Value (\$mil)
Queen Victoria Museum	151.1
Inveresk Precinct - Museum	135.8
Hobart Town Hall	65.0
Aurora Stadium	48.4
Derwent Entertainment Ctr	35.1
Launceston Aquatic	31.5
City Park	22.1

3.2.2 Council Insurance arrangements

Each of the 29 councils in Tasmania is covered by insurance policies. The arrangement and management of their insurance is conducted by insurance brokers, who typically handle a portfolio of councils. The insurance needs of the councils handled by each broker are taken to the insurance market together as a 'package', but the insurance is provided individually for each council. There is no pooling or sharing of property risk or insurance among the councils.

All declared civic assets are covered by these insurance arrangements, with roads, footpaths, bridges, underground assets and fencing uncovered. All natural perils are covered (some sub limits exist), with Terrorism covered through the Terrorism Insurance Act.

Flood cover

All councils have flood cover placed in the market, each with its own sub-limit. These sub-limits are driven by the size and exposure to flood of each council, whereby a council with a large flood exposure would purchase a higher sub-limit and vice versa. The appropriateness of these sub-limits is assessed by the insurers and insurance brokers. Sub-limits vary from between \$0.25 million to \$50 million, depending on council.

3.3 State Owned Company Assets

Many public assets are owned by Government Business Enterprises or State Owned Companies that have their own revenue streams (together referred to as SOCs). The insurance arrangements for such assets are matters for the governing body of each entity and are not supervised by Treasury.

The Tasmanian Government considers that such assets are likely to be outside the scope of the NDRRA. We accepted this assumption for the purpose of our independent assessment and have not examined in any detail whether any SOC assets would be within the scope of the NDRRA.

In this report we have attempted to identify the nature of these assets, for the sake of completeness, but have not attempted to quantify the exposure or describe the specific insurance arrangements.



Table 3.4: Summary of SOCs

Asset type	Company	Insurance Cover?
Railway infrastructure	Tasmanian Railway Pty Ltd	Yes
Railway rolling stock	Tasmanian Railway Pty Ltd	Yes
Water and sewerage	Southern Water, Cradle Coast Water & Ben Lomond Water	Above ground assets (excl dams, pipes)
Irrigation	Tasmanian Irrigation Company Pty Ltd	Above ground assets (excl dams, pipes)
Dams & Electricity generation	Hydro Tasmania	Yes
Electricity transmission	Transend Networks Pty Ltd	All except transmission lines
Electricity distribution	Aurora Energy Pty Ltd	All except poles and wires
Ferries	TT Line Pty Ltd	Yes
Forests	Forestry Tasmania	All except forests
Ports	Tasmanian Ports Corporation Pty Ltd	Yes

3.4 Insurance Market Testing

The insured assets of Local Government and SOCs are taken to the insurance market each year for negotiation of pricing and conditions.

Based on the information available to us for this report, infrastructure assets that are not insured (roads and other civil assets) have not been tested with the insurance market. This applies whether the assets are owned by state government, local government or SOCs.

The TRMF has not tested the purchase of commercial insurance above its \$5 million limit.

3.5 Funding for Damage to Roads and other civil assets

If there is damage to roads or other civil assets (whether from a natural disaster such as a flood), repair or replacement is funded from the budget of the relevant agency (being DIER roads division, Local Council, the Water and Sewerage companies or in the case of Forestry roads by Forestry Tasmania).

In practice this occurs by reprioritisation of both maintenance work and improvement projects. The DIER budget for state-owned roads is about \$150 million p.a. and any damage costing more than a few percent of this budget requires delays in other scheduled projects.

DIER informed us that if there were to be some kind of ‘insurance’ available after a natural disaster (whether from commercial insurance, a government facility or NDRRA) that contracting capacity exists to spend this money on the required repairs without major interruption to maintenance or scheduled capital works.

The same situation would probably apply to local government and the water and sewerage companies, in respect of assets such as roads, pipes etc.

4 Claims History

In section 2.2 we identified that Tasmania is exposed to several natural disaster perils, but does not have any particularly high exposures. This observation is reflected in the available claims history, which has been compiled from several different sources.

4.1 Past NDRRA Claims

Tasmania has made two claims for support under the NDRRA. The details are shown in Table 4.1.

Table 4.1: NDRRA claims to date

	2006 East Coast Bushfire			2011 Floods ²		
	State Government	Local Council	Total	State Government	Local Council	Total
Category of Expenditure:						
Category A	\$458,434	\$41,976	\$500,410	\$183,738	\$0	\$183,738
Category B	\$0	\$0	\$0	\$11,506,503	\$8,238,774	\$19,745,277
Category C	\$700,000	\$0	\$700,000	\$4,007,824	\$0	\$4,007,824
Category D	\$0	\$0	\$0	\$0	\$0	\$0
Total declared expenditure¹	\$1,158,434	\$41,976	\$1,200,410	\$15,698,065	\$8,238,774	\$23,936,839
Recoveries through NDRRA			\$600,205			\$8,927,629
Recovery %			50%			37%

¹ \$5.5 mil of Category B expenditure not declared

² Final expenditure yet to be finalised. Recoveries are estimated

Note that in respect of the 2006 bushfire there was about \$5.5 million of Category B expenditure (being costs associated with restoring essential public assets, loans to primary producers or counter disaster operations costs) that was not claimed under the NDRRA because of an anomaly in the recovery formula. If Tasmania had included this amount, its total recovery would have been lower.

The amounts for the 2011 floods are recent estimates and the final outcome may be materially different.

4.2 Claims on the TRMF

Since the TRMF was established in 1999 there have been two claims that exceeded \$5 million, both arising from fires in schools (i.e. not natural disasters). In each case the funding response (refer to the policy position in Section 3.1) was for the State Government to fund the loss from consolidated revenue. In other words the cost was absorbed in the State Budget.

The available information about natural disaster claims is summarised in Table 4.2. The figures shown are the total over the twelve years of operation of the TRMF.

Table 4.2: Total historical natural disaster claims – TRMF

	\$ mil
Paid to date	5.4
Outstanding	1.7
Incurred to date	7.1
Total number of claims	63
No of claims over 500K	2

There has been minimal large claim history from natural disasters in the TRMF, with no claims exceeding the \$5 million limit. The largest claim to date was due to heavy rain on gravel roads and walking tracks (claimed by the Department of Tourism, Parks, Heritage and the Arts), costing \$2.3 million. The annual average cost of natural peril claims to the TRMF has been less than \$1.0 million. All but one small bushfire claim related to storm and water damage.

4.3 Claims on Local Government Insurance

Noting that local governments insure only building assets, there have been no notable claims identified from natural disasters. The claims history available from insurance information (detailed claims data only available for 20 of the 29 councils) showed that the total incurred cost of natural disaster claims since 2003 is less than \$2 million in total.

4.4 Tasmanian Disaster Records

While not an exhaustive search, the list of ‘disasters’ in recent decades is short, and includes two man-made events rather than natural.

Table 4.3: List of significant Tasmanian Disasters

Year	Description	Natural Disaster?
1967	Bushfires, with a major loss of life and property	Y
1975	Collapse of the Tasman Bridge when struck by the bulk ore carrier	N
1996	Port Arthur massacre	N
2006	Bushfires on the East Coast	Y
2011	Flooding on the East Coast and North	Y

The Tasman Bridge collapse in 1975 was a very substantial property loss. Records indicate that the replacement was funded by the Commonwealth Government.

The two recent natural disaster events (2006 bushfires and 2011 floods) have resulted in recoveries or potential recoveries from the NDRRA (see section 4.1).

5 Independent Assessment of Arrangements

Our assessment of the State’s insurance arrangements is structured as per the following Table.

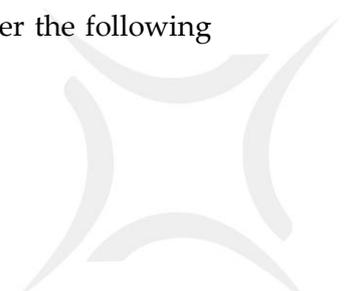


Table 5.1: Summary of Insurance arrangements

	State	SOC	Local
Civic Assets	First \$5mil pooled	Insured	Insured, with flood limited
	Over \$5mil self insured		
Civil Assets	Generally not insured		

5.1 State Assets in the TRMF

The TRMF provides sustainable protection and funding⁵ for the assets it covers up to a limit of \$5 million for any one event.

A loss above \$5 million falls back to the State budget on a case-by-case basis. The State budget is under considerable pressure at the present time with reductions in revenue and cuts being made to expenditure. The State does have borrowing capacity although the government has a stated commitment to maintaining no 'net debt' and the current situation is around that level.

While any unbudgeted loss would be painful, it would be reasonable to expect that a natural disaster loss of up to a few tens of millions would be manageable. School fires costing more than \$20m have been funded from State budget in recent years. The NDRRA with a first threshold of about \$10m (50% reimbursement) and a second threshold of \$18m (75% reimbursement) sits comfortably with this assessment.

5.2 Local Government Assets - Insured

The 'civic' assets of local government are all insured in the commercial market. There is nothing to suggest that the insurance coverage is inadequate or incomplete, with insurance limits on flood selected to provide realistic cover for each Council. While terrorism is excluded in the insurance policies, the terrorism risk for local government assets is picked up by the Australian Reinsurance Pool Corporation (ARPC).

5.3 SOC Assets

While assets of the SOCs were not a major focus of this review, there is nothing to suggest that these assets are not adequately insured for natural disaster perils. Major uninsured assets were identified in Table 3.4 including:

- Power transmission lines
- Power poles and wires

⁵ The unlimited cover for state owned bridges excess of \$5 million is not adequately funded at present



- Pipes and other underground assets, especially of the water and sewerage companies.

Insured assets are frequently subject to terrorism exclusions, but as with local government the ARPC provides cover for terrorism risks.

5.4 Roads & Bridges and other civic assets

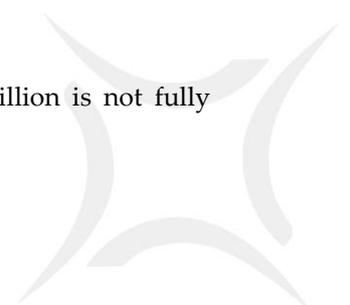
Roads and bridges, whether owned by state⁶ or local government or SOCs are typically not insured, as is the case with other civic assets such as pipes, reticulation, stormwater and the like. Natural disaster losses arising to these assets are typically met by reprioritising maintenance and/or capital expenditure within the agency involved.

5.5 Conclusions

Presented on an exception basis, those assets and perils that are not reasonably well protected by internal funding arrangements (the Tasmanian Risk Management Fund) or commercial insurance can be summarised as follows:

- Roads and bridges are generally not covered, whether owned by State or Local Government or by a SOC (such as Forestry Tasmania or TasRail)
- For both local government and water & sewerage (which is in the SOC sector) assets at or below ground level such as drainage or reticulation systems – what might be referred to as ‘civil’ assets - are generally not covered
- A loss above \$5 million in the State Government Sector (with minor exceptions) would be funded on a case by case basis, generally relying on the State Budget
- Local government assets damaged by Flood are insured up to a ‘sub-limit’ that reflects the exposure of each individual council to flood

⁶ The insurance offered by TRMF for state owned bridges in excess of \$5 million is not fully funded so can be ignored for this purpose



6 Reliances and Limitations

This report is being provided for the sole use of the Tasmanian Department of Treasury and Finance for the purposes stated in Section 1 of this report. It is not intended, nor necessarily suitable, for any other purpose. This report should only be relied on by the Department for the purpose for which it is intended.

We understand that this report will be published on the Department's website and provided to the Commonwealth Attorney-General's department as required by the NDRRA. No other distribution of, use of or reference to this report (or any part thereof) is permitted without our prior written consent. Third parties, whether authorised or not to receive this report, should recognise that the furnishing of this report is not a substitute for their own due diligence and should place no reliance on this report or the data contained herein which would result in the creation of any duty or liability by Finity to the third party.

In commenting on the presence or adequacy of insurance arrangements, our assessment is relative to normal industry practice. Insurance arrangements may be ineffective for a number of reasons including oversight, clerical error, contractual failure, breach of policy conditions, fraud, insurer failure or the like. Our review is not intended to, and cannot be expected to, identify risks of this kind.

Finity has performed the work assigned and has prepared this report in conformity with its intended utilisation by a person technically competent in the areas addressed and for the stated purposes only. Judgements about the conclusions drawn in this report should be made only after considering the report in its entirety, as the conclusions reached by a review of a section or sections on an isolated basis may be incorrect.

The report should be considered as a whole. Members of Finity staff are available to answer any queries, and the reader should seek that advice before drawing conclusions on any issue in doubt.

We have relied on the accuracy and completeness of all data and other information (qualitative, quantitative, written and verbal) provided to us for the purpose of this report. We have not independently verified or audited the data but we have reviewed it for general reasonableness and consistency. It should be noted that if any data or other information is inaccurate or incomplete, we should be advised so that our advice can be revised, if warranted.



Part III Appendices

A Sources of Information

Source	Information received
State Government	
Department of Treasury and Finance	TRMF managed fund reports
	State Government asset registers
	TRMF loss history
	State roads values and distance
	Internal audits, business continuity and emergency management documentation
	Notable disaster listing
	NDRRA related expenditure and recoveries
	Summary of State Owned Company insurance arrangements
Housing Tasmania	Summary of exposure, funding
Hydro Tasmania	Summary of exposure, funding, insurance arrangements
Dept of Infrastructure, Energy and Resources	Summary of exposure, funding
Local Government	
Department of Treasury and Finance	Local council asset summary - annual report summaries
	Local roads values and distance
Local Government Association of Tasmania	Background on local council activity
Marsh	Asset listing, loss history and insurance arrangements for the councils it manages
AON	Asset listing and insurance arrangements for the councils it manages
Bugg Goninon	Asset listing, loss history and insurance arrangements for the councils it manages
OAMPS Brokers	Asset listing and insurance arrangements for the councils it manages