



Treatment of Insurance when Claiming Essential Public Asset Reconstruction Costs

This guidance note outlines the eligibility of self-insurance and commercial insurance arrangements for essential public asset reconstruction under the Disaster Recovery Funding Arrangements 2018 (DRFA).

Insurance under the DRFA

The DRFA is intended to provide financial support to states and territories (states) for certain relief and recovery measures delivered in relation to eligible disasters. This is provided through partial reimbursement of state expenditure and estimated reconstruction costs (ERCs). Support that is cost-shared under the DRFA is intended to complement state-based mitigation strategies such as insurance.

States are responsible for implementing appropriate insurance arrangements that are cost effective for both the state and the Commonwealth. Additionally, under the DRFA, state expenditure and ERCs exclude costs that are recoverable from another source, including insurance.

Types of insurance and eligibility

A range of insurance options may exist for essential public assets. This may include self-insurance and/or commercial arrangements, designed to mitigate the financial risk associated with an asset being damaged or destroyed.

Self-insurance:

Self-insurance refers to a state-managed mechanism, where state government departments and agencies contribute to a central insurance scheme to cover costs related to essential public asset restoration. These arrangements usually operate on a cost recovery basis with contributions by asset owners, determined annually, to ensure there is adequate coverage based on current and future financial risk.

Self-insurance also refers to arrangements where asset owners (generally councils) purchase insurance products from non-profit membership organisations with exclusively asset owners as their members. Where these membership organisations reinsure asset risk, this is considered commercial insurance (refer below).

Self-insurance providers may also re-insure risk within the commercial insurance market above a defined retention level. Where this occurs, contributing members access self-insurance for damaged assets prior to accessing commercial insurance arrangements. The retention level for self-insurance arrangements varies between states and classes of assets.

Commercial insurance:

In addition to, or instead of, self-insurance, asset owners may have insurance coverage for specific assets or classes of assets from the commercial market. This may include insurance related to assets that are covered by self-insurance to cover any costs above the self-insurance retention level, where these arrangements exist, or may be the only insurance in place for a particular asset.



Eligible components of insurance

The eligibility of different insurance components is outlined in the below table:

Table 1: Eligibility of insurance related expenditure

Cost	Eligibility	Comments
Self-insurance contributions by asset owners	x	Budget funded expenditure by an asset owner for premiums in a self-insurance scheme is ineligible as it does not directly relate to an eligible event or measure.
Payments received by asset owners from self-insurance scheme	✓	Expenditure on essential public asset reconstruction by an asset owner which is reimbursed under a self-insurance scheme is considered eligible state expenditure.
Commercial insurance or reinsurance premiums (payments)	x	Budget funded expenditure by an asset owner for premiums for commercial insurance is ineligible as it does not directly relate to an eligible event or measure.
Payments received by asset owners from commercial insurance providers	x	Expenditure on essential public asset reconstruction by an asset owner which is reimbursed through commercial insurance arrangements is ineligible. This is due to the expenditure being recoverable from another source.
Commercial insurance excess	✓	Expenditure incurred for an insurance excess to access commercial insurance is eligible as it is an incremental cost for the asset owner which would not have been incurred had the eligible disaster not occurred.
Reconstruction costs that exceed insurance coverage	✓	Where insurance does not cover the full cost of reconstruction, the expenditure above the value recovered from insurance is eligible. States are encouraged to review insurance levels to minimise the risk of this occurring.

How to claim expenditure recovered from insurance

Claiming reconstruction costs for insured essential public assets under the DRFA depends on the measure under which the works are being claimed, and when the value recovered from insurance is known.

Emergency works and immediate reconstruction works

Eligible costs must be claimed in the financial year in which they were incurred in line with the definition of state expenditure, reduced by the value recovered through insurance. The normal allowable timeframes for completion of works still apply, i.e. works must be completed within three months from the date the essential public asset becomes accessible.

Estimated reconstruction costs

If the essential public asset was only covered by self-insurance

Where the essential public asset was self-insured, the ERC must be established in accordance with the standard practice within the state under the state's Disaster Recovery Funding Arrangements Management System.

If the value recovered from commercial insurance is known within the ATL to establish an ERC

Where the value recovered through insurance for the asset has been received, or is known, at the time the ERC is established the ERC value must be reduced by the value recovered from the insurance.



If the value recovered from commercial insurance is not known within the ATL to establish an ERC

The timeframes involved with the completion of insurance claims sometimes means a state will not have confirmation of the value recovered from insurance at the time an ERC is established. Where this occurs states must claim the reconstruction costs for the asset as actual expenditure, and not an ERC.

To enable this, NEMA will provide an exemption to Immediate Reconstruction Works (clause 4.3.2 c) to allow costs to be claimed up to 24 months from the end of the financial year in which the relevant eligible disaster occurred.

Eligible costs must be claimed in the financial year in which they were incurred in line with the DRFA definition of state expenditure. However, states may utilise a standing accounting policy exemption to the definition of state expenditure to claim the eligible costs at the end of the reconstruction project's delivery and once any relevant insurance claims have been settled (within the allowable time limit), if it is more practical to do so.

Assets claimed under Category C or D packages

Where assets owned by local governments or state agencies (including essential public assets and non-essential public assets) are self-insured, eligible costs must be claimed in the financial year in which they were incurred in line with the definition of state expenditure, unless specific provisions for insurance are included within the relevant Program Guidelines.

Where assets owned by local governments or state agencies (including essential public assets and non-essential public assets) are commercially insured, eligible costs must be claimed in the financial year in which they were incurred in line with the definition of state expenditure, reduced by the value recovered through insurance, unless specific provisions for insurance are included within the relevant Program Guidelines.

Evidentiary requirements

To claim eligible insurance costs, states must provide evidence demonstrating the incurred expenditure is directly related to eligible essential public asset reconstruction works, and that any amounts that are not eligible have been excluded from the claimed amount.

For each individual essential public asset where reconstruction costs are being claimed, the following evidence is required to be maintained to demonstrate eligibility and compliance with DRFA requirements. Further information can be found in EPA Evidentiary Requirements Guidance Note.

- **Pre-disaster** – the asset meets the definition of an essential public asset and is owned (or operated) and maintained by an eligible undertaking. Evidence of pre-disaster function and condition.
- **Post-disaster** – the damage to the essential public asset was caused as a direct result of an eligible disaster.
- **Completion of reconstruction works** – the reconstruction works have been completed as claimed.

In addition to the above evidence relating to the eligibility of the reconstruction works, the following financial evidence is required to be maintained to support claims.

- **Transaction listings:** Detailed listings of all transactions related to the asset's restoration, identifying incremental expenditure (i.e. costs that are additional to normal state expenditure and excluding routine maintenance, administration, or pre-existing commitments).
- **Proof of payment:** invoices, remittance advice, or other financial records showing payments for works have been made and meet the definition of state expenditure.
- **Excluded costs:** Evidence any amounts that are not eligible (e.g. commercial insurance payments) have been excluded from the expenditure that is claimed.

There are no changes to evidence requirements where assets are insured. For example, an insurance certificate / loss adjustment value is not sufficient evidence on its own. Evidence demonstrating state expenditure, damage, pre-disaster, scope, and delivered works against each asset being claimed is required.



Appendix A: Insurance eligibility examples

1. Calculation of eligible costs for insurance types

Insurance type	Project value	Eligibility	Example
Self-insurance	Equal to or less than self-insurance retention	Project value	(a) Project value: \$1,500,000
			(b) Self-insurance retention: \$1,750,000
			(c) Eligible DRFA value: \$1,500,000
			(a) ≤ (b), (c) = (a)
Self-insurance	More than self-insurance retention	Project value	(a) Project value: \$2,000,000
			(b) Self-insurance retention: \$1,750,000
			(c) Eligible DRFA value: \$2,000,000
			(a) ≥ (b), (c) = (a)
Commercial insurance	Equal to or less than insured value	Excess paid to commercial insurance	(a) Project value: \$10,000,000
			(b) Total commercial insured value: \$12,000,000
			(c) Insurance excess: \$120,000
			(d) Eligible DRFA value: \$120,000
			(a) ≤ (b), (d) = (c)
Commercial insurance	More than insured value	Excess paid to commercial insurance + the difference between the Project value and the insured value	(a) Project value: \$14,300,000
			(b) Total commercial insured value: \$12,000,000
			(c) Insurance excess: \$120,000
			(d) Eligible DRFA value: \$2,420,000
			[(a) – (b)] + (c) = (d)
Self-insurance + commercial insurance	Equal to or less than self-insurance retention	Project value	(a) Project value: \$8,430,000
			(b) Self-insurance retention: \$10,000,000
			(c) Total commercial insured value: \$22,500,000
			(d) Insurance excess: \$225,000
			(e) Eligible DRFA value: \$8,430,000
			(a) < (b), (e) = (a)
Self-insurance + commercial insurance	More than self-insurance retention and less than commercial insured value	Excess paid to commercial insurance	(a) Project value: \$17,700,000
			(b) Self-insurance retention: \$10,000,000
			(c) Total commercial insured value: \$22,500,000
			(d) Insurance excess: \$225,000
Commercial insurance covers full insured value when triggered			(e) Eligible DRFA value: \$225,000



Self-insurance + commercial insurance covers full insured value when triggered	More than self-insurance and commercial insured value	Excess paid to commercial insurance + the difference between the Project value and the insured value	(a) Project value: (b) Self-insurance retention: (c) Total commercial insured value: (d) Insurance excess: (e) Eligible DRFA value [(a) – (c)] + (d) = (e)	\$26,290,000 \$10,000,000 \$22,500,000 \$225,000 \$4,015,000
Self-insurance + commercial insurance only covers value above self-insurance retention level when triggered	More than self-insurance and commercial insured value	Project value to the value of self-insurance retention + excess paid to commercial insurance + the difference between the Project value and the insured value	(a) Project value: (b) Self-insurance retention: (c) Commercial insured value: (d) Insurance excess: (e) Eligible DRFA value: [(b) + (d)] + [(a) – (c)] = (e)	\$26,290,000 \$10,000,000 \$22,500,000 \$225,000 \$14,015,000

Project value = eligible expenditure or eligible estimated reconstruction costs (ERCs) depending on the measure claimed.

2. Retention applied per class of assets or per event

Where the self-insurance or commercial insurance retention level applies over a class of assets or over an event, the retention level will need to be proportionally allocated over the individual assets or projects to determine the eligible amount to claim under the DRFA.

An example is demonstrated below. This example assumes commercial insurance covers full insured value when triggered (i.e not only the value above the self-insurance retention level)

Cost Element	Amount	Allocation across Projects		
		Project 1	Project 2	Project 3
(a) Estimated reconstruction costs	\$56,580,000	\$25,300,000	\$12,560,000	\$18,720,000
(b) Self-insurance retention level	\$15,000,000	\$6,707,317	\$3,329,799	\$4,962,884
(c) Commercial insurance total insured asset class value	\$30,000,000	\$13,414,634	\$6,659,597	\$9,925,769
(d) Commercial insurance excess	\$300,000	\$134,146	\$66,596	\$99,258
(e) Value above insured value	\$26,580,000	\$11,885,366	\$5,900,403	\$8,794,231
Total cost	\$56,880,000	\$25,434,146	\$12,626,596	\$18,819,258
(f) Eligible DRFA value (d) +(e) = (f)	\$26,880,000	\$12,019,512	\$5,966,999	\$8,893,489



3. Where an ERC is established and insurance recovery is known

Where the commercial insurance recovery is known within the ATL to establish an ERC, the state will need to account for any adjustments to the ERC following the completion of the works to determine any eligible efficiencies.

An example is demonstrated below:

Cost Element	ERC	Post-reconstruction	
		Scenario 1	Scenario 2
Estimated reconstruction costs	\$2,500,000		
Commercial insurance payment	- \$500,000		
Claimed ERC	\$2,000,000		
Actual reconstruction costs		\$2,300,000	\$2,700,000
Less insurance recoveries		- \$500,000	- \$500,000
Actual reconstruction costs post insurance recoveries		\$1,800,000	\$2,200,000
Efficiencies (<i>retained by state</i>)		\$200,000	-
Overspend (<i>borne by state</i>)		-	\$200,000