



Hon Rachel Nolan MP
Member for Ipswich

TRX-16219



Minister for Finance and The Arts

18 APR 2011

Senator Alan Eggleston
Chair
Senate Economics Reference Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator

I refer to your letter to the Premier of 7 March 2011 regarding Senator Xenophon's Notice of Motion to the Economic References Committee's Flood and Cyclone Levy inquiry requesting Queensland Government documents.

The Premier has requested that I respond on her behalf.

As you would be aware, the Natural Disaster Relief and Recovery Arrangements have served Australia well since 1974, and are the primary mechanism for ensuring that the risk of a natural disaster is spread fairly among all Australians. Just as Queenslanders have assisted residents in other states, such as Victoria through the bushfires, Queensland is grateful for the assistance we have been provided through the NDRRA at this very trying time.

The NDRRA is a cost sharing, not a cost shifting mechanism given that the States retain a 25% liability for the cost of restoring essential public infrastructure even in the case of catastrophic events which may place pressure on a state's ability to pay.

The NDRRA arrangements serve the Federation well. Until the recent Senate Inquiry there has never been any suggestion that they were anything but an established and agreed mechanism for the funding of disaster recovery.

The Commonwealth has never asked the State to seek external insurance. Nor has it previously sought to request local government adopt external insurance, despite local governments also relying on the NDRRA cost sharing arrangements funded by the state and federal governments.

We note that the Commonwealth Government both under the previous Howard regime and the current government similarly does not have external insurance for its 75% liability. I am not aware that the Commonwealth has to date indicated that it will seek such insurance for its own property.

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Nonetheless, the Queensland Government does have a self insurance mechanism, the Queensland Government Insurance Fund (QGIF), for the management of risks to property and the management of other financial liabilities such as medical malpractice.

In 2004, as we have previously stated on the public record, the Queensland Government did go to the international insurance market to seek a quote on reinsuring QGIF. At the time Queensland Treasury, through our insurance advisors Aon, engaged in an international exercise to test the reinsurance market.

The terms on which insurance was available at that time were for reinsurance of the property – not including the extensive road network – of the state. I note that these costs (that is the property assets of the state covered by QGIF) represent approximately \$150 million of the \$5.8 billion estimated in costs from the recent natural disasters. This is directly relevant to assessments of the value an insurance policy might represent. Given the insurable costs in this context represent a fraction of the overall costs of the disaster it does not follow, as claimed in the public arena, that such an insurance policy would have prevented the billions of dollars in fiscal costs now being borne by the state and federal governments.

At the time Insurance of up to \$500 million in damages was available, with a \$20 million excess payable on each event for \$6.4 million premium.

The policy proposed was equivalent to an offer to insure a \$500 000 house for \$6 400 per year, with no claim being possible without a \$20 000 excess payable before a claim could be made.

The proposal was not recommended by Treasury to the government, and the government accepted that recommendation.

In accordance with the Committee's request, detailed documentation outlining that exercise is attached.

As it peruses that documentation the Committee may also wish to note that Senator Xenophon's repeated claim that the Queensland Government was offered natural disaster reinsurance including roads for \$50 million a year is not borne out by the document search which has been conducted. Given that this claim formed the basis for the Committee's current inquiry, the Committee may wish to seek substantiation from the Senator. To date all efforts for this claim to be proven by the Senator have not resulted in the Senator providing such evidence.

Finally, you will recall that on February 21 this year the Queensland Treasurer Andrew Fraser and I announced that the Queensland Government would once again go to the international market for quotes to reinsure Queensland assets. The Commonwealth Government later announced that it would require states to undertake such an exercise with details to be provided to the Commonwealth Attorney-General by the end of September.

In accordance with my earlier announcement, I am happy to advise that the Queensland Government has engaged advisors Aon to conduct an international market sounding exercise and has budgeted up to \$1 million for the task, given the complexities involved. It is our expectation that this exercise will be complete in time to meet the Commonwealth's September request.

Yours sincerely

RACHEL NOLAN