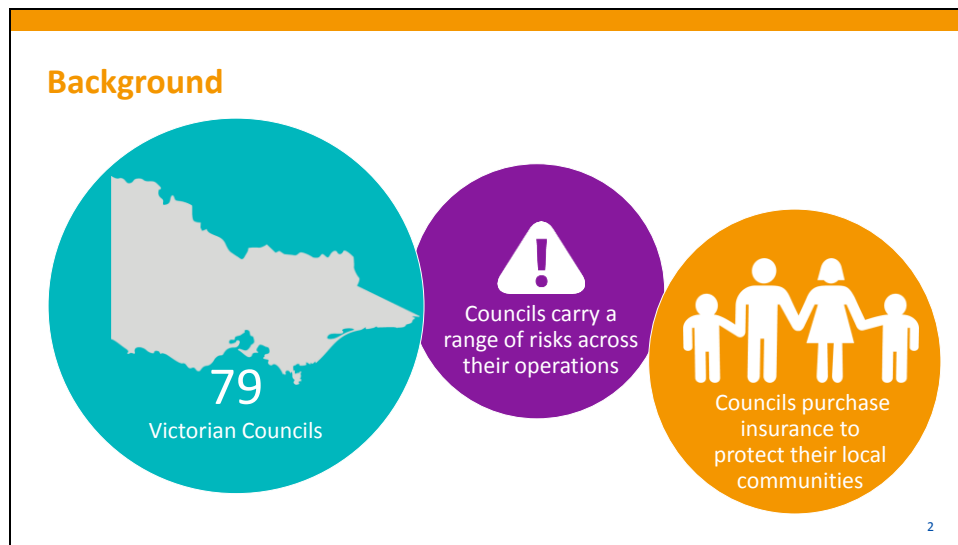


Slide 1




This presentation provides an overview of the Victorian Auditor-General's report *Local Government Insurance Risks*.



The local government sector comprises 79 councils in metropolitan, regional and rural areas. They vary significantly in size, population, revenue and assets.

Councils carry a range of risks across their assets and operations. They purchase insurance as a form of risk transfer against a range of unforeseen losses. Insurance protects their local communities and the breadth of vital services they rely on.

Risk management



Public liability / professional indemnity (PL/PI) insurance

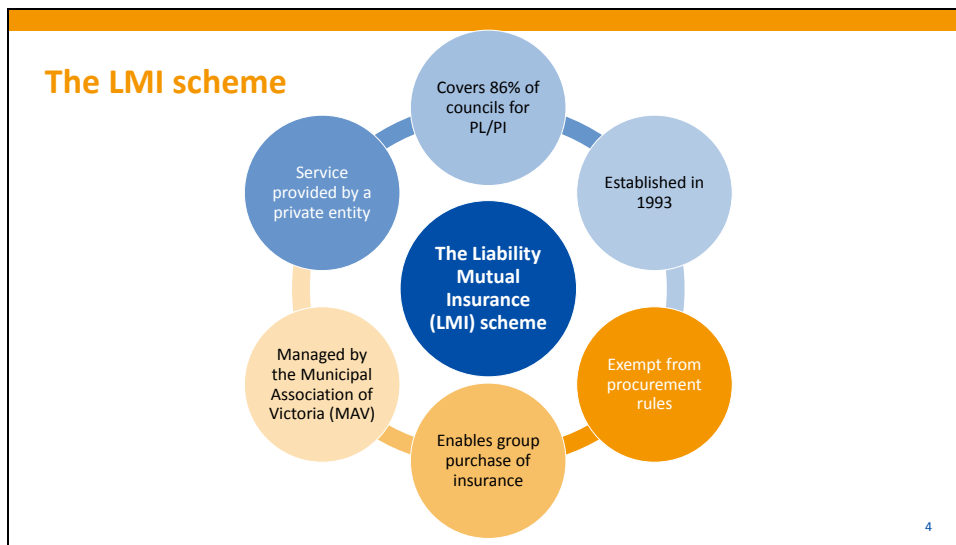
Property / asset insurance

Operational risk insurance

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Specific risks councils insure against vary, but there are three broad categories:

- public liability/professional indemnity (PL/PI) insurance
- property/asset insurance, and
- operational risk insurance.




Councils purchase most of their insurance from the commercial sector, with the major exception being PL/PI insurance.

The Municipal Association of Victoria (MAV) manages Liability Mutual Insurance (LMI). It's an insurance pool established in 1993 that councils can become members of for their PL/PI insurance. In 2017–18, 86 per cent of Victoria's councils obtained their PL/PI insurance through LMI.

As part of LMI, councils are exempt from the Local Government Act procurement rules, meaning they don't need to undertake a competitive tender to buy this insurance.

The governance arrangements and exemption from tendering have not been reviewed since 1993.

Audit scope

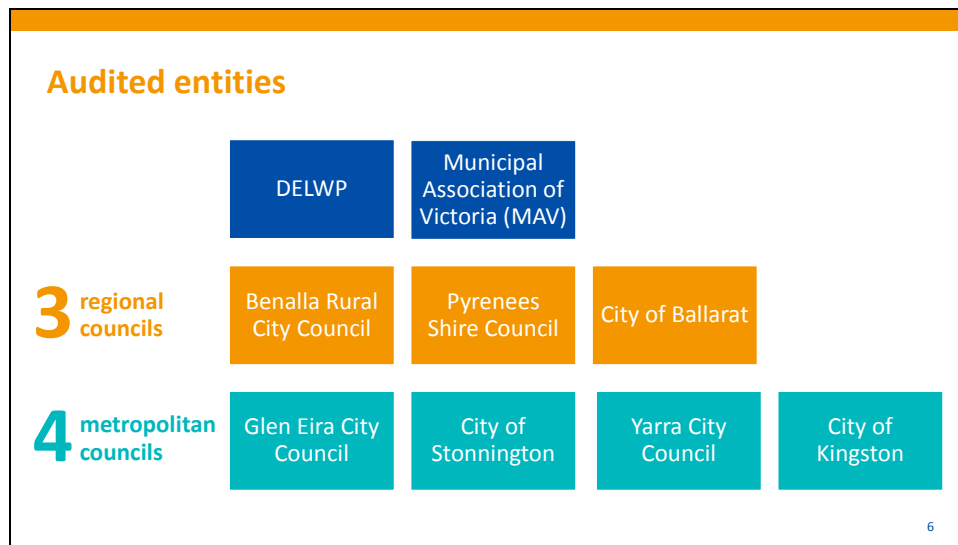


Objective: To determine whether councils are prudently managing their insurable risks.

- Councils understand and effectively mitigate their risks
- Councils have adequate and cost effective insurance

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The purpose of our audit was to determine whether councils are prudently managing their insurable risks by understanding and mitigating the risks they face, and purchasing adequate insurance that represents value for money.




We audited:

- the Department of Environment, Land, Water and Planning (DELWP)
- MAV, because it supports the sector and manages the LMI insurance scheme
- and seven councils, selected to provide a mix of metropolitan and regional councils who have varied risk and insurance management histories.

What we found



- 25 years of available and stable insurance
- Councils have relevant risk policies
- Councils who tender have regularly obtained better insurance terms



- Concerns with the LMI's governance and financial sustainability
- Concerns with MAV's management of the LMI's key service provider
- Many councils do not sufficiently monitor the implementation of risk controls
- Councils who don't tender cannot demonstrate value for money

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LMI has delivered significant value to the sector over 25 years by providing available and stable insurance. However, there are concerns with its governance, financial sustainability and MAV's management of the LMI's key service provider.

Councils have relevant risk policies, however many do not sufficiently monitor the implementation of risk controls.

Councils who do not undertake open and transparent tender for insurance cannot demonstrate they have achieved a value for money outcome. Those who have, have regularly obtained better insurance terms.

Risk management

 <ul style="list-style-type: none">• Audited councils have developed adequate risk management policies in line with the international standard	 <ul style="list-style-type: none">• No guides supporting councils to develop their risk policies• Councils are not sufficiently monitoring the implementation of their risk mitigation activities
<p>Councils' practice could improve by receiving independent analysis of their risk levels, to ensure they have appropriate coverage</p>	


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We found that the audited councils have developed adequate risk management policies in line with the international standard. However, there are no guides to help councils tailor their risk policies to their sector.

Importantly, councils are not sufficiently monitoring the implementation of their risk mitigation activities, meaning that councils may not be covered by the level of protection they anticipated.

Councils' practice could also improve by getting an independent analysis of their risk levels to ensure their insurance covers their full range of risks to sufficient levels.

Value for money

 Councils cannot demonstrate that they obtain value for money due to a lack of open and transparent tendering

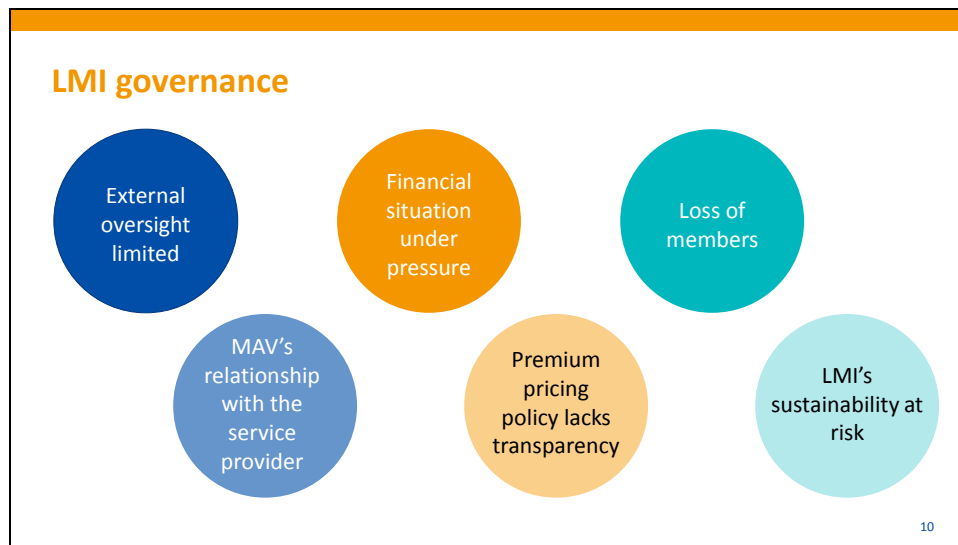
 <p>Tendering has driven better outcomes:</p> <ul style="list-style-type: none">• Councils have received lower premiums• Increased understanding of their risks and insurance options	 <p>Councils have historically 'rolled over' their insurance purchase</p> <ul style="list-style-type: none">• No evaluation of processes• They did not manage conflicts of interest
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Value for money means not just getting the lowest possible premiums, but also ensuring sufficient and appropriate coverage. One of the ways councils can achieve this is by open and transparent tendering.

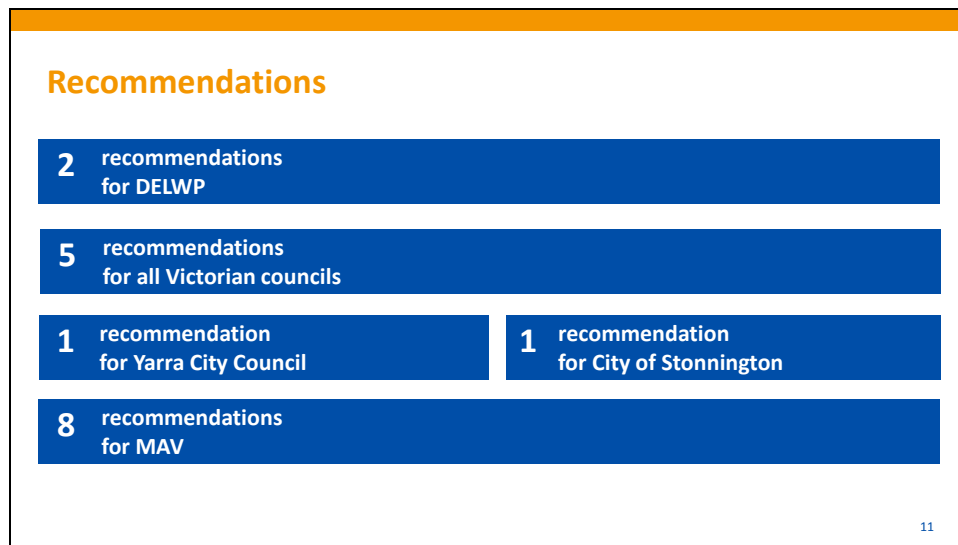
Most councils have not undertaken effective tendering processes for insurance in the past, however more councils have over the last four years.

The audited councils who have run tenders have received additional advice relating to their risk and insurance requirements, resulting in lower premiums, for lower levels of cover that they have determined to be sufficient.



There are several issues with the LMI scheme:

- External oversight of LMI is limited due to the nature of its legal structure.
- MAV has a long-term relationship with—and receives financial benefit from—the private entity it has contracted to provide services to LMI.
- LMI's financial situation is under pressure, with a recent history of operating losses and a negative net asset position.
- MAV's application of LMI's premium pricing policy lacks transparency. When they tender, councils have been offered lower premiums to compete, however these benefits have not been evenly distributed to councils.
- The current insurance environment is impacting LMI's sustainability due to the loss of members and its practice of discounting premiums to retain members.



We made 17 recommendations—two for DELWP, five for all Victorian councils, one for Yarra City Council, one for City of Stonnington and eight recommendations for MAV. All recommendations have been accepted.

For further information, please view the full report on our website:
www.audit.vic.gov.au

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