

Committee:	Executive	Agenda Item No.:	9
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Category	3. Part of the Budget and Policy Framework		
Subject:	Renewal of Insurance Policies		
Report by:	Senior Technical Officer		
Other Officers Involved	Director of Resources Head of Finance		
Director	Resources		
Relevant Portfolio Holder	Corporate Efficiency		

## **RELEVANT CORPORATE AIMS**

**STRATEGIC ORGANISATIONAL DEVELOPMENT** – Continually improving the efficiency and effectiveness of Council services by demonstrating value for money by reviewing the current basis of risk transfer arrangements whilst maintaining sound financial management.

### **TARGETS**

To review the whole insurance portfolio with the current insurer, whilst endeavouring to retain within a Long Term Agreement (LTA) to improve the effectiveness and efficiency of the renewal process. This enabled the Council to maintain LTA and package discounts and obtain competitive renewal terms, therefore contributing towards the Council's efficiency gains targets.

### **VALUE FOR MONEY**

Obtain competitive renewal terms for all of the Council's insurance policies following significant insurance claim settlements during the previous 12 months, during a time of financial uncertainty and the insurance market hardening causing global premium increases.

## **THE REPORT**

The Council's insurance policies were due for annual renewal on 1<sup>st</sup> October 2008. This report is to inform Members of the outcome of the recent insurance renewal process carried out under powers delegated to the Director of Resources.

## **Delegated Powers**

It was agreed at Council on 6th October 2004 that the Chief Finance Officer, now re-designated the 'Director of Resources', be granted delegated powers on a permanent basis to renew the Council's insurance cover, in order to obtain the most economically advantageous outcome, without the restrictions imposed by meeting deadlines.

The Council's Standing Orders were waived in accordance with Standing Order numbers 4.8.2 (3) and 4.8.2 (4).

Members are now asked to note the actions of the Director of Resources in renewing the Council's insurance cover as described in the report.

## **Background**

The principal insurance contracts are insured with Travelers Insurance Company. The engineering inspection, contractors plant insurance and vehicle uninsured loss recovery agent are with Allianz and MAPS respectively.

These contracts were awarded following a tendering exercise in 2006 and are subject to a three year long term agreement (LTA) expiring on 30<sup>th</sup> September 2009, with an option to extend by 2 further years, which qualified the Council to receive a 5% LTA discount.

Alignment of all principal insurance policies to Travelers in 2006 enabled the Council to receive a further 7.5% package discount during the LTA period.

The principal insurance policies are subject to a £20,000 excess each and every claim. The exceptions are vehicles which are subject to a £250 excess, engineering contractor's plant having £10,000, and leasehold flats having a nil excess except subsidence claims where £2,500 applies.

A vehicle accumulation policy was added to the contract at the 2007 renewal. This is required where an accumulation of vehicles stored at any one location exceeds a total market value of £1 million.

The outcome of the 2006 tender process achieved 'one off' savings which cannot be repeated at subsequent renewals during the LTA. These included:

- ➔ Removal of the aggregate cap, as historically, this was never breached, saving £11,595.
- ➔ Removal of Personal Accident & Travel insurance cover, as no losses occurred during recent years.
- ➔ Reduction in the claims handling fee.
- ➔ Increased minor class excess from £10,000 to £20,000 to align with all major policies, reducing premiums.
- ➔ Transferred the Engineering policies to a more competitive provider.

## **ISSUES/OPTIONS FOR CONSIDERATION**

### **Premium Rating Factors**

Insurers predominantly base their premium rate calculations on the following factors -

- ➔ Salary and wages figures declaration, which increases annually due to grading increments and pay awards.
- ➔ Property valuation figures, for all general properties and housing stock (which was reviewed in 2008).
- ➔ Leased and fleet vehicle numbers and market values.
- ➔ Degree of risk exposure.
- ➔ Types of risk.
- ➔ Fees generated (Professional Indemnity).
- ➔ Operable perils attracting different premium rates.
- ➔ Claims history (settlement values and types of losses).
- ➔ Market forces.

### **Housing Stock**

Due to weather related losses in 2007 the insurer continues to attempt to apply a 'property endorsement' in respect of the Housing Stock properties, altering the excess from any one incident to each and every property. Further negotiations at the 2008 renewal have secured the same terms, (i.e. £20,000 each and every incident and not every property loss).

Previously, the housing stock insurance valuations were based on 3 categories, dependant upon type of dwelling, which equated to a total sum insured of £411.431 million in 2007. It became apparent during 2008 some properties were under insured and the current method of calculating valuations was inaccurate and too generic, therefore a more extensive and methodical approach was adopted, whereby 14 categories were introduced, replacing the previous 3. This valuation review was calculated using rebuilt costs from BCIS and Spons guidance, based on number of bedrooms and floor area for each type of dwelling, i.e.

- Houses
- Bungalows
- Flats
- Sheltered Accommodation

This has resulted in an increased sum insured of £51 million to almost £463 million for 2008 costing an additional premium of £5,619 (inc IPT).

## **Pleasley Vale Business Park**

Due to severe weather on 25<sup>th</sup> June 2007 causing flooding at Pleasley Vale Mills the Council suffered two flood related insurance claims at this site. The first significant loss was to the Mills and parking area, totalling £54,490 of which £51,495 was covered by insurance policies. The second related to water damage to the Outdoor Activity Centre site and equipment. This amounted to £8,572. The £20,000 excess was payable once, as this was classed as one incident.

Damage to the bridge to the Outdoor Activity Centre and to culverts is excluded from the insurance policies.

On 15<sup>th</sup> October 2007, specialist contractors undertook a survey for any possible structural damage that may have occurred to the culverts at the three Mills. Following concerns expressed by the Council's insurers an estimate was obtained for the removal of silt in and around the culverts of Pleasley Vale Mills. To cover the costs of removing an estimated quantity of 200 tonnes of silt and debris from all three Mill culverts by dredging and other mechanical means and removing waste to a licensed tip off site, plus any necessary river diversions / over pumping and attendance by a qualified confined spaces rescue team it is likely to require a budget of approximately £150,000.

When this issue was considered at Scrutiny Committee on 30<sup>th</sup> September 2008 it was recommended and agreed not to undertake any further work to the culverts at Pleasley Vale Mills. Consideration was given as to whether the removal of the silt would improve the situation should flooding happen again and it was noted that the Senior Engineer felt that given the same volume of water, flooding would occur, whether the silt was removed or not, because of the hydraulic capacity of the Mills culverts.

As a result of the Pleasley Vale claims the Council's insurer visited the site in December 2007 to undertake a risk survey. Due to the survey findings, risk exposure, the loss incurred, and as no action is being taken to remove the silt, the insurer has increased the excess from £20,000 to £50,000 in respect of the flood peril at the Pleasley Vale site.

## **Profit Share Scheme**

At the 2006 tender Travelers offered a profit share scheme subject to renewal over the Long Term Agreement period. This is based on a sliding scale to reflect the loss ratio (premiums to claims) at each forthcoming renewal.

The profit share has increased from £3,992 in 2007/08 to £8,714 in 2008/09 (excluding IPT), demonstrating the need to monitor, interrogate and analyse losses. Profit share for 2008 is based on 2005 - 2006 claims experience. This year's profit share was only available if the contracts were renewed with the current insurer.

The anticipated profit share for 2009 renewal is based on 2006 – 2007 claims experience, and due to the claims incurred during this period the Council should budget for no rebate.

### **Long Term Agreement (LTA)**

A 3 year long term agreement with an option to extend by a further 2 years was negotiated with the current insurer at the 2006 tender. This was due to expire in September 2009.

At a time when unprecedented market conditions and a weakening economy have created much financial uncertainty and due to the recent circumstances surrounding AIG, the insurance market is likely to constrict and harden causing global rate increases, and also reduce the number of providers available to tender.

These were major factors in deciding to extend the LTA by a further 2 years, from 2009 until 2011. This will enable the Council to maintain LTA and package discounts and obtain competitive renewal terms and rates, therefore contributing towards the Council's efficiency gains targets.

If the LTA is breached the Council can decide to tender if considered financially beneficial.

### **Renewal Outcome Summary**

The following summarises the outcome of the 2008 renewal process:

- Renewed principal insurance policies with Travelers receiving discounts of 5% and an additional 7.5% for LTA and package policies apply respectively.
- Renewal with Travelers includes a total of 6 free risk management consultancy days.
- No aggregate cap applies.
- Principle excess of £20,000 applies to each and every loss, with the exception of flood at Pleasley Vale, which is now £50,000.
- Premium ratings unchanged from 2007.
- Pleasley Vale insured on a first loss basis for a sum of £5 million.
- Officials Indemnity policy (including land charges and public health act) indemnity limit remains at £5 million.
- Excess in respect of property losses remains each and every incident.
- Leasehold properties excess is nil, except subsidence where a £2,500 excess applies.
- Vehicle excess remains at £250 for accidental damage and £50 for windscreen damage.

- ➔ Uninsured loss recovery agent remains with Maps.
- ➔ Contractors Plant and Engineering Inspection remain with Allianz.
- ➔ General terms, conditions, perils and endorsements remain unchanged from 2007.
- ➔ Reviewed Fidelity Guarantee cover, with indemnity limits remaining at £2.5 million for 9 nominated Officers and £250,000 for remainder.
- ➔ Re-valued Housing Stock properties at £462 million sum insured.
- ➔ LTA been extended by 2 years to 2011.

## **Conclusion & Costs**

Negotiations secured no premium rating increase or contract changes despite significant payments in respect of settled claims, and a perceived increased risk profile, due to weather related losses, malicious damage at Oxcroft Lane depot and a property fire.

The increase in 2008 premium is due to increased sum insured figures and salary costs.

The following action has been taken, ensuring all options have been considered to ensure the Council received the most financially beneficial outcome:

- ➔ Insurance policies were renewed with Travelers with the exception of Engineering, Contractors Plant and Motor Uninsured Loss Recovery contracts at a total cost (inclusive of LTA, Day One and Package discounts and net of taxes) of £306,895, (£300,395 + 5% IPT (Insurance Premium Tax) and £6,500 +VAT).
- ➔ Contracts with Travelers are subject to a long term agreement and profit share, extended by a further 2 years now expiring on 30<sup>th</sup> September 2011.
- ➔ Renewed vehicle uninsured loss recovery contract with MAPS legal assistance, at a cost of £790 + 5% IPT.
- ➔ Renewed Engineering Inspection and Contractors Plant with Allianz at a cost of £7,784 (net of taxes), (£6,834 + VAT / £950 + 5% IPT).
- ➔ Received £8,714 (exc IPT) profit share credit from Travelers Insurance Co Ltd.

The following comparison table shows premiums by category and compares with 2007:

	<b>2007/2008 £</b>	<b>2008/2009 £</b>	<b>Variance £</b>
Motor	90,818	89,598	(1,220)
Liability	131,978	144,114	12,136
Property	64,199	70,177	5,978
Minor Classes	12,949	13,794	845
Claims Handling	6,500	6,500	0
I.P.T. @ 5%	14,490	15,107	617
Less Profit Share	(3,992)	(8,714)	(4,722)
<b>Total</b>	<b>316,942</b>	<b>330,576</b>	<b>13,634</b>

*'Motor' includes all fleet and leased vehicles, uninsured loss recovery and Vehicle Accumulation policy.*

*'Liability' includes public liability, employers liability, officials indemnity, land charges, public health act, professional indemnity and libel and slander.*

*'Property' includes general properties, housing stock, Pleasley Vale site, leasehold flats, car parks, money, contents, work in progress, play areas, business interruption, and all risks.*

*'Minor Classes' includes Computer, Fidelity Guarantee, and Engineering and contractors plant policies.*

## **IMPLICATIONS**

Financial:

1. At 1<sup>st</sup> April 2008, the opening balances for the Insurance Provision was £392,846 and the Reserve was £174,064, before any scheduled contribution.
  - a. Contributions of £60,000 to the Provision and £50,000 to the Reserve were budgeted for in the Medium-term Financial Plan.
  - b. The availability of funds to meet the Council's liability and responsibility for claims below the excess and finance any uninsured losses is a vital component in the risk transfer process. The Council has a greater risk exposure, with the Pleasley Vale flood excess being increased to £50,000 and would rely on these funds for such losses.
  - c. In 2007/08 the provision contribution reduced by 50% to £30,000 to offset additional premium costs. The contribution for 2008/09 to the provision should be considered to revert to £60,000, and the contribution to the reserve shall remain at £50,000 to meet the eventuality of unforeseen losses and losses below the excess.
2. Consultancy and Brokering services are to be retained, continuing to provide the Council with guidance and support in developing an enhanced understanding of the impact of losses, claims analysis,

insurance advice, monitoring the adequacy of the “insurance fund” and verify insurers’ contract terms and conditions. The annual cost for this service is £4,500. An additional fee of £5,000 is required for the consultant to assist in the 2009 renewal process.

3. The overall annual cost is £450,076, as the following table shows and compares with 2007 :

	<b>2007 Costs £</b>	<b>2008 Costs £</b>
Premiums (net of IPT)	302,452	315,469
IPT @ 5%	14,490	15,107
Provision Contribution	30,000	60,000
Reserve Contribution	50,000	50,000
Consultancy / Claims Analysis	4,500	4,500
Renewal Consultancy	5,000	5,000
<b>Total</b>	<b>406,442</b>	<b>450,076</b>

4. The impact spans two financial years as the figure of £450,076 is based on the insurance year, 1<sup>st</sup> October 2008 to 30<sup>th</sup> September 2009. The financial year budget for 2009/10 will differ dependent upon:
- the probability that premiums will increase again in October 2009;
  - a judgement on whether the provision for future years will be sufficient;
  - the LTA is breached, obligating the Council to tender.

Legal: None

Human Resources: None

### **RECOMMENDATION(S)**

**That the action of the Director of Resources under delegated powers be noted.**

### **REASON FOR DECISION TO BE GIVEN IN ACCORDANCE WITH THE CONSTITUTION**

The Council has assessed value for money, quality and service issues, together with the preferred risk transfer method and selected the option financially beneficial to the Council.

ATTACHMENTS: **N/A**  
 FILE REFERENCE: ***Held by Senior Technical Officer***  
 SOURCE DOCUMENT: **N/A**