

Committee:	Executive	Agenda Item No.:	10.
Date:	19th November 2012	Status	Open
Category	3. Part of the Budget and Policy Framework		
Subject:	Renewal and Tendering of Insurance Policies 2012		
Report by:	Director of Corporate Resources		
Other Officers Involved	Senior Technical Officer Assistant Director of ICT & Finance		
Director	Director of Corporate Resources		
Relevant Portfolio Holder	Councillor E Watts, responsible for the Resources portfolio.		

### **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 Council's entire insurance portfolio with the current insurers, whilst endeavouring to remain within the Long Term Agreements (LTA). To improve the effectiveness and efficiency of the renewal process, whilst maintaining adequate insurance cover.

### **VALUE FOR MONEY**

Obtain competitive renewal terms for all of the Council's insurance policies during a period where the insurance market is experiencing rising costs.

## **THE REPORT**

### **Purpose of the Report**

The Council's insurance policies were due for annual renewal on 1<sup>st</sup> October 2012 within the framework established by the three year Long Term Agreement which commenced in October 2011. This report is to inform Members of the outcome of the recent insurance renewal process carried under powers delegated to the Director of Corporate Resources.

## **Delegated Powers**

The Council has granted delegated powers to the Director of Corporate Resources to renew the Council's insurance cover, in order to obtain the most economically advantageous outcome, (Standing Orders have been waived in accordance with 4.8.2.(3) and 4.8.2 (4)). This report outlines the actions of the Director of Corporate Resources.

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

## **Background**

Bolsover District Council's insurance policies are subject to a 3 year Long Term Agreement (LTA), with the option to extend for a further 2 years, which commenced on the 1<sup>st</sup> October 2011, following a comprehensive tendering exercise.

The principal insurance policies are subject to a £20,000 excess on each and every claim. The exceptions are vehicles (and Council tools contained within) which are subject to a £250 excess, computer having £1,000, engineering plant having £10,000, leasehold flats having a nil excess except subsidence claims where £2,500 applied, and a £50,000 excess in respect of the flood peril at Pleasley Vale site.

A major change at the 2011 tender was made to the Housing stock peril due to claims experience. This resulted in a £250 excess per property relating to the storm damage peril. An excess of £20,000 applies per incident for other perils.

## **ISSUES/OPTIONS FOR CONSIDERATION**

### **Portfolio Movement Summary**

Insurance premiums are predominately based on factors including sums insured, claims history, risk exposure, market fluctuations, geographical area and level of activity. The areas below have been compared against the position as at the 2011 renewal. All remaining policies have shown minimal movement on sums insured.

- ➔ Salary and wages figure declared to insurers reduced by 15%.
- ➔ Housing properties sum insured reduced by 0.4%.
- ➔ Lease flats sum insured reduced by 5%
- ➔ General properties sum insured increased by 17%
- ➔ Work in progress increased by 26%
- ➔ Vehicle numbers reduced by 11%.
- ➔ All Risks sum insured reduced by 34%

## **Renewal Outcome Summary**

The current property insurer (Travelers) has not increased premium ratings. Increased premiums are due to the revised sum insured (ie acquisition of Clowne Campus and Tangent Hub) and a mid term credit will follow when the Council completes the sale of Sherwood Lodge. Property cover will be improved as it now includes damage to street furniture and theft of building parts. A property low claims rebate of £10,624+IPT was triggered and has been secured. A 1% early 'day one' payment discount was also taken. Three Risk Management days relating only to the property policies are included within the premium.

At present the Council does receive competitive casualty (predominately EL and PL policies) rates, although the current insurer (Zurich Municipal) has indicated they will breach the LTA in 2013/14 and potentially increase rates significantly (possibly a 15% - 20% rise), as they consider that risk / claims are running high. The Council does not accept this position and is continuing to challenge it. As a result of this challenge agreement has been reached to retain current rates without any increase for 2012/13, with the Council successfully challenging a rate guarantee clause. This has resulted in an overall saving of £7,435\* due to reduced salary costs.

\* Note that the direct reduction in casualty policy premiums is a result, in the main, of Environmental Health transferring their liabilities to NEDDC, and as a consequence BDC will receive additional indirect insurance costs as part of the recharges between the two Authorities. However this will be reflected in payments made for the service to NEDDC.

The motor insurer (Chartis) breached the LTA, by increasing the premiums above inflation, effectively forcing the Council to tender again. Chartis argued that the Council's loss ratio (claims as a percentage of premium) was high (currently running at 56%, which includes reserve figures). Usually the breakeven point for motor Insurers is where the loss ratio is between 60% and 70%. The Council's liability insurer (Zurich) and property (Travelers) insurer were approached to tender for the motor insurance but premiums were in excess of £100k, (£87k+IPT in 2011), so were not viable options. Liberty Syndicate (Lloyds) were the most competitive at £90,650 + IPT and their tender has been accepted.

Consideration was given to increasing the motor policy excess level to £1,000 to secure savings, against which a quote from QBE insurer showed a premium saving of £23,650+IPT against the current best terms. However when analysing and comparing the loss ratio, based on claim experience and costs, the Council would have to fund a further £30,000 in own claims for the increase in anticipated costs below the increased excess level. It was therefore not considered cost effective as it would place increased costs on the insurance reserve.

## Conclusion & Costs

- ➔ Travelers retained all property policies.
- ➔ Zurich retained all casualty policies, but have indicated they will breach the LTA in 2013.
- ➔ MAPS retained the vehicle uninsured loss recovery agency service.
- ➔ Liberty was awarded the motor policy. Negotiations have secured agreement to continue to use the current vehicle approved repairer.
- ➔ Vehicle policies show a grey fleet contingency liability policy. This was previously integrated within the vehicle policies, but is now detailed separately arising from the arrangements negotiated with Liberty the new vehicle insurer.
- ➔ Engineering policies continue to be provided by with Zurich Municipal.
- ➔ RSA retained the computer policy.
- ➔ When comparing 2011/12 with 2012/13 actual payments, including the low claims rebate and including IPT produce annual savings of £11,762, (£340,176 - £328,414). This, however, reduces to £4,846 when accounting for NEDDC insurance recharges (£340,176 - £335,330).
- ➔ The following comparison table shows premiums by category and compares against 2011/12:

	2011/2012 £	2012/2013 £	Variance £
<b>Vehicles</b>			
➤ Fleet	72,055	79,360	7,305
➤ Lease Cars	14,945	10,540	(4,405)
➤ Grey Fleet Contingency Liability	-	750	750
➤ MAPS Recovery Loss Agent	784	697	(87)
<b>Total Vehicles premiums</b>	<b>87,784</b>	<b>91,347</b>	<b>3,563</b>
<b>Casualty</b>			
➤ Public liability / Libel & Slander	28,458	24,272	(4,186)
➤ Employers liability	18,717	15,879	(2,838)
➤ Officials indemnity / Land Charges	5,057	4,646	(411)
➤ Professional Indemnity	4,626	4,626	0
<b>Total Casualty premiums</b>	<b>56,858</b>	<b>49,423</b>	<b>(7,435)</b>
<b>Property</b>			
➤ Housing Stock	108,346	107,926	(420)
➤ Leased Flats	3,292	3,130	(162)
➤ General Properties	27,362	31,954	4,592
➤ Play Areas	1,546	1,321	(225)
➤ Contents	3,493	3,493	0
➤ Car Parks	1,019	1,019	0
➤ Work In Progress	2,888	3,652	764

	2011/2012 £	2012/2013 £	Variance £
➤ Business Interruption	3,661	3,166	(495)
➤ All Risks	1,224	801	(423)
➤ Money	329	329	0
➤ Council Tools (in vehicles)	658	757	99
➤ Pleasley Vale B P Mills	9,405	9,405	0
➤ Pleasley Vale B P Lodges	430	412	(18)
<b>Total Property premiums</b>	<b>163,653</b>	<b>167,365</b>	<b>3,712</b>
<b>Minor Classes</b>			
➤ Fidelity Guarantee	3,035	2,508	(527)
➤ Computer	1,805	1,832	27
➤ Engineering (hired plant & inspection)	8,238	8,437	199
<b>Total Minor premiums</b>	<b>13,078</b>	<b>12,777</b>	<b>(301)</b>
Sub Total (exc IPT)	<b>321,373</b>	<b>320,912</b>	<b>(461)</b>
Less low claims rebate (Property)	(0)	(10,624)	(10,624)
I.P.T. @ 6%	18,803	18,126	(677)
<b>Premium Total (inc IPT)</b>	<b>340,176</b>	<b>328,414</b>	<b>(11,762)</b>
Inc <b>NEDDC</b> insurance recharges	<b>0</b>	<b>6,916</b>	<b>6,916</b>
Overall Grand total	<b>340,176</b>	<b>335,330</b>	<b>(4,846)</b>

### Specialist Advice / Brokering

Consultancy and Brokering services were reviewed in March 2010 with savings identified as part of the process of testing the market. The annual cost for the 2013 renewal process will be £3,500.

### Reserves & Provisions

At 1<sup>st</sup> April 2012, the withdrawals were £116,960 from the Insurance Provision and £30,257 from the Reserve, which previously had annual contributions of £100,000 to the Provision and £10,000 to the Reserve. These amounts are budgeted for in the Medium Term Financial Plan to fund claims below the excess and finance any uninsured losses.

Due to the excess now being £250 per Council property in relation to the storm peril, the Council has increased its risk exposure significantly and could suffer major financial losses, without having a sufficient insurance reserve to fund. Consequently the Housing Revenue Account (HRA) contributes an additional £50,000 per annum to the Insurance Reserve to finance the losses within the revised excess.

As at the 31st March 2012 the insurance provision was removed to comply with IFRS accounting requirements. Most of the balance was transferred to the Insurance reserve account, and following an annual combined contribution to the reserve of £110,000 and £50,000 from the HRA, this has resulted in a 2012/13 opening insurance reserve balance of £300,000.

## **IMPLICATIONS**

Financial:

1. The overall annual cost is £498,830, based on the insurance year, 1<sup>st</sup> October 2012 to 30<sup>th</sup> September 2013. The following table shows and compares with 2011:

	<b>2011/12 Costs £</b>	<b>2012/13 Costs £</b>
Premiums (net of IPT )	321,373	320,912
Low Claims Rebate (Property)	0	(10,624)
IPT @ 6%	18,803	18,126
Provision Contribution (Gen Fund)	100,000	0
Reserve Contribution (Gen Fund)	10,000	110,000
Reserve Contribution (HRA)	50,000	50,000
Consultancy / Brokering	3,200	3,500
<b>NEDDC</b> Insurance Recharges	0	6,916
<b>Total</b>	<b>503,376</b>	<b>498,830</b>

The costs as outlined above will be met from within existing approved budgets.

Legal: None

Human Resources: None

## **RECOMMENDATION**

**That the action of the Director of Corporate Resources (acting under delegated powers) in continuing to secure the Council's insurance policies within the framework established by the Long Term Agreement be noted.**

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

The Council has assessed value for money, quality and service issues, and selected the option financially beneficial to the Council.

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