

Committee:	Executive	Agenda	10
Date:	28 <sup>th</sup> October 2013	Item No.:	
		Status	Open
Category	3. Part of the Budget and Policy Framework		
Subject:	Renewal of Insurance Policies 2013		
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 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 2013 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 out 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, resulting in a £250 excess per property relating to the storm damage peril. An excess of £20,000 applies per incident for remaining perils.

During this 2013 renewal further changes have been made to the Housing Stock excess and perils and Pleasley Vale perils. These are detailed within the 'Outcome summary'.

## **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, insured perils and level of activity. The areas below have been compared against the position as at the 2012 renewal. All remaining policies have shown minimal movement on sums insured.

- ➔ Salary and wages figure declared to insurers reduced by 5%.
- ➔ Housing properties sum insured reduced by 0.72%.
- ➔ Lease flats sum insured increased by 0.67%
- ➔ General properties sum insured increased by 0.67%

- Work in progress contract works figure reduced by 22%
- All Risks sum insured reduced by 2.4%
- Vehicle numbers reduced by 13.8%. (Mainly due to the abolition of the lease car scheme).

## **Renewal Outcome Summary**

### Casualty (Zurich)

At present the Council receives competitive casualty policy rates (predominately Employers Liability and Public Liability polices), and the current insurer (Zurich Municipal) were seeking a premium rate increase for Employers and Public Liability cover in year 2 of the LTA (2012/13), although owing to a two year rate guarantee agreed at policy inception the existing rating was maintained for a further year. As we entered the third year, the LTA was breached by Zurich and they initially proposed an increase of £28,774 +IPT (Insurance Premium Tax), however further negotiations have reduced the increase to £13,295 +IPT for both EL & PL policies. Zurich's justification for this increase was as a result of incorrectly calculating the premium ratings at time of tendering. This is considered to be genuine reason as Zurich quoted considerably lower than any competitor in the tender process. Even with the premium increase proposed Zurich would still be less than any other insurer who quoted in the tender.

The Broker indicated that the Council would be highly unlikely to receive casualty premiums, based on existing policy terms, for under £100k if a tender was undertaken at this renewal. It was accepted that casualty policies including Fidelity Guarantee for 2013/14 with a premium of £62,944 +IPT @6% was fair and reasonable.

Professional Negligence premium reduced by £2,306 due to most declared activities now only requiring run off cover.

There were only minor changes to remaining casualty policies.

Note that casualty policy premiums are not a true reflection of all casualty costs as NEDDC now hosts Environmental Health services with their liabilities transferring to NEDDC; and as a consequence BDC's receives additional indirect insurance costs as part of the recharges between the two Authorities. This recharge cost for 2013/14 is £6,690.

### Property (Travelers)

The current property insurer (Travelers) has increased premium ratings globally to improve their overall loss ratios on their local authority book of business. Various options were considered with a 3% rating increase and change in property excess being deemed to have the least impact on the Council. This has resulted in an increased excess under Housing Stock Flood peril and now includes storm peril, from £250 to £1,000 per property, increasing the Council risk exposure and being more dependent on the Council's own insurance reserve to fund potential increase in losses. Remaining perils have a £20,000

excess per incident. The £50,000 excess relating to the flood peril at Pleasley Vale site has now been extended to include the storm peril, at the insistence of the insurer.

Negotiations have secured a nil excess for leasehold flats (as Travelers were proposing to increase to £250).

Sherwood Lodge premises continue to be insured until sold, however a mid-term pro-rata premium will be refunded when the sale of this site is completed.

A 1% early 'day one' payment discount was also taken to gain a further saving, for this renewal only, as it will not be available in future years, as the Insurer has ceased offering this discount.

A property low claims rebate was triggered and secured relating to the 2009/10 insurance period and equated to £8,885 including IPT, which was issued via an endorsement following this year's renewal with Travelers.

Three 'Property' Risk Management days are included within the Travelers premium.

Property premiums for 2013, net of 5% LTA and 1% day one payment discounts was £171,201 +IPT, based on above excess revisions & increased ratings.

#### Vehicle (Liberty)

A reduction in both vehicle numbers and premium rate per vehicle has reduced premium costs for the vehicle policy. Only 3 lease cars remain on cover, for up to 6 weeks after policy renewal, and the Underwriters agreed that when these 3 vehicles are removed from cover a return premium will be given on a pro rata basis (subject to nil claims).

#### Engineering (Zurich)

There was an increase of £1,457 due to an increase in AWE index and an obligation to inspect plant at Sherwood Lodge, whilst still in Council ownership (in addition to 'The Arc'). The Tangent Hub at Shirebrook has also been added, together with various schedule movements during the insurance year.

#### Others (Various)

Computer - Reduced sums insured – rating unaltered.

Fidelity Guarantee – minor rating increase.

Motor TP recovery agent - Reduced vehicle numbers – rating unaltered.

### **Conclusion & Costs**

- ➔ Travelers retained all property policies, increasing the Housing Stock excess to £1,000 per property for storm and flood perils, and incorporating the storm peril to the £50,000 excess in relation to the Pleasley Vale

Business Park site. A midterm credit will be received when Sherwood Lodge site sold.

- ➔ Zurich retained all casualty and engineering policies.
- ➔ MAPS retained the vehicle uninsured loss recovery agency service.
- ➔ Liberty retained the vehicle policy. Underwriter agreed to a midterm credit when remaining lease cars are returned.
- ➔ Engineering policies continue to be provided by with Zurich Municipal.
- ➔ RSA retained the computer policy, with a reduced premium, following a review of sum insured.
- ➔ Overall premiums for 2013, net of LTA and day one payment discounts, including low claims rebate and IPT was £330,138.
- ➔ Savings within the vehicle policy and low claims rebate have offset most of the premium increases elsewhere, leaving an overall minor premium increase of £1,724, when comparing 2012/13 with 2013/14 actual payments, however it is anticipated midterm revisions, i.e. adjustments for lease cars and Sherwood Lodge building, will provide modest savings later in the year.
- ➔ NEDDC insurance recharges also have to be taken into account, and have been calculated by NEDDC at £6,690 for 2013/14, (£6,916 in 2012/13).
- ➔ The following comparison table shows premiums by category and compares against 2012/13:

	2012/2013 £	2013/2014 £	Variance £
<b>Vehicles</b>			
➤ Fleet	79,360	71,614	(7,746)
➤ Lease Cars	10,540	1,761	(8,779)
➤ Grey Fleet Contingency Liability	750	825	75
➤ MAPS Recovery Loss Agent	697	601	(96)
<b>Total Vehicles premiums</b>	<b>91,347</b>	<b>74,801</b>	<b>(16,546)</b>
<b>Casualty</b>			
➤ Public liability / Libel & Slander	24,272	33,455	9,183
➤ Employers liability	15,879	20,000	4,121
➤ Officials indemnity / Land Charges	4,646	4,635	(11)
➤ Professional Indemnity	4,626	2,320	(2,306)
<b>Total Casualty premiums</b>	<b>49,423</b>	<b>60,410</b>	<b>10,987</b>
<b>Property</b>			
➤ Housing Stock	107,926	110,370	2,444
➤ Leased Flats	3,130	3,245	115
➤ General Properties	31,954	33,133	1,179
➤ Play Areas	1,321	1,488	167
➤ Contents	3,493	3,598	105
➤ Car Parks	1,019	1,049	30

	<b>2012/2013</b> <b>£</b>	<b>2013/2014</b> <b>£</b>	<b>Variance</b> <b>£</b>
➤ Work In Progress	3,652	2,957	(695)
➤ Business Interruption	3,166	3,332	166
➤ All Risks	801	806	5
➤ Money	329	329	0
➤ Council Tools (in vehicles)	757	780	23
➤ Pleasley Vale B P Mills	9,405	9,687	282
➤ Pleasley Vale B P Lodges	412	427	15
<b>Total Property premiums</b>	<b>167,365</b>	<b>171,201</b>	<b>3,836</b>
<b>Minor Classes</b>			
➤ Fidelity Guarantee	2,508	2,534	26
➤ Computer	1,832	1,539	(293)
➤ Engineering (hired plant & inspection)	8,437	9,894	1,457
<b>Total Minor premiums</b>	<b>12,777</b>	<b>13,967</b>	<b>1,190</b>
Sub Total (exc IPT)	<b>320,912</b>	<b>320,379</b>	<b>(533)</b>
Less low claims rebate (Property)	(10,624)	(8,885)	1,739
I.P.T. @ 6%	18,126	18,644	518
<b>Premium Total (inc IPT)</b>	<b>328,414</b>	<b>330,138</b>	<b>1,724</b>
Inc <b>NEDDC</b> insurance recharges	<b>6,916</b>	<b>6,690</b>	<b>(226)</b>
Overall Grand total	<b>335,330</b>	<b>336,828</b>	<b>1,498</b>

### Specialist Advice / Brokering

Consultancy and Brokering services were reviewed in March 2010 with savings identified following a tendering exercise. The annual cost for the 2013 renewal process and ongoing advice was £3,500, and is still competitive within this market. An additional forecast cost of £1,600 is due in 2014 to undertake a complete insurance portfolio tendering process.

### Reserves & Provisions

At 1<sup>st</sup> April 2013, the withdrawals were £74,883 from the GF Insurance Reserve and £44,406 from the HRA Insurance Reserve, which have annual contributions of £110,000 to the GF Reserve and £50,000 to the HRA 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 increasing to £1,000 per Council property in relation to the storm and flood perils, the Council has increased its risk exposure significantly and could suffer major financial losses, without having a sufficient insurance reserve to fund. The current annual contribution of £50,000 from the Housing Revenue Account (HRA) to the HRA Insurance Reserve for self funding will have to be monitored and assessed, with consideration being given to increase at a future point, to finance any potential losses within the increased excess.

## **IMPLICATIONS**

Financial:

1. The overall annual sum allocated to cover insurance and risk is £500,328, based on the insurance year, 1<sup>st</sup> October 2013 to 30<sup>th</sup> September 2014. This sum includes the current contributions to the insurance reserves made by the Council each year and the cost of the insurance brokerage services. The following table shows and compares with 2012:

	<b>2012/13 Costs £</b>	<b>2013/14 Costs £</b>
Premiums (net of IPT )	320,912	320,379
Low Claims Rebate (Property)	(10,624)	(8,885)
IPT @ 6%	18,126	18,644
Reserve Contribution (Gen Fund)	110,000	110,000
Reserve Contribution (HRA)	50,000	50,000
Consultancy / Brokering	3,500	3,500
NEDDC Insurance Recharges	6,916	6,690
<b>Total</b>	<b>498,830</b>	<b>500,328</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**