

Bolsover District Council

Executive

3rd November 2014

Renewal Of Council Insurance Policies

Report of Cllr E Watts, Leader and Portfolio Holder for Finance

Purpose of the Report

- The Authority's insurance policies were subject to a Long Term Agreement (LTA) which expired on the 1st October 2014. In order to secure appropriate replacement arrangements the Council elected to follow a negotiated procedure arrangement which is compliant with European (OJEU) procurement requirements. This report is to inform Members of the outcome of that insurance tendering process which has been conducted under powers delegated to the Executive Director of Operations.

1 Report Details

Background

- 1.1 In order to meet the timescales associated with renewing cover the Council has previously granted delegated powers to the Executive Director of Operations to renew the Council's insurance cover. This report outlines the actions of the Executive Director of Operations. Members are now requested to note the actions of the Executive Director of Operations in renewing the Authority's insurance cover as described in the report.
- 1.2 Bolsover District Council's insurance contracts were previously awarded following a tendering exercise in 2011 (expiring in September 2014), and were subject to a 3 year Long Term Agreement (LTA) with an option to extend for a further 2 years. In consultation with the Council's Insurance Broker, it was considered that it would be appropriate to re-tender the contract rather than to extend beyond September 2014.
- 1.3 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 2013 renewal in order to inform Executive of some of the key adjustments that have been made. All remaining policies have shown minimal movement on sums insured.

- ➔ Salary and wages figure declared to insurers increased by 0.5%.
- ➔ Housing properties sum insured increased by 3.19%.
- ➔ Leased flats sum insured increased by 7.81%.
- ➔ General properties sum insured reduced by 23.63% (due to the sale of Sherwood Lodge and Kitchen Croft).
- ➔ Vehicle numbers increased by 1.64%.
- ➔ All Risks sum insured increased by 34.36% (due to additional leisure equipment).
- ➔ Business Interruption 'rent received' sum insured increased by 49.48% (due to additional income from various premises).

Specialist Advice / Brokering

1.4. The Council's Insurance Broker (Aon) supported the insurance portfolio tendering exercise, analysing the tender responses whilst ensuring OJEU compliance and adequate insurance cover. The annual brokering cost including this 2014 tender was £5,100, which will reduce to £3,500 for the annual 2015/16 renewal process and ongoing advice.

Tender Evaluation

1.5. The Insurers were asked to tender for a 3 year LTA with an option to extend by 2 years, including options to reduce the excess on the majority of policies. The Council's broker (AON) has advised on the tender process to assist in achieving the most cost effective proposals, recognising that 60% of the scoring was based on price and 40% on technical capability and coverage. The following summarises the outcome of the 2014 tender process:

- ➔ To give the Council maximise choice and value for money, policies were categorised into eight 'lots' within the tender. These were split as follows

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1. Property Risks
2. Computer Risks
3. Casualty & Professional Risks
4. Crime / Fidelity Guarantee
5. Engineering Inspection
6. Contract Works / Hired in Plant
7. Terrorism

8. Motor Vehicles / ULR

- Tenders were received from Travelers, Aspen, Liberty, RSA, ACM, MAPS, RMP and Zurich Municipal, with the latter two quoting for both complete packages of all policies, as well as for individual 'lots', with the remaining insurers quoting in isolation for policies within 'lots'.
- The table below summaries the options which were compared and considered –

2014 TENDER PREMIUM COMPARISONS (Inc IPT with LTA and package discounts)	Costs £'s
Premiums Paid in 2013/14 – Split Insurers	330,138
Option A – Split Policies with current insurers. Based on existing terms (£20k excess on Property & Casualty)	349,745
Option B – Zurich Package. Based on existing terms (£20k excess on Property & Casualty)	267,155
Option C – Split Polices with alternative insurers. Based on different terms & £20k excess on Property & Casualty	235,945
Option D – Split Polices with Zurich / Liberty / MAPS & RSA Based on a reduced £10k excess on Property & Casualty policies	259,416

A summary of the detailed submissions is provided in Appendix 1 to the report.

2 Conclusions and Reasons for Recommendation

- 2.1 Option D, (excluding points 5/6/8, which did not apply) with a 3 year LTA with 2 year optional extension, was chosen as the most financially advantageous for the Authority. While this option results in higher premiums than Option C on the basis of the available evidence it is anticipated that the potential savings available from the lower excess of

£10,000 will result in this option proving the most financially attractive to the authority.

- 2.2. The following section summarises the key points of the cover that has been agreed.

→ **Casualty**

Zurich retained the casualty policies, with the Council taking the opportunity to reduce the excess from £20,000 to £10,000 per claim.

Policy cover and terms were greater and wider with Zurich, as compared against an alternative competitive standalone 'lot' quotation from Aspen. The overall package discounts allowable by Zurich across all lots made their package terms the preferred option (in line with the contract award criteria). Accepting lower indemnity limits and limited coverage offered by a competitor could compromise the Council should claims succeed. It was also considered prudent to have property and casualty policies with the same insurer as any future poor claims experience can be diluted within the insurance portfolio, avoiding LTA breaches.

Travelers were unable to quote for Casualty policies.

→ **Property**

All property policies have transferred to Zurich from the former insurer, Travelers, showing a significant premium saving. It is unclear whether Zurich can sustain these premiums on housing stock and general property policies in the event of any sizable claims.

All former property policies with a £20,000 excess have now been reduced to a £10,000 excess together with the abolition of the £1,000 per property excess on storm damage for housing stock. The all perils event excess is now set at £10,000.

The former £50,000 excess relating to the flood peril at Pleasley Vale site has now been removed and reduced to £10,000 per incident in line with other property policies.

Excess for leasehold flats has now increased to a non negotiable level of £100 (previously nil), with a standard £2,500 excess in respect of subsidence. Due to premiums reducing the insurance reserve will fund this excess when claims arise.

Sherwood Lodge and Kitchen Croft figures have been removed from the awarded contract. A mid-term pro-rata premium was refunded by the former insurer when the sale was completed earlier this year.

→ **Vehicle**

Liberty retained the vehicle fleet policy. To avoid escalating premiums the material damage excess has increased from £250 to £500. Windscreen damage / replacements has also increased to the new deductible.

The Council accepted an additional vehicle accumulation policy with Zurich, the new property insurer, as the premium was low, at an annual cost of £380.52 +6% IPT, with a £10,000 excess per event, with a £2.2 Million indemnity limit, based on current vehicle market values. This provides 'catastrophe cover' as the Council has cover within the motor policy with a £500 excess per vehicle, up to a £10 Million indemnity.

MAPS retained the vehicle uninsured loss recovery agency service.

→ **Engineering**

Engineering policies continue to be provided by Zurich Municipal.

Zurich guarantees to inspect all items of plant on time. If they fail to inspect and item(s) of plant for a reason within their control, they will offer a 110% refund on the plant concerned.

→ **Computer**

RSA retained the computer policy. Rating and excess remain unaltered.

→ **Full Crime (previously FG)**

It was decided to upgrade the Council's current Fidelity Guarantee insurance policy to a 'Full Crime' insurance policy with immediate effect, giving much wider, comprehensive cover, including employee dishonesty, third party electronic funds transfer, forgery, counterfeiting, account scamming, computer hacking. The excess is £10,000 with a £5 Million indemnity limit however the policy has a

standard extension of a £25,000 excess and £250,000 indemnity limit in relation to 'account scams' as these are assessed as high risk.

➔ **Terrorism**

Lot 7, Terrorism for material damage is not covered at present, but a cost was obtained. The best quote was £7,772+IPT. It was decided not to accept this policy, due to the likelihood being considered low risk.

➔ **Recharges**

The casualty policy premiums are not a true reflection of all casualty costs as NEDDC hosts Environmental Health services with their liabilities being insured by 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 2014/15 is £6,726.

3 Consultation and Equality Impact

3.1 The issues considered within this report concern a tender process and as such do not at this stage require any consultation. There are no Equality Impact issues arising directly from this report.

4 Alternative Options and Reasons for Rejection

4.1 The alternative options that were considered are outlined throughout the report.

5 Implications

5.1 Finance and Risk Implications

- The overall annual sum allocated to cover insurance and risk is £411,242, based on the insurance year, 1st October 2014 to 30th September 2015. 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 details the position in respect of the new arrangements comparing these against those under the previous agreements:

	2013/14 Costs	2014/15 Costs

	£	£
Premiums (net of IPT)	320,379	245,371
Low Claims Rebate (Property)	(8,885)	0
IPT @ 6%	18,644	14,045
Reserve Contribution (Gen Fund)	110,000	90,000
Reserve Contribution (HRA)	50,000	50,000
Consultancy / Brokering	3,500	5,100
NEDDC Insurance Recharges	6,690	6,726
Total	500,328	411,242

- The costs as outlined above will be met from within existing approved budgets and provide an overall reduction of some £70,722 on premiums of which £69,983 is attributed to the HRA with the residual £1,039 being beneficial to the General Fund. In addition further savings have arisen from the reduction in the contribution to the Insurance Reserve.
- A comparison between the costs of each element of the Council's insurance policies between the previous and current arrangements is provided in Appendix 2 to the report.
- Given that the Council has agreed a range of excesses across its policies in order to secure cost effective cover and to provide it with an incentive to minimise risk it is important that adequate financial provision is provided to meet those costs below the agreed excess together with uninsured losses. In order to meet such costs the Council has established an Insurance Reserve funded from its revenue accounts. At the 1st April 2014, the withdrawals were £21,701 from the GF Insurance Reserve and £73,475 from the HRA Insurance Reserve. Annual contributions of £90,000 to the GF Reserve and £50,000 to the HRA Reserve have been agreed. The Insurance Reserve is reviewed on a regular basis on order to ensure that it remains at an appropriate level with the revenue contribution increased or reduced as necessary.

5.2 Legal Implications including Data Protection

- There are no Legal or Data Protection issues arising directly from this report.

5.3 Human Resources Implications

- There are no Human Resource arising directly from the report.

6 Recommendations

- 6.1 That the action of the Executive Director of Operations (acting under delegated powers) in continuing to secure the Council's insurance policies within the framework established by the new Long Term Agreement be noted.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	N/A
District Wards Affected	N/A
Links to Corporate Plan priorities or Policy Framework	N/A

8 Document Information

Appendix No	Title
1 2	SUMMARY OF DETAILED SUBMISSIONS COST COMPARISON BETWEEN CURRENT AND PREVIOUS POLICIES.
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Tender Documentation and Evaluation.	
Report Author	Contact Number
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APPENDIX 1 : SUMMARY OF DETAILED SUBMISSIONS

➔ **Option A – Current Insurers With Same Terms & Excess Levels** **Property = Travelers / Casualty = Zurich / Motor = Liberty**

1. Premiums based on new sums insured as of 1st October 2014.
2. Three 'property' risk management days included within Travelers.
3. Housing stock subject to a £1,000 excess per property for the storm damage peril. Excess of £20,000 applies per incident for remaining perils.
4. Low claims rebate (or profit share) of £11,498 (£12,188 inc IPT @ 6%) for 2011/12 applies only if a property policies are renewed. Additional rebates of £17,798+IPT and £17,120+IPT would also apply to respective years 2012/13 and 2013/14.
5. Zurich included an optional £5,000 Risk Management fund within Casualty policies quote. This has been removed to reduce costs.
6. Liberty, the motor insurer will no longer offer a reduced windscreen excess (previously £50) which is now set at the standard damage excess, i.e. £250.
7. Vehicle accumulation policy with Liberty provides a £10 Million indemnity limit with a £250 excess per vehicle.
8. Terrorism for material damage is not covered at present. To add this policy the cost for would be £7,772+IPT @6%, with no additional discounts.
9. Land Charges and Officials Indemnity limits set at £5 Million.

Note relating to Property Policies (within options B, C and D) –

Due to the Zurich property premiums being exceptionally competitive the broker contacted the insurer to check accuracy of figures. The underwriters have confirmed premiums are correct. Such low premiums may lead to breach of the LTA in future years, as it is doubtful that Zurich can sustain such a low premium on housing stock in the event of significant claims. This risk should be considered in setting future years budgets, as the savings may not be long term.

➔ **Option B – Complete Package with Zurich (£20k Excess)**

1. **See property note above.**
2. Housing Stock excess reverts back to £20,000 per incident for all perils (was £1,000 per individual property for flood and storm perils). Premiums include an additional £2,396 +IPT.
3. Motor policy premiums with Zurich were £20k greater than the most competitive insurer, so this option could not be accepted as it would potentially be in breach of OJEU requirements.

4. Zurich included an optional £5,000 Risk Management fund within Casualty policies quote. This has been removed to reduce costs.
5. The Council did not have a 'Full Crime' policy, but a limited Fidelity Guarantee policy. Upgrading the FG policy would cost an additional £1,472 +IPT with a £20,000 excess.
6. Zurich is unable to provide a nil cover for leasehold flats. The excess would be £100 material damage and £2,500 for subsidence.
7. Terrorism for material damage is not covered at present. To add this policy the cost for would be £7,772+IPT @6%, with no additional discounts.
8. Premiums based on a 3 year LTA with a 5% discount and a further 5% package discount, with an option to extend the LTA expiry date by a further 2 years, at the Council's discretion.

➔ **Option C – Most Competitive Price with SIMILAR Terms (£20k Excess)**
Property = Zurich / Casualty = Aspen / Motor = Liberty

1. Option B, points 1/2 & 5 - 7 also relate to this option.
2. Zurich premiums based on a 3 year LTA with a 5% discount.
3. MAPS would be retained as the uninsured loss recovery agent for the motor policies.
4. Aspen offered a 10% 3 year LTA discount (included within costings) for Casualty policies and a 1% day one payment discount.
5. **Important Note - the current Officials Indemnity & Land Charges Indemnity limits of £5 Million cannot be offered by Aspen. Their upper limit is only £2M. Damage to reputation, exemplary & punitive damages is also excluded within the Aspen policy. Reduced PI court attendance costs and mitigation expenses are excluded. Election work isn't covered as standard, but can be covered at no cost but may not be based on existing cover.**
6. Aspen claims handling undertaken by a third party (Phoenix Loss Adjusters).
7. As Aspen quotation is low in comparison the LTA could easily be breached by the insurer, resulting in the Council having to retender next year.
8. Liberty, the motor insurer will no longer offer a reduced windscreen excess (previously £50) which is now set at the standard excess, i.e. £250.
9. The current computer insurer, RSA, quoted the best value for money computer policy at £1,534, however RMP quoted £1,382 but did not quote on the same terms, with lower indemnities, and didn't include 'full theft' cover.
10. Engineering policy continue with Zurich.

➔ **Option D – Reduced Excess to £10k / Increase Motor Excess to £500
Property, Casualty, Engineering, Crime, Contract Works = Zurich / Motor =
Liberty / Computer = RSA**

1. Option B, points 1/4/6/7/8 and Option C, points 3/9/10 also relate to this option.
2. A package discount for these 5 lots has been allowed by Zurich.
3. This option reduces the excess from £20k to £10k for all existing Property policies, including Housing Stock, and Casualty (EL, PL, OI and PI), and FG, policies, and increases the motor policy excess from £250 to £500 (including windscreen cover).
4. This option also eliminates the current £1k, per 'property' excess, for storm and flood relating to the Housing stock policy and the more attractive £10k excess per 'incident' applies.
5. Additional Zurich premium to reduce All Risks excess from £10k to £1k was £1,281.45.
6. Additional Zurich premium to include non-mobile plant and trailers within the All Risks policy was £678.20 with £1k excess.
7. Increasing the motor excess from £250 to £500 saves £6,150 +IPT@6%.
8. Increasing the motor excess from £250 to £1,000 saves £10,905 +IPT@6%.
9. Reducing the excess from £20k to £10k for all Casualty policies increases the premium by £11,292 +IPT, (£83,586 - £72,294)
10. A comparable quote was obtained from Aspen for a £10k excess. Despite overall premiums being lower than Zurich by £6,086 (£83,586 and £77,500 respectively), there are differences in Indemnity limits, and covers. Option C, point 5 refers to note of significance.
11. The Council did not have a 'Full Crime' policy, which gives much wider, comprehensive cover, than the Fidelity Guarantee policy. Full Crime includes internal and external losses, such as third party electronic funds transfer, forgery, account scamming, hacking. Upgrading the FG policy would cost an additional £1,634 +IPT (£5,806 -£4,172) with a £10,000 excess (standard £25k excess for account scamming).
12. Zurich offered an additional vehicle accumulation policy with an indemnity limit of £2.2 Million, at an annual cost of £380.52 + 6% IPT, with a £10,000 excess per event.

APPENDIX 2 : COST COMPARISON BETWEEN CURRENT AND PREVIOUS POLICIES.

The following comparison table shows premiums by category and compares against 2013/14; being mindful of the changing excess levels. Despite overall significant premium savings the net savings to the general fund is only £1,039. This is because the majority of the savings arise in respect of the housing stock (£69,683) and are accordingly credited to the HRA. These two figures taken together constitute the overall savings of £70,722.

	2013/2014	2014/2015	Variance
	£	£	£
Vehicles			
➤ Fleet	71,614	81,542	9,928
➤ Lease Cars (<i>Abolished</i>)	1,761	0	(1,761)
➤ Grey Fleet Contingency Liability	825	825	0
➤ Vehicle Accumulation	0	381	381
➤ MAPS Recovery Loss Agent	601	750	149
Total Vehicles premiums	74,801	83,498	8,697
Casualty			
➤ Public Liability	32,600	45,860	13,260
➤ Libel & Slander	855	1,056	201
➤ Employers Liability	20,000	29,931	9,931
➤ Officials Indemnity	2,286	1,890	(396)
➤ Land Charges	1,874	2,568	694
➤ Public Health Act	475	434	(41)
➤ Professional Indemnity	2,320	1,847	(473)
Total Casualty premiums	60,410	83,586	23,176
Property			
➤ Housing Stock	110,370	40,687	(69,683)
➤ Leased Flats	3,245	1,127	(2,118)
➤ General Properties	33,133	4,027	(29,106)

	2013/2014	2014/2015	Variance
	£	£	£
➤ Play Areas	1,488	126	(1,362)
➤ Contents	3,598	295	(3,303)
➤ Car Parks	1,049	27	(1,022)
➤ Work In Progress	2,957	1,991	(966)
➤ Business Interruption	3,332	1,722	(1,610)
➤ All Risks	806	2,971	2,165
➤ Money	329	104	(225)
➤ Council Tools (in vehicles)	780	1,312	532
➤ Pleasley Vale B P Mills	9,687	4,946	(4,741)
➤ Pleasley Vale B P Lodges	427	137	(290)
Total Property premiums	171,201	59,472	(111,729)
Minor Classes			
➤ Fidelity Guarantee / Full Crime*	2,534	*5,805	3,271
➤ Computer	1,539	1,458	(81)
➤ Engineering Inspection	9,644	11,288	1,644
➤ Hired Plant	250	264	14
Total Minor premiums	13,967	18,815	4,848
Sub Total (exc IPT)	320,379	245,371	(75,008)
Less low claims rebate (Property)	(8,885)	0	8,885
I.P.T. @ 6%	18,644	14,045	(4,599)
Premium Total (inc IPT)	330,138	259,416	(70,722)
Inc NEDDC insurance recharges	6,690	6,726	36
Overall Grand total	336,828	266,142	(70,686)