



**AGENDA ITEM: 9**

**AUDIT AND GOVERNANCE  
COMMITTEE:  
29<sup>th</sup> JANUARY 2013**

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**Report of: Borough Treasurer**

**Relevant Managing Director: Managing Director (People and Places)**

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**SUBJECT: COUNCIL INSURANCE ARRANGEMENTS**

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Wards affected: Borough wide interest

**1.0 PURPOSE OF THE REPORT**

1.1 To provide an update on insurance issues, claims history and investigation, and the tenants home contents insurance scheme. Also, the collaborative insurance procurement process to date.

**2.0 RECOMMENDATIONS**

2.1 That the report be noted.

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**3.0 CURRENT ARRANGEMENTS**

3.1 The Councils current insurers are Chartis and they have appointed Risk Management Partners (RMP) to manage the contract on their behalf. They provide insurance cover for all the main classes of insurance risk for the Council, detailed below:

	£ premium
• Employers & Public liability	83,100
• Motor	90,500
• Property	295,850
• Terrorism	13,150
• Fidelity guarantee	1,350
• Personal accident/Travel	3,940
• Contract works	13,880

- 3.2 The current price for the above cover is some £501,770 including insurance premium tax at 6%, as detailed above, with property cover being far the largest element of the insurance cover.
- 3.3 RMP engages a partner organisation, Gallagher Bassett (GB) to manage any claims that may arise at West Lancs B.C. When a claim is submitted the Insurance section will investigate the situation and if deemed appropriate set up an appropriate file and inform the claim handlers. We will look for evidence to defend the claim in order to avoid any liability falling on the Council. GB will assist us in this process and we like to have a robust mind set in repudiating such claims. Our performance indicator for settling claims at nil is regularly above 80% to 90%.
- 3.4 The Council utilises the services of an Insurance broker, Aon, to assist us with any insurance or risk management issues that may arise. This service entails quarterly meetings to discuss any new insurance matters that have recently arisen and we inform them of any risk management initiatives that have been implemented. Also, each year RMP require a full update on the Insurance position of the Council, covering such issues as, the value of property cover, number of employees, motor fleet numbers and so forth. Aon assist us with this compilation and liaise with RMP in order to ensure a smooth completion of the exercise. Aon also provide telephone support as matters arise.
- 3.5 Our relationship with both the claim handlers and our brokers is based upon a sound professional basis which is actively managed by the Insurance section. We ensure that we take the lead in making the critical decisions whilst fully researching any incidents and taking on board any advice proffered.
- 3.6 Our claims history was reviewed as part of a recent actuarial review and it detailed that for the last five years we had an overall loss ratio of some 50% compared to premiums paid. They stated that this is a favourable position, it must be borne in mind that some claims are 'long tail' in their nature i.e. they take some years to manifest, for example industrial deafness and insurers need to plan for such future claims.
- 3.7 Some of the levels of cover that the Council has in place are detailed below:
- Property £778m
  - Commercial properties rent, cover for 36 months, £5.4m
  - Fidelity guarantee, £1m
  - Replacement IT hardware, £1.17m
  - Reinstatement IT data, £1m
  - Vehicles, 76 plus mowers and plant
  - Employee salaries £15m

Each year these figures require updating and this will involve dealing with the Councils estates section for property matters and IT section for hardware and data issues.

- 3.8 The Council also operates the tenants home contents insurance scheme for our Council house occupants on behalf of Aviva. The purpose of this scheme is to

offer a low cost home contents insurance plan that has the benefits of a nil excess and one in which the premiums have not risen for the last nine years. There are approximately 17% of our Council households who have opted into the scheme. The insurers, Aviva, are complementary about the level of take up and the general operation of the scheme. We publicise the scheme by including details within the tenants handbook and a recorded message that is played by the housing repairs call centre.

- 3.9 The Council has varying excess levels to reflect the risk that the Council is willing to undertake. For example, combined liability (Employers and Public Liability) has an excess of £50,000, motor is £250 whilst property has various levels up to a maximum of £1,000. Also, the perils that are covered by Insurance will vary and this is partly dependant about what risks the Insurance Companies will accept. Varying excess levels will have an effect on the premiums levied by insurance companies.

#### **4.0 INSURANCE FUND**

- 4.1 The Council has an Insurance fund of some £2.7m and this is subject to a full actuarial review every four years and a mini review two years after a full review. This is to ensure that the fund is adequate for the actual and estimated potential insurance risks facing the Council. A full review was concluded in September 2012 covering the period to April 2012 with projections to April 2013. The report covered several areas, including the fund level, claims history, future injections to the fund and emerging claims. The main finding of the report was that the estimated fund level calculated by the actuary of £2.3m, which was a prudent calculation, is more than matched by the current fund level of £2.7m.
- 4.2 In the past the Council was part of an insurance organisation called Municipal Mutual Insurance, which was a collaboration of Council organisations. This organisation ceased insurance operations in 1992 and arrangements were put in place for liabilities to be met by the previously accrued asset fund, termed a scheme of arrangement. It was considered by the body overseeing the scheme that a solvent run off, whereby liabilities would be met by the assets, would be achieved. However, over recent years the financial position has deteriorated, mainly as a result of a Court case that was recently lost by the scheme administrators, this has meant that a solvent run off is now not envisaged. As such, the scheme administrator duties have passed to Ernst & Young. The implication for the Council is that it is likely to have to make payments to meet these past liabilities. The maximum liability of the Council is £0.85m, which is provided for in full in the Insurance fund. However, some observers at this stage consider that the liability could be around 25% of the maximum £850k i.e. some £200k.

#### **5.0 COLLABORATIVE INSURANCE CONTRACT**

- 5.1 The Council's current insurance contract ceases at the end of March 2013. Our insurance brokers had advised us that the insurance market, which had been at a low ebb for some time was now starting to harden i.e. the market prices were increasing. The soft market had benefitted us when we last went to tender in 2008 hence negotiating a rising market has required some careful consideration,

especially considering that the insurance market does not have many players in this sector.

- 5.2 We considered the issue with Aon and it was suggested that as they were the brokers for Pendle and Burnley Councils, that we undertake a joint procurement exercise. This would have the benefit of increasing the value of the contract and would encourage competition, which would hopefully be reflected in the tender prices submitted.
- 5.3 Discussions between the Councils have been very useful and professional and from an information sharing point of view, quite enlightening. This is particularly the case with regards the differing excess levels that the Councils have in place.
- 5.4 The procurement process that was arranged ensured that if the same insurer was appointed by more than one Council then a package discount would be applied to the price of the submitted bid. However, it was also ensured that if it was beneficial for any Council to independently appoint their own insurer, so that they were not tied in to another Council, that this facility was also an option.
- 5.5 Tenders have recently been received and the bids are currently being evaluated by Councils, in conjunction with their brokers. Further details will be provided to members in the coming weeks.

## **6.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY**

- 6.1 There are no significant sustainability impacts associated with this report and in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

## **7.0 FINANCIAL AND RESOURCE IMPLICATIONS**

- 7.1 The current Insurance contract ceases at the end of March 2013. A collaborative insurance tender has been undertaken in order to try and obtain the best possible economic price for the new contract period. The tender outcome will only be fully known in mid February 2013.
- 7.2 The recent actuarial review of the insurance fund will also help to ensure that an adequate level of cover is in place.

## **8.0 RISK ASSESSMENT**

- 8.1 The collaborative nature of the tender process, within which we utilised insurance brokers to assist us, is designed to ensure that we obtain the best economic price possible within a hardening market.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

## **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

## **Appendices**

None