Wiltshire Council

Cabinet

16 September 2014

Subject:	**Insurance Services Tender**
Cabinet member:	**Cllr Richard Tonge - Finance, Performance, Risk, Procurement and Welfare Reform**
Key Decision:	**Yes**

Executive Summary

Our current 5 year contract with Zurich Municipal for Insurance Services ends on 31/03/2015. This contract covers our potential financial liabilities for a variety of insurance claims, including our properties, motor fleet and drivers and public liabilities.

The report sets out two options to provide this cover and asks that a decision is made on these options, which are:

1) Re-tender the Insurance service contract with a third party provider, or
2) Self Insure the costs of Insurance claims and costs to repair damage to our own assets from the Council's financial resources.

Proposals

1. To continue with insurance cover with a third party provider.
2. To delegate the decision on which lots to procure and which to self insure to the Cabinet Member for Finance and the Associate Director for Finance.

Reason for Proposal

Not having insurance cover in place would expose the Council to significant financial risk.

Dr Carlton Brand and Carolyn Godfrey
Corporate Directors

Wiltshire Council

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Key Decision:	**Yes**

Purpose of Report

1. To set out the options available to the council following the end of the current insurance services contract on 1st April 2015.

   To ask the Cabinet to make a decision on whether to continue to buy Insurance cover with a third party provider or whether to cover the full costs of all insurance claims and costs to repair damage to our own property from its own financial resources.

Relevance to the Council's Business Plan

2. The provision of insurance cover helps to maintain all aspects of the Business Plan by providing a level of financial certainty in a financially volatile claims market.

Background

3. Our current insurance services contract is with Zurich Municipal, which commenced on 01/04/2010, following a full tender process. This agreement was for five years and ends on 31/03/2015. The current annual cost of the contract is £1.058 million. The major areas of cover include:

   1. General Property – all major risk associated with property, fire, flood etc and theft via forced entry. We insure all properties in our portfolio, including office buildings, housing stock and non-independent schools, where the school has decided to take cover with us.
   2. Leaseholds and Right to Buy Property – Same cover as general properties for Right to buy flats or maisonettes.
   3. Industrial and Commercial Properties - Same cover as general properties plus loss of income
   4. Casualty (Public liability & Employers Liability) – all claims for injury or damage to third party property and all claims made by staff or ex staff for injury, illness or disease contracted whilst employed by the Council and for professional negligence, libel and slander by a member of our staff.

5. Motor fleet – comprehensive cover for drivers of our vehicles against own damage and damage to third parties
6. Engineering Inspections – to inspect all our major engineering plant and machinery. It is required by law.
7. Personal Accident and Public Health – School pupils attending work experience or school trips. Public liabilities from undergoing public health activities.

The cover we have in place with Zurich Municipal sets excesses on any one claim (generally from £100,000 to £250,000) for all our major risk areas. We also have a limit, known as a 'stop loss', on the amount of money we have to pay in claims in any one insurance year. This limit ranges from £0.650m to £1.5 million depending on insurance type. If we reach our 'stop loss', Zurich Municipal will pay the full cost of claims, including our excess.

The day to day management of the insurance services contract works in the following way:

- We have an in house Insurance team consisting of 5 staff totalling 4.38 FTE's. The team deal with all insurance claims that come into the Council. They set up the claims and gather evidence.
- If the claim is estimated to be under a value of £50,000, the claim is managed by our insurance team, including corresponding with the claimant, gaining legal advice if necessary and making decisions on liability.
- If the claim is estimated to be over £50,000, we refer the claim to Zurich Municipal, who take on the claims handling. The exception to this rule are motor vehicle claims, where Zurich Municipal deal with all aspects of the claim, regardless of estimated cost, and our insurance team are involved in gathering evidence and making payments only.
- Zurich Municipal's claims handlers would then decide whether or not to appoint dedicated legal services from a panel of legal firms available to them. In the majority of cases specialist legal advice is sought. We are informed of claims progress throughout the claim period and invited to attend claims meetings
- When the claim is settled we are informed of the amounts to pay and legal costs involved. We would only pay up to our excess, with Zurich Municipal being responsible for paying the remainder.
- If we have reached our stop loss in any one insurance year the full cost of the claim would be paid by Zurich Municipal. It should be noted that the costs of insurance claims are paid based on when the incident occurred, not when it was reported.

If we re-tendered the contract we would look to replicate this way of working.

Main Considerations for the Council

4. **The options**

4.1 **Buying Insurance cover from a third party provider**

If we go out to tender, by law we have to split the insurance types into separate lots. These lots would be:

Lot 1 – Property – General property not in lots 2 or 3 and non-independent schools
Lot 2 – Property – Leaseholds and Right to Buy
Lot 3 – industrial and Commercial Properties
Lot 4 – Casualty (public and employee liability)
Lot 5 – Motor Fleet
Lot 6 – Engineering inspections
Lot 7 – Personal Accident and Public Health

We do not have to award a contract for all of these lots if we tender for them, as long as we state this in our tender.

It is accepted practice that Local authorities buy third party insurance cover. Not doing so would mean that the Council would have to meet the full costs of any claims from its budget or reserves. The current cover provides a level of financial assurance that large claims, above our excess and stop loss, will be covered by our insurers, reducing the level of financial risk. The current cover therefore limits our overall liability to pay one high value claim or a succession of high value claims. This also provides security on future years costs as claims are paid by the insurer in place at the time of the incident.

During the annual renewal process we would have flexibility to reduce the overall sums insured, what we insure and the level of our excesses. So the costs of the contract are flexible as the Council's business model changes. For instance one of our plans is to reduce the number of buildings we hold. Selling off property would reduce our level of cover with a reduction in the premiums.

4.2 **Self Insure**

Insurance companies are able to spread their risk and losses on claims across a vast number of contracts, so if one contract suffers a major loss, income from other contracts will cover the costs. They can further mitigate their exposure to claims by 're-insuring', which means our insurers buy their own insurance cover with another insurance company with agreed excesses and stop losses. This reduces the overall financial risk the Insurer is exposed to.

If we were to self insure we could not spread the risk of large claims as the full cost of the claim would have to be met by the Council's resources.

The level of this risk is hard to determine, but one recent public liability claim paid by a local authority and its insurers cost them a combined £7million. A major fire at County Hall could cost in the region of £40 million to rebuild. Our limit on loss would be £100,000 under our current insurance policy, but under self insurance we would pay for the full rebuild.

If the Council were to self insure additional staff and external professional costs would also be incurred.

Safeguarding Implications

5. None

Public Health Implications

6. None

Environmental and Climate Change Considerations

7. The council has a climate change adaptation plan which aims to mitigate and prepare for unavoidable climate change in order to minimise damage and claims.

Equalities Impact of the Proposal

8. None

9. Risk Assessment

Risks that may arise if the proposed decision and related work is not taken

10. The Council will have to self Insure from 01/04/2015. This would leave the Council with a significant financial risk.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

11. If a tender is run, there is a risk of increased premiums. This risk will be managed in the following ways:

    1) There will be a rigorous risk analysis of the insurance cover we take out. This will involve analysing all the elements of our current cover and deciding if we need to continue to buy this insurance or if our current excesses are at the right level. We will use previous claims history and premium costs to make these decisions in order to drive value out of the insurance contract. We will work with our brokers and key internal stakeholders to undergo this analysis and may also decide to commission an actuarial evaluation of our current levels of insurance to aid this process. This is a key part of the tender process and is an exercise which is carried out every year during the renewal process;

2) Making it clear in our tender documentation that we reserve the right not to award a contract on a particular lot. This will give us the opportunity to carry out a risk and reward analysis when evaluating the bids received;

Financial Implications

12. Self Insuring would mean there is no limit on the value of potential insurance liabilities. This would leave the Council with a potential major financial risk as one large insurance claim against it or major incident damaging one of its assets would have to be paid from the Council's budget and reserves. Therefore buying insurance cover means that we reduce the level of financial risk significantly in terms of the total amount the council would have to spend in the case of a major incident or a string of high value claims. One major fire, string of floods or incident involving a member of public for which we are liable would leave us in a vulnerable position regarding our finances.

Legal Implications

13. Contracts of insurance are subject to the Public Contract Regulations (PCR) (2006). For insurance contracts of the size in contemplation here the PCR require an open and fair tender procedure which is advertised across the EU. It is unlikely that such a tender would reach a conclusion with contracts signed in under six months.

Conclusions

14. Self insuring would significantly increase the level of financial risk to the Council. There would be no limit of the costs paid out in insurance claims or costs to pay for damage to council assets would have to be paid for from the Council's resources. It would be wise to continue to take out insurance cover with a third party provider as it limits our potential financial loss in current and future years.

Proposal

15.
1. To continue with insurance cover with a third party provider
2. To delegate the decision on which lots to procure and which to self insure to the Cabinet Member for Finance and the Associate Director for Finance.

Reason for Proposal

16. Not having insurance cover in place would expose the Council to significant financial risk

Michael Hudson, Associate Director - Finance, Revenues & Benefits and Pensions
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Background Papers

The following unpublished documents have been relied on in the preparation of this report:

None

Appendices

None
