

Report to: Executive Board 27th September 2002

Insurance Programme

<p>Report of: <i>The Director of Finance and Corporate Services</i></p> <p>Report Author: <i>Richard Josepfs Internal Audit Business Manager Tel: 01865 252769</i></p> <p>Lead Member Responsible: <i>Cllr. Alex Hollingsworth</i></p> <p>Overview and Scrutiny Committee Responsibility: <i>Finance and Performance Management</i></p> <p>Key Decision: <i>Yes</i></p>	<p>WARDS AFFECTED</p> <p>All</p>
<p>SUMMARY AND RECOMMENDATIONS</p> <p>The Council has been engaged in negotiations with Insurers for the renewal of the majority of the Council's insurance programme. These negotiations were continuing beyond the deadline for this report and the outcome of negotiations will be reported verbally. The amount and phasing of expenditure will also be reported verbally.</p> <p>The revised insurance arrangements will require the Council to assume a higher level of risk and effectively manage those risks.</p> <p>Terrorism insurance has not been part of these insurance contract negotiations, but the scope of Terrorism insurance has recently been extended resulting in an extension of the insured risks. This also means an increase in premium.</p> <p>Recommendations</p> <p>The Executive Board is asked to:</p> <ol style="list-style-type: none"> i. Note that negotiations concerning insurance cover are now completed ii. Agree to accept the most economically advantageous tender or tenders iii. Agree that the decision is urgent and therefore not subject to call-in iv. Recommend to Council that, if the cost is not contained within budget, the necessary supplementary estimate is approved v. Note the need for effective risk management and that a further report 	

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| vi. will follow concerning risk management strategy.
Agree to purchase terrorism cover |
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1. Objectives of the Project

The Executive Board will recall that the objectives of this major project are:

1. to assess the scope for securing appropriate insurance cover across the authority whilst remaining within the existing insurance budget and
2. to ensure that the authority has continuity in insurance cover following the expiry of the existing insurance arrangements at the end of September 2002.

In view of the need to have continuity of insurance cover from 1st October 2002 the Chair of the Finance and Performance Management Overview and Scrutiny Committee has agreed that the call in procedure shall not apply.

2. Insurance Negotiations

A total of six tenders were received for the insurance contracts. Four of these were discounted from further consideration as they did not quote for the major policies or the insurer expected the Council to increase levels of self insurance beyond existing capacity.

Negotiations and discussion have been ongoing since 9th September 2002 and these were continuing beyond the deadline for this report. The final outcome of negotiations will, therefore, need to be reported verbally. The amount and phasing of expenditure, which is obviously dependent on the outcome of negotiations, will also be reported verbally.

Factors that have become apparent in initial negotiations are that:

- there is very little competition for the Council's insurance business
- the total cost of insurance will increase by £217,000 per annum if the scope and level of insurance is not varied
- for the Buildings and Motor risks, one of the Insurers seems particularly reluctant to significantly reduce premiums despite the Council increasing the levels of self insurance.

In view of the above, it would appear that the most appropriate option for the Council is to vary the scope of insurance and split the cover between two separate insurers in order to secure the most economically advantageous tender. This will incur additional costs since it may be necessary to engage the services of an insurance broker and/or claims handler.

3. Managing the Council's Risk Exposure

Securing appropriate insurance cover across the authority whilst attempting to remain within the existing insurance budget will increase the Council's exposure to risk. Methods of managing this increased exposure were outlined in the report to Executive Board on 9th September.

Increasing levels of self insurance has become very common amongst Local Authorities. They recognise that it brings an improved level of control to insurance spending since, by assuming more risk, less of the risk is exposed to 'hardening' premium rates that are currently common in the insurance market.

However, whilst the Council has short to medium term provision for the increased risk exposure this will be eroded in the longer term if the Council does not effectively manage those risks. Effective risk management requires the Council to focus on risk by identifying the true cost, frequency and reasons for losses.

As a requirement of sound corporate governance, risk management must become integral to the way that the Council conducts its business. I am currently investigating the optimum approach to analysing our risks with the assistance of external facilitators. The cost of this service will be £16,000. I will be reporting to the Executive Board on the way forward for risk management in due course.

4. Terrorism

Recently the issue of terrorism insurance has been the subject of discussion between an insurance industry working group and the Government. The discussions centred on Pool Re the government backed terrorism insurer.

Pool Re was formed after insurers decided to limit cover provided for fire and explosion caused by terrorism. This insurance was limited to property policies and was designed to deal with the consequences of bombing campaigns on mainland Britain. Following the events of 9/11, it was clear that the cover provided by Pool Re and insurers was inadequate to meet the post -9/11 reality.

The Pool Re cover has now been extended from fire and explosion to an 'all risks' basis. This means that a terrorist attack involving chemical or biological contamination, impact by aircraft, or flood damage will be covered by the scheme. A current exclusion of damage caused by nuclear devices will be deleted by 1st January 2003.

The premium paid for Pool Re cover in 2001 was £10,800. The premium, on an 'all risks' basis, for 2002/03 will be £26,500.

THIS REPORT HAS BEEN SEEN AND APPROVED BY:

Cllr. Alex Hollingsworth, Leader of the Council

Cllr. Jim Campbell, Chair of the Finance and Performance Management
Overview and Scrutiny Committee

Mark Luntley, Director of Finance and Corporate Services

Lindsay Johnston, Legal Services

Background Documents

Reports to Executive Board of 17th June 2002 and 9th September 2002