

REPORT TO: Executive Board
DATE: 9 April 2015
REPORTING OFFICER: Strategic Director - Policy and Resources
PORTFOLIO: Resources
SUBJECT: 2015/16 Insurance Renewals
WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

To inform the Board of the strategy adopted in regard to the renewal of insurance premiums for 2015/16.

2.0 RECOMMENDATION: That;

- 1) The changes in the Council's insurance programme regarding the purchase of external insurance for 2015/16, be noted;**
- 2) The Risk Financing and Insurance Strategy presented in Appendix 1, be approved.**

3.0 SUPPORTING INFORMATION

3.1 Emerging trends in the insurance market are putting pressure on rates with many insurers looking for increased terms. Organisations that are prepared to accept a higher level of self-insurance are more attractive to insurers and benefit from lower premiums as a result.

3.2 Self-insurance can take the form of either:

- Choosing not to purchase external insurance cover and financing losses from existing resources;
- Purchasing insurance cover for risks over a certain financial threshold (i.e. policy excess). More competitive premiums are obtained where organisations accept a higher level of excess.

3.3 In setting appropriate levels of self-insurance, it is prudent for organisations to consider their risk bearing capacity and risk tolerance. The Council maintains an Insurance Reserve to meet its unpaid retained insurance liabilities. The current balance of the reserve is approximately £3m.

3.4 In recent years the Council has moved towards taking on a greater level of self-insurance in order to obtain cost-effective insurance cover and to minimise the revenue impact of increasing insurance premiums. This has seen large increases in the level of excess across the following classes of insurance:

- In April 2013 the excess for motor vehicle claims was increased from £250 to £25,000.

- In April 2014 the excess for Employers' Liability claims was increased from £25,000 to £250,000.
- In April 2014 the excess for Public Liability claims was increased from £120,000 to £250,000.

3.5 Insurance cover for 2015/16 has been reviewed by the Operational Director – Finance under the powers delegated to him in section 6.3 of Finance Standing Orders. The main changes resulting from this review are summarised below:

- The excess on Property cover has been increased to £250,000 across the whole of the Council's property portfolio. Previously the excess was £100,000 for educational establishments and £250 for Council buildings.
- 'All Risks' cover has been removed except for Civic Regalia, Paintings and items of plant or equipment valued at £10k or higher.
- The excess on the Computer All Risks policy has been increased to £5,000 from the previous level of £100.
- The excess on the Fidelity Guarantee insurance policy has been increased to £100,000 from the previous excess of £1,000.
- Additional cover has been purchased in respect of Hirers' Liability. This will provide blanket cover in regard to all voluntary groups and other organisations that hire Council or school premises.

3.6 The changes to the Council's insurance cover have been taken after consultation with the Council's insurance broker and analysis of claims experience over the past five years. Account has also been taken of the Council's capacity to fund uninsured losses through the Insurance Reserve.

4.0 POLICY, FINANCIAL AND OTHER IMPLICATIONS

4.1 The changes to the Council's externally procured insurance cover for 2015/16 will generate a revenue budget saving of approximately £100,000.

4.2 The total impact of the changes on the Council's overall financial position will be dependent on the value of losses that are experienced during the year. The strategy adopted will deliver a substantial net saving if the level and value of claims in 2015/16 is consistent with Council's claims experience over the past five years.

4.3 The draft Risk Financing and Insurance Strategy is attached at Appendix 1. This sets out how the Council seeks to ensure that the structure of its insurance programme achieves an optimum balance between self-insurance and externally procured insurance.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

5.1 The proposals aim to ensure that the Council's procurement of external insurance cover is cost effective. The revenue savings generated by increasing the level of self-insurance will facilitate the redirecting of financial resources towards the delivery of all the Council's priorities.

6.0 RISK ANALYSIS

- 6.1 There is a risk that 'over-insurance' and low levels of deductible make the Council unattractive to insurers. This inevitably leads to higher premiums and additional pressure on the revenue budget.
- 6.2 The risk in increasing the level of self-insurance is that the Council may potentially be required to fund a higher level of losses. This risk is however mitigated by the Council maintaining an adequate Insurance Reserve which can be used to fund any high value losses.
- 6.3 The cumulative impact of low value losses for casualty and motor claims is mitigated by agreeing an Aggregate Stop Loss with the insurer. Any losses above this threshold would be funded by the insurer.
- 6.4 A reduction in the level of external insurance cover ultimately presents increased financial risk to the Council. This risk needs to be considered in the context of the Council's capacity to self-fund potential losses.
- 6.5 The overall cost of financing risk can be minimised by the Council employing effective risk management practices.

7.0 EQUALITY AND DIVERSITY ISSUES

None

8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

None under the meaning of the Act