

## RECORD OF EXECUTIVE DECISION TAKEN BY AN EXECUTIVE MEMBER

This form **MUST** be used to record any decision taken by the Elected Mayor or an individual Executive Member (Portfolio Holder).

The form must be completed and passed to the Head of Members' Services no later than NOON on the second working day after the day on which the decision is taken. No action may be taken to implement the decision(s) recorded on this form until 7 days have passed and the Head of Members' Services has confirmed the decision has not been called in.

**1. Description of decision**

That the arrangements for insurance cover for 2014/2015 be approved.

**2. Date of decision**

6<sup>th</sup> February 2014

**3. Reasons for decision**

To formally acknowledge the external insurance arrangements proposed for 2014/2015.

**4. Alternatives considered and rejected**

Not applicable

**5. How decision is to be funded**

For 2014/2015 external insurance premiums inclusive of insurance premium tax, claims handling fees and engineering inspection fees will total **£1,114,748**. Zurich Municipal will again provide a **£15,000** credit against the cost of insurance, in lieu of risk management support, during 2014/2015. The Council's proposed budget for 2014/2015 fully provides for the insurance premiums payable by the Council.

The Council also maintains an Insurance Fund (Provision and Reserve) in order to fund claims excesses that are payable by the Council. Consequently, in addition to the payment of external premiums, Departments are also required to make annual contributions into the Insurance Fund. Higher excess levels reduce the cost of external insurance, but place the risk of settling claims below the excess level with the Council. The existing policy excess levels are considered to provide the best balance between risk and cost based on the Council's claims experience.

The balance in the Insurance Fund is set to cover reported and unreported insurance claims, emerging insurance claim types, the Council's share (surplus or deficit) of the former County Council's insurance fund and the "clawback" of claims previously paid by Municipal Mutual Insurance Ltd (MMI). In this regard, and after several years of a deteriorating solvency position and an adverse judgement in the Supreme Court, the MMI 'Scheme of Arrangement' was triggered. The Scheme Administrator has announced an initial rate of levy at 15% of the total claims paid since 1993 (less £50,000).



The Council is also responsible for payment of its share of the liability in respect of insurance settlements received from MMI by the former Bedfordshire County Council. This liability will be fully met from funds currently held in the Council's insurance fund that were received following the disaggregation of the sum held in the former Bedfordshire County Council's insurance fund for this purpose. This total levy payment currently due from the Council, including its share of the former Bedfordshire County Council's liability, equates to **£285,336**.

**6. Conflicts of interest**

Name of all Executive members who were consulted AND declared a conflict of interest.	Nature of interest	Did Standards Committee give a dispensation for that conflict of interest? (If yes, give details and date of dispensation)	Did the Chief Executive give a dispensation for that conflict of interest? (If yes, give details and the date of the dispensation).

The Mayor has been consulted on this decision

6 February 2014 

Signed  Date 6 February 2014 Name of Decision Taker CLERK M HEADLEY

**This is a public document. A copy of it must be given to the Head of Members' Services as soon as it is completed.**

Date decision published: 7th February 2014

Date decision can be implemented if not called in: 18th February 2014

(Decision to be made exempt from call in.....NO.....)

**Bedford Borough Council – Finance Portfolio Holder**

**January 2014**

**Report by the Assistant Director (Revenues, Benefits & Customer Service)**

**Subject: RENEWAL OF EXTERNAL INSURANCES: 2014/2015**

**1. Executive Summary**

To inform the Finance Portfolio Holder of the Council's proposed external insurance arrangements for 2014/2015.

**2. Recommendations**

**The Portfolio Holder is requested to:**

- (i) Approve the proposed arrangements for insurance cover, from 1 April 2014, with Zurich Municipal;**
- (ii) Note that the proposed increase in premium for the employers' liability policy breaks the long term agreement;**
- (iii) Note that a payment of £285,336 is required to be made to the Administrator of the Municipal Mutual Insurance Scheme of Arrangement from the established Insurance Fund.**

**3. Reason for Recommendations**

To formally acknowledge the external insurance arrangements proposed for 2014/2015 and the liability that has arisen under the Municipal Mutual Insurance Scheme of Arrangement.

## 4. Key Implications

### 4.1 Legal Issues

There is a legal requirement for the Council to hold Fidelity Guarantee insurance (i.e. cover for financial loss caused by a deliberate misappropriation of funds by an employee) as a means of protecting the public purse. In respect of other insurances the Council is able to determine its own arrangements. The Council's practice is to insure all risks where the insurance market provides cover and it is considered to be cost effective to have insurance in place.

Following a full tendering exercise during 2011 the Council entered into a five year long-term agreement with Zurich Municipal that commenced on 1 April 2011. For 2014/2015 Zurich Municipal has broken the long term agreement because the premium in respect of the employers' liability policy has been increased above the relevant inflation index, allowed in the contract. The Council, therefore, has the option to withdraw from the contract.

### 4.2 Policy Issues

No issues arising from this report.

### 4.3 Resource Implications

For 2014/2015 external insurance premiums inclusive of insurance premium tax, claims handling fees and engineering inspection fees will total **£1,114,748**. Zurich Municipal will again provide a **£15,000** credit against the cost of insurance, in lieu of risk management support, during 2014/2015. The Council's proposed budget for 2014/2015 fully provides for the insurance premiums payable by the Council.

The Council also maintains an Insurance Fund (Provision and Reserve) in order to fund claims excesses that are payable by the Council. Consequently, in addition to the payment of external premiums, Departments are also required to make annual contributions into the Insurance Fund. Higher excess levels reduce the cost of external insurance, but place the risk of settling claims below the excess level with the Council. The existing policy excess levels are considered to provide the best balance between risk and cost based on the Council's claims experience.

The balance in the Insurance Fund is set to cover reported and unreported insurance claims, emerging insurance claim types, the Council's share (surplus or deficit) of the former County Council's insurance fund and the "clawback" of claims previously paid by Municipal Mutual Insurance Ltd (MMI). In this regard, and after several years of a deteriorating solvency position and an adverse judgement in the Supreme Court, the MMI 'Scheme of Arrangement' was triggered. The Scheme Administrator has announced an initial rate of levy at 15% of the total claims paid since 1993 (less £50,000).

The Council is also responsible for payment of its share of the liability in respect of insurance settlements received from MMI by the former Bedfordshire County Council. This liability will be fully met from funds currently held in the Council's insurance fund that were received following the disaggregation of the sum held in the former Bedfordshire County Council's insurance fund for this purpose. This total levy payment currently due from the Council, including its share of the former Bedfordshire County Council's liability, equates to **£285,336**.

#### 4.4 Risk Implications

External insurance is an essential part of the Council's risk management process since it transfers some of the financial risks that may be faced by the Council to the insurance company. The insurance arrangements for 2014/2015 are based on the same range of covers as in previous years and these are considered to be adequate to protect the Council from significant financial losses that may arise as a result of insured perils.

The Council's insurance cover is kept under constant review to take account of new or revised Council activities and it may be necessary to submit a further report for consideration, before the next renewal, should there be any significant changes.

#### 4.5 Environmental Implications

No issues arising from this report.

#### 4.6 Equality Analysis

In preparing this report, due consideration has been given to the Borough Council's statutory Equality Duty as set out in Section 149(1) of the Equality Act 2010, to have due regard to the need to:

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

A relevance test for equality has been completed. The equality test determined that the proposal has no relevance to Bedford Borough Council's statutory equality duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations. An equality analysis is not needed.

## 5. Details

5.1 Zurich Municipal has advised that the insurance renewal terms for 2014/2015 are as follows:

Premiums:	
- Property	£286,573
- Casualty	£236,859
- Motor	£215,777
- Engineering	£7,220
- Additional Covers	£65,505
-Standalone Policies (incl. Terrorism)	<u>£153,930</u>
Sub Total	£965,864
Insurance Premium Tax (@6%)	£57,952
Claims Handling (PL&EL)	£62,504
Engineering Inspection Contract	<u>£28,428</u>
Total	<u>£1,114,748</u>

5.2 Zurich Municipal has broken the long term agreement by imposing a premium increase in respect of the employers' liability policy that is greater than the Average Weekly Earnings index, allowed in the contract. This has resulted in an additional external premium of **£7,950** that is included in the figures provided above.

5.3 The Council's retained insurance broker, Gallagher Heath, has reported a general 'hardening' of the insurance market and recent tendering exercises undertaken on behalf of other local authorities have seen significant increases in premium rates particularly in respect of the casualty and motor classes of business. Gallagher Heath's advice, therefore, is to extend existing contracts if only small or moderate increases are proposed at renewal by holding insurers. A further consideration is the £45,297 package (or special) discount, the Council currently receives from Zurich Municipal, which would be lost if part of the Council's insurance portfolio was placed with another insurance company.

5.4 Property sums insured and, therefore, premiums have also been adjusted to take account of acquisitions, disposals and expected rebuilding inflation during 2014/2015.

- 5.5 During 2014/2015 the Council will receive a further **£15,000** credit, from Zurich Municipal, in lieu of risk management support and, in accordance with “Modernisation Proposal FCS 5”, the full amount will be used to reduce the cost of external insurance.

#### Municipal Mutual Insurance (MMI)

- 5.6 In November 2012, after several years of a deteriorating solvency position and an adverse judgement in the Supreme Court, the MMI ‘Scheme of Arrangement’ was triggered. During April 2013, following a financial review of the company, the Scheme Administrator (Gareth Hughes of Ernst & Young LLP) announced that the initial rate of the levy would be 15% of the total claims paid since 1993 (less £50,000). This means that by 14 February 2014 members of the Scheme, including the Council, must pay a 15% levy in order to eliminate MMI’s current deficit and, in future, only 85% of any outstanding claim amounts will be paid. The Council also faces additional future levies if the MMI financial situation deteriorates further.
- 5.7 For this Council the 15% MMI levy, to be paid from the Insurance Fund, equates to **£285,336** (this figure includes a 37% share of the MMI levy relating to the former Bedfordshire County Council). The last external Insurance Fund review, as at 31 March 2013, concluded that there were sufficient funds available to meet the Council’s expected liabilities arising from insurance claims, including the 15% MMI levy, and to be prudent the Insurance Fund also includes a reserve against the potential for a further 35% MMI levy in the longer term.

### **6. Summary of Consultations and Outcome**

The following officers have been consulted during the preparation of this report:

Management Group  
Insurance & Risk Manager

No adverse comments have been received.

Advice has also been received from the following organisations.

Zurich Municipal (External Insurer)  
Gallagher Heath (Insurance Broker)

### **7. Ward Councillor Views**

Not applicable for this report.

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*File Reference:* I.1(a)

*Previous Relevant Minutes:* None

*Background Papers:* None

*Appendices:* None