

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

27 FEBRUARY 2018

REPORT OF THE INTERIM HEAD OF FINANCE AND SECTION 151 OFFICER

RENEWAL OF INSURANCE COVER

1. Purpose of Report

- 1.1 The purpose of this report is to seek approval for the renewal of the Council's insurance programme, to inform Cabinet of the result of the retender exercise for the material damage and contract works policy and to seek Cabinet approval to authorise Marsh UK Limited, as the Council's appointed insurance broker, to accept cover for the full range of policies, on behalf of the Council.

2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

- 2.1 The Council must manage its finances carefully and in a way that enables resources to be directed at spending priorities and the delivery of core services. The purchase of insurance is part of this robust approach to financial and risk management.

3. Background

- 3.1 Whilst the Council's insurance cover is subject to long term agreements with providers, the Council is required each year to agree annual premiums and associated claims handling costs for each policy in accordance with those agreements. This is carried out by Marsh UK Limited, who were reappointed as the Council's insurance broker in 2017.
- 3.2 The material damage and contract works policy is subject to a long term agreement which expires on 30 March 2018. A retender exercise has therefore been carried out for this policy, via the National Procurement Service Framework Agreement.

4. Current situation / proposal

Policies with Long Term Agreements in place

- 4.1 Marsh UK have undertaken the annual insurance renewal negotiations for the policies still subject to long term agreements. The net premiums, excluding insurance premium tax, are shown in Table 1 below.

Table 1

Policy	2017-18 £	2018-19 £	Year on Year Change £	Year on Year Change %	Insurer
School Offsite Activities	20,557	20,557	0	0	Chubb
Youth Offsite Activities	500	500	0	0	Chubb
Professional Indemnity	6,600	6,600	0	0	QBE (via RMP)
Terrorism	9,985	9,985	0	0	Marsh
Fidelity Guarantee	24,288	24,288	0	0	QBE (via RMP)
Officials Indemnity	29,000	29,000	0	0	QBE (via RMP)
Combined Liability	189,860	188,010	(1,850)	(0.99)	QBE (via RMP)
Computer	9,623	9,535	(88)	(0.91)	RSA
Medical Malpractice	2,496	2,496	0	0	Marketplace
Porthcawl Harbour	826	780	(46)	(5.57)	Allianz
Motor	115,250	127,325	12,075	10.48	QBE (via RMP)
Engineering Insurance	4,752	5,528	776	16.33	Zurich Municipal
Engineering Inspection	28,567	32,504	3,937	13.78	Zurich Municipal
Contractors Plant	6,600	14,700	8,100	122.7	Zurich Municipal
Personal Accident & Travel	7,764	7,371	(393)	(5.33)	Zurich Municipal
Claims Handling	31,769	23,095	(8,674)	(27.30)	Gallagher Bassett
Total	488,437	502,274	13,837	2.83	

- 4.2 A discount rate is used to calculate settlements for large personal injury claims when they include an element of future loss. On 20 March 2017 the rate was reduced from 2.5% to minus 0.75%. This means that the sum paid by the Insurer for an injury claim will be larger because a lower rate of return on the future investment of the claim sum is being assumed. The consequence of this has been that the Insurer, QBE (via RMP), has increased their rates, across all Local Authority clients, by 20% for Employers and Public Liability and 10% for Motor, assuming that the policy deductibles remain the same.
- 4.3 Alternatively, the Council can maintain the premiums at the existing levels by increasing the policy deductibles. To maintain the liability premium at the current level the deductible would have to increase from £200,000 to £275,000 and from £Nil to £5,000 for the motor insurance policy.
- 4.4 The Council has made an assessment of whether it should reject the offer of increased premiums and put the liability and motor policies out to tender. However, having considered the likely results of a tender, based on past exercises, it was considered unlikely that a more advantageous price would be obtained. In the event that the Council did go out to tender the existing Insurer would withdraw their quote with the possible result that the Council would be required to pay a higher premium than is now on offer.
- 4.5 The Council has also made an assessment of whether it should maintain the existing premium by increasing policy deductibles. Claims statistics from previous years demonstrate that it is unlikely to be financially beneficial to increase the motor policy deductible from £Nil to £5,000 but that it is likely to be financially beneficial to increase the liability deductible from £200,000 to £275,000. Consequently, it is

recommended that renewal be agreed with a £Nil deductible under the motor policy and £275,000 for the liability policy.

- 4.6 The engineering insurance and inspection policy premiums have increased. This is because of changes to the schedule of equipment and an increased cost of £4 per item. This is within the terms of the long term agreement which expires in 2020.
- 4.7 The contractors plant premium has increased. This is because Insurers were previously pricing the policy on out dated plant hire fees which have now been brought up to date. In addition to this there has been an increase in the maximum value of any possible claim from £100,000 to £250,000. This is the maximum accumulated value of plant at any one site. The increase acknowledges that more than one item of plant might be involved in a single incident.
- 4.8 The claims handling fee has reduced because based on current trends the Council's external claims handlers are anticipating a reduction in claims numbers.
- 4.9 Terms for the Medical Malpractice policy have not yet been received, but it is anticipated that they will be the same as 2017-18. The figure is included in 4.1 above for the purposes of comparison.

Policies Re-tendered (Material Damage & Contract Works)

- 4.10 The Council confirmed to bidders that awards would be made to the 'most economically advantageous' tender, based on a weighting of 60% for price and 40% for quality.
- 4.11 The specifications asked for tenders based on a number of long term agreement options, namely: three years, three years with an option to extend for a further two years and five years.
- 4.12 Tenders were received electronically by the deadline of 2 February 2018.
- 4.13 The companies who responded in accordance with the tender instructions have been identified as companies A, B, C, and D in the second column of Table 2. Tenders have been evaluated, with the assistance of Marsh UK Limited, in accordance with the tender evaluation criteria. The responses to the tender, winning scores, and recommended Insurer, are detailed in Table 2 below.

Table 2

Policy	Insurer	Available Score	Winning Score	Recommended Insurer
Material damage	A, B, C, D	100	86.81	Zurich Municipal
Contract works	A, B, C, D	100	53.71	Zurich Municipal

- 4.14 Zurich Municipal did not achieve the highest score for the Contract Works policy. However, companies B, C and D would not insure this policy unless they were the successful Insurer for the material damage insurance. Zurich Municipal were the

successful Insurer for the material damage and so it follows that they must also be successful for the Contract Works in the absence of other alternative Insurers.

- 4.15 Following consideration of the bids received, Marsh UK Limited have recommended a five year long term agreement because of the prices achieved. The scores in Table 2 above are therefore for a five year long term agreement. The current premium and the new tender premium are shown in Table 3 below. There is a reduction in premium of £120,940.

Table 3

Policy	2017-18 £	2018-19 £
Material damage	£349,306	£220,476
Contract works	£2,160	£10,050
Total	£351,466	£230,526

5. Effect upon policy framework & procedural rules.

- 5.1 There will be no direct effect on the Policy Framework & Procedure Rules.

6. Equality Impact Assessment

- 6.1 There are no equality implications.

7. Financial Implications.

- 7.1 The costs for 2018-19 are shown in Table 4 below, and reflect a reduction of £107,103 (12.75%) on 2017-18. Costs will be met from the 2018-19 insurance revenue budget.

Table 4

	2017-18 £	2018-19 £
Existing Long Term Agreements	£488,437	£502,274
Re-tendered policies	£351,466	£230,526
Total Price	£839,903	£732,800

- 7.2 The premiums are net figures and other than Engineering Inspection, claims handling and part of the Terrorism insurance, are subject to 12% Insurance Premium Tax. This is an increase from 10% in 2017-18. The Engineering Inspection, claims handling and part of the Terrorism insurance are subject to VAT. The total tax liability for Insurance Premium Tax is £80,965 which is an increase of £3,258 from 2017-18.

8. Recommendation.

- 8.1 That cabinet approves the acceptance of the quotations in paragraphs 4.1 and 4.15 and the renewal of the insurance programme through Marsh UK Limited as the Council's appointed Insurance Broker.

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Background documents

The Risk Management & Insurance Section holds the insurance renewal tender documents and renewal report from Marsh UK Limited.