

**EXECUTIVE BOARD – 21 OCTOBER 2014**

|  |  |                                 |   |
|--|--|---------------------------------|---|
| <b>Subject:</b>  | Approval for Tender of the Insurance Programme for Nottingham City Council and Nottingham City Homes and associated wholly owned companies           |                                 |   |
| <b>Corporate Director(s)/ Director(s):</b>   | Glen O'Connell, Acting Corporate Director for Resources<br>Geoff Walker, Acting Director of Strategic Finance  |                                 |   |
| <b>Portfolio Holder(s):</b>  | Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration   |                                 |   |
| <b>Report author and contact details:</b>  | Jane O'Leary, Insurance and Risk Manager<br>0115 8764158<br><a href="mailto:jane.oleary@nottinghamcity.gov.uk">jane.oleary@nottinghamcity.gov.uk</a> |                                 |   |
| <b>Key Decision</b>  | <input checked="" type="checkbox"/> Yes  | <input type="checkbox"/> No     | <b>Subject to call-in</b>   |
|  |  |                                 | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No   |
| <b>Reasons:</b>  | <input checked="" type="checkbox"/> Expenditure  | <input type="checkbox"/> Income | <input type="checkbox"/> Savings of £1,000,000 or more taking account of the overall impact of the decision |
|  |  |                                 | <input checked="" type="checkbox"/> Revenue <input type="checkbox"/> Capital                                |
| Significant impact on communities living or working in two or more wards in the City   |  |                                 | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No   |
| <b>Total value of the decision:</b> Estimated at £5m for a five year long term agreement   |  |                                 |   |
| <b>Wards affected:</b> All   | <b>Date of consultation with Portfolio Holder(s):</b><br>Ongoing   |                                 |   |
| <b>Relevant Council Plan Strategic Priority:</b>   |  |                                 |   |
| Cutting unemployment by a quarter  |  |                                 | <input type="checkbox"/>  |
| Cut crime and anti-social behaviour  |  |                                 | <input type="checkbox"/>  |
| Ensure more school leavers get a job, training or further education than any other City  |  |                                 | <input type="checkbox"/>  |
| Your neighbourhood as clean as the City Centre   |  |                                 | <input type="checkbox"/>  |
| Help keep your energy bills down   |  |                                 | <input type="checkbox"/>  |
| Good access to public transport  |  |                                 | <input type="checkbox"/>  |
| Nottingham has a good mix of housing   |  |                                 | <input type="checkbox"/>  |
| Nottingham is a good place to do business, invest and create jobs  |  |                                 | <input type="checkbox"/>  |
| Nottingham offers a wide range of leisure activities, parks and sporting events  |  |                                 | <input type="checkbox"/>  |
| Support early intervention activities  |  |                                 | <input type="checkbox"/>  |
| Deliver effective, value for money services to our citizens  |  |                                 | <input checked="" type="checkbox"/>   |
| <b>Summary of issues (including benefits to citizens/service users):</b>   |  |                                 |   |
| The report sets out and seeks approval to tender and place insurances for the Council, Nottingham City Homes and associated wholly owned companies with policies to commence 1 April 2015.   |  |                                 |   |
| <b>Exempt information:</b>   |  |                                 |   |
| None   |  |                                 |   |
| <b>Recommendation(s):</b>  |  |                                 |   |
| 1. To approve the tendering of the insurance programme currently held by the Council, Nottingham City Homes and associated wholly owned companies, noting the process for obtaining alternative premium quotes for the Liability, Motor and Property policies at an increased excess level of £0.250m per event detailed in paragraphs 2.3 to 2.6.               |  |                                 |   |
| 2. To delegate authority to the Insurance and Risk Manager to let the insurance contracts on a 3 year basis with an option of a 2 year extension for Liability; Motor; Property and Associated Covers; Engineering; Marine; Fine Arts; Directors & Officers; Personal Accident/Travel and specific policies for wholly owned companies or commercial activities. |  |                                 |   |
| 3. To note Terrorism cover will be excluded from this tender in order to seek quotes from the Lloyds market and delegate authority to the Insurance and Risk Manager to tender and award the contract for this cover.  |  |                                 |   |

## **1 REASONS FOR RECOMMENDATIONS**

- 1.1. The current insurance policies held by the Council, Nottingham City Homes and associated wholly owned companies are subject to long term agreements, all of which expire on 31 March 2015. There is no option to further extend the long term agreements.
- 1.2. Insurance is required by the Council and associated companies to provide financial protection against liabilities and to protect assets against catastrophic loss. The consequent transfer of the risk limits the Council's financial exposure to those losses payable under the policy excess.
- 1.3. An assessment has been carried out of past losses on each policy, both within the excess and against the insurer. This assessment, together with an estimate of future losses, indicates that seeking quotes based on increased excess levels and thereby transferring less risk to the market may produce premium savings and an overall reduction in costs.
- 1.4. Where premiums savings are not sufficient to warrant the increased risk inherent in higher excesses the policies will be placed at the current excess levels.
- 1.5. Most insurance policies are based on a 3 year contract with an option to extend for 2 years, which allows for an extension of the contract where this is cost effective. The contract for the 1 April 2015 will be awarded to the companies providing the most economically advantageous quotation, terms and conditions.
- 1.6. Terrorism is excluded from the main tender in order that quotes can be sought from the Lloyds market, where it is considered that the best rates can be achieved.

## **2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)**

- 2.1 The main policies of Liability, Property and Motor carry large excesses of £0.100m on Liability and Property and a £0.05m on Motor. These excesses were increased on 1 April 2010, significantly reducing the costs of both the external premium and the related Insurance Premium Tax (IPT), which is chargeable on all insurance premiums at a rate of 6%.
- 2.2. For this tender, the current levels of cover / excess and the Council's claims data were evaluated to assess where a further reduction in the risk transfer and a cost saving in the external insurance premium and IPT would be available. The claims history over the last 5 years supports the recommendation to seek quotes based on higher excess levels.
- 2.3 The tender will seek quotes on the same terms and conditions as the current policies and, as an alternative, with increased policy excesses of £0.250m per event for Liability, Property and Motor. Any consequent reduction in the external premium will be subject to current market conditions, which have recently hardened causing a general increase in rates.
- 2.4 Aggregate stop losses will be applied to these main policies to limit the financial exposure to the Council. If the total cost of claims within the excesses in one policy year reaches the stop loss limit the entire amount of future claims is then met by the insurer.

- 2.5 The tender of the remaining policies of Fine Arts, Directors and Officers, Personal Accident/Travel, Money, Engineering, Fidelity Guarantee, Marine and Shopmobility will be made on a similar basis to the cover currently held.
- 2.6 With the exception of the Terrorism policy the insurances will be tendered through the OJEU tender process with insurers invited to quote in lots.
- 2.7 Consultation has been undertaken with Nottingham City Homes and officers managing associated companies and commercial activities to ensure the optimum levels of cover are purchased at a cost effective rate.
- 2.8 The cost of the external premiums and claims made within the excesses is met from the Insurance Fund. The Insurance Fund receives annual revenue contributions from Council services, Nottingham City Homes and associated wholly owned companies.
- 2.9 In 2010 significant financial savings were achieved by seeking lower levels of cover and higher excesses and by controlling the cost of the claims paid within this excess. This has been achieved by transferring less risk to the insurance market; by bringing claims handling in house; recruiting experienced and qualified officers; putting into place robust and streamlined claims handling processes and successfully delivering a comprehensive programme of operational risk management initiatives.
- 2.10 The claims handling processes are now well established and insurer audits over the last 5 years have scored the process as excellent. The process also supports citizens in ensuring claims are handled quickly and efficiently. For example, on motor claims, where the Council is at fault for an accident, the citizen is provided with a claims service that reduces their financial outlay and the impact / disruption to a minimum. Together with these financial savings, the Insurance and Risk Management Team was recognised for its performance, winning a national Insurance Award for claims handling achievements in 2012 and were runners up in 2013.
- 2.11 With transferring less risk and controlling the costs of claims made within the excess level, since the last tender and from commencement of these policies on the 1 April 2010 there has been a £0.216m saving on motor premium and cost of claims and an estimated saving of £0.450m on liability premium and cost of claims (although this is subject to receipt of claims incurred but not yet reported).
- 2.12 The evidence of significant financial savings achieved over the term of the current insurance contract and the success of the team in implementing improved claims handling supports the proposal to seek quotes to increase excess levels and to manage the retained financial risk in house with a dedicated Insurance and Risk team.
- 2.13 Advice on the tender submission, access to the market and evaluation of the returned bids is supported by the Council's insurance broker, Griffiths and Armour.

### **3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS**

- 3.1 No other options were considered as the current insurance policies expire on 31 March 2015 and the Council is required to have insurance

### **4 FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY/VAT)**

- 4.1 The cost of the insurance programme for 2014/2015 (including IPT) is £1.087m.

- 4.2 The estimated cost of the contract over the 5 years is £5m.
- 4.3 The insurance market has hardened since the last tender and nationally councils have seen a significant increase in rates, even where there has been no deterioration in claims history or risk.
- 4.4 Bucking the national trend the increase in renewal rates for the Council in 2013/2014 and 2014/2015 was minimal.
- 4.5 With the robust approach to controlling claims cost within the excess and implementing a comprehensive programme of operational risk management, in addition to keeping external premium increases to a minimum, the costs of claims paid in house is reducing year on year.
- 4.6 This context supports the proposal to seek quotes for increased excess levels, in order to achieve savings and to mitigate the level of potential increase to insurance premiums.
- 4.7 There also needs to be a continued commitment to in-house claims handling and operational risk management in order to achieve the maximum savings on claims paid within the excess levels.

## **5 RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS AND CRIME AND DISORDER ACT IMPLICATIONS)**

- 5.1. **Risk** - to consider the financial stability of the preferred insurer and their ability to meet future liabilities. In an unstable economic climate there is a greater risk that even established insurers may suffer financial difficulty. The risk is deemed to be low.  
**Mitigation** – there are tight controls around the liabilities of insurance companies and all insurers are regulated. The regulations impose an obligation on insurers to meet liabilities (included those incurred but not reported) which occur within the term of the contract.
- 5.2 **Risk** – with higher internal excesses there is a higher risk of financial exposure to the Council. The level of exposure for catastrophic claims also increases.  
**Mitigation** – all risk must be managed to mitigate the likelihood and impact. A continued commitment to operational risk management will achieve this. A number of successful initiatives over the last 5 years have seen a reduction in occurrence rate and in the number and cost of claims made within the excess.
- 5.3 **Risk** – increase cost of claims within the excess due to reduction in quality of claim handling.  
**Mitigation** – a continued investment in internal claims handling and a continuing improvement to the claims handling process.
- 5.4 **Risk** – an increase in accidents and claims due to a reduction in budgets, in investment in health and safety, in property maintenance and service budgets.  
**Mitigation** – to ensure there is risk management support to service areas to mitigate the impact of budget cuts and to work in a more streamlined manner on health and safety, mitigating the number, impact and cost of employer liability claims in particular.
- 5.5 **Legal** – there are no direct legal implications from these proposals. The increased excess levels will result in more claims handling and legal work being carried out

directly by the Council and workload levels in affected sections will need to be kept under review.

## **6 SOCIAL VALUE CONSIDERATIONS**

- 6.1 Risk Management initiatives undertaken within front line services deliver improvements to services provided to citizens and minimise the adverse impact on the surrounding environment. A continued commitment to operational risk management will ensure initiatives continue to produce a positive impact on citizens.
- 6.2 A reduction in external premium spend allows the Council to divert funds into other services.

## **7 REGARD TO THE NHS CONSTITUTION**

- 7.1 Not applicable

## **8 EQUALITY IMPACT ASSESSMENT (EIA)**

Has the equality impact been assessed?

- (a) not needed (report does not contain proposals for new or changing policies, services or functions, financial decisions or decisions about implementation of policies development outside the Council)
- (b) No
- (c) Yes – Equality Impact Assessment attached

## **9 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)**

- 9.1 None

## **10 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT**

- 10.1 None

## **11 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT**

Glen O'Connell, Acting Corporate Director for Resources  
[glen.oconnell@nottinghamcity.gov.uk](mailto:glen.oconnell@nottinghamcity.gov.uk)  
0115 8764330

Jeff Abbott, Head of Strategic Finance  
[jeff.abbott@nottinghamcity.gov.uk](mailto:jeff.abbott@nottinghamcity.gov.uk)  
0115 8763648