



**DORSET & WILTSHIRE  
FIRE AND RESCUE  
AUTHORITY**

**Item 9**

MEETING	Shadow Policy and Resources Committee
DATE OF MEETING	23 <sup>rd</sup> March 2016
SUBJECT OF THE REPORT	Insurance arrangements for Dorset & Wiltshire Fire and Rescue Service 2016/17
STATUS OF REPORT	For Publication
PURPOSE OF REPORT	For Information
EXECUTIVE SUMMARY	<p>This report is for information in respect of securing insurance arrangements for the new Dorset &amp; Wiltshire Fire and Rescue Service.</p> <p>Overall the cost of insurance will be contained within the base budget provision allowed. This includes making the £50k saving outlined in the Final Business Case for Combination. In future years there may be scope for further savings.</p> <p>A tender document was published in December 2015, with responses required by 8 January 2016. Thirteen separate interested parties registered for the tender documentation, and eight submitted formal tenders by the deadline date. Aon, our insurance brokers, completed the tender evaluation process and after consulting with members of workstream 2 contracts have been awarded for insurance for 2016/17.</p> <p>The majority of the insurance programme was very straightforward, with employer and public liability cover and motor cover, being the two areas where premium costs are highest, there were a number choices available e.g. looking at the implications of various deductible options and how financial risks can be managed through a self-insurance fund.</p>
RISK ASSESSMENT	None at this stage for the purposes of this report.
COMMUNITY IMPACT	None at this stage for the purposes of this report.
BUDGET IMPLICATIONS	The budget implications are shown in the detail of the report.

RECOMMENDATIONS	It is requested that Members note the:  1. approval of the award of insurance contracts as shown below para 3.2, which includes self-insured deductible levels of £100k for liability cover and £50k for motor cover for 2016/17.  2. Approval of a contribution of £173k for 2016/17 to the Service's self-insurance fund.
BACKGROUND PAPERS	None
APPENDICES	None
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## 1. Introduction

- 1.1 Determination of the insurance arrangements for the new Service has been managed as a project within Workstream 2 of the Combination Programme. Progress reports have been presented at Workstream meetings and to the Shadow Policy and Resources Committee.
- 1.2 The two existing Services have followed different approaches to the funding and managing their insurance risks. Dorset has always taken a self-insurance approach carrying high levels of deductible (or excess) for the main liability cover areas (employer, motor and public liability), in return for lower premiums and maintaining an insurance fund to mitigate financial risk. Dorset currently has deductible levels of £200k for liability cover (employer and public liability) and £100k for motor. The deductible levels have fluctuated over the years in response to market conditions and premium levels. Dorset's insurance budget for 2015/16 is £229k, which includes a £100k contribution to the insurance fund. The actual net cost of external premiums was £125k.
- 1.3 Wiltshire has taken a more traditional approach to insurance and currently has £5k deductibles and higher premiums, but does not carry the same level of financial risk. Wiltshire's insurance budget for 2015/16 is £306k and the actual cost of premiums at renewal was £319k.
- 1.4 The total base budget provision for insurance is therefore £535k. The Final Business Case for Combination included an assumption of saving at least £50k each year on the cost of insurance. This assumption has been included in developing the revenue budget plans for 2016/17 and the medium term finance plan. The revenue budget therefore includes £485k as a base budget for insurance for the new Service from 2016/17 onwards.

## 2. Fund and Claims Audit

- 2.1 To inform the requirements of the new Service we asked Aon to review our historic insurance claims and costs to help determine future funding requirements and inform the level of deductible that we should seek prices for in going to the insurance market. The level of

deductible is particularly relevant to our insurance for employer, motor and public liability as this is where the most significant differences in approach are between Dorset and Wiltshire.

- 2.2 The Aon review determined that the optimum level for deductible appeared to be at least £50k, with an aggregate stop loss (an overall excess level) of between £300k and £350k. This would mean that the Service would need to meet the cost of any liability or motor claim below £50k, but our total liability for all such claims would be limited to £300k or £350k each year. Our insurers would pay the cost of all claims once this stop loss amount had been exceeded.
- 2.3 Aon recommended that our tender for insurance should seek prices based on deductibles of £50k and £100k.

### 3. Tender Results

- 3.1 Our tender for insurance cover for the new Service was published on 1 December 2015 via our Bluelight E-tendering portal. The tender document separated out the tender into different Lots, one for each of our cover requirements, including claims handling. The deadline for responses was 8 January 2016. Aon concluded tendering and submitted their full tender evaluation report which was reviewed and endorsed by workstream 2 members.
- 3.2 Based on price and the evaluation scores 5 separate insurers have been awarded contracts who were successful in winning the lots within the tender. The total cost of the recommended programme of insurance for 2016/17 is £312k (including insurance premium tax where appropriate) as shown below. This is based on £100k deductible levels for liability and £50k for motor.

Lot No	Class of Insurance	2016/17 Premium	IPT (9.5%)	Insurer
1	Property	£25,150	£2,389	Insurer A
2	Employer & Public Liability (£100k excess option)	£126,890	£12,055	Insurer B
3	Motor (£50k excess option)	£103,115	£9,796	Insurer B
4	Airside Liability	£3,145	£299	Insurer C
5	Engineering Insurance and Inspection Fee	£487 £3,207	£46 n/a	Insurer C
6	Crime	£3,000	£285	Insurer D
7	Personal Accident & Travel	£15,800	£1,501	Insurer C
8	Terrorism	£4,680	£445	Insurer E
9	Claims Handling	n/a	£n/a	DCC
<b>Total</b>		<b>£285,474</b>	<b>£26,816</b>	<b>£312,290</b>

#### 3.3 Employer and Public Liability

- 3.3.1 Aon's report indicated premiums of £127k and £173k respectively for the £100k and £50k deductible options.
- 3.3.2 The report indicated that the £100k deductible with an aggregate stop loss level is £345k option provides the best value based on pricing and claims history, which was supported by Workstream 2 members.
- 3.4 Motor
- 3.4.1 Aon's report indicates premiums of £88k and £103k respectively for the £100k and £50k deductible options. There is also an additional premium of £12k for a £1k deductible for private and lease cars.
- 3.4.2 The report indicated that the £50k deductible option with an aggregate stop loss level of £200k option provides the best value based on pricing and claims history, which was supported by Workstream 2 members.

## 4. Self-Insurance Fund

- 4.1 In order to manage the financial risk of higher deductible levels the Service needs set aside funds in reserves. The reserves are then used to meet the cost of all claims below the self-insured deductible levels. Dorset has been operating with this approach since becoming a combined fire authority in 1997. At 31 March 2015 there was total funding of £1,018k allocated within Dorset's self-insurance fund, £101k as a provision against notified but outstanding claims and £917k to cover claims not yet notified and to mitigate against the financial risk of catastrophic losses. Following a previous review of reserves the Service had set a strategy of not allowing the fund value to go below a minimum level of £500k, equivalent to two liability claims and one motor claim, based on current deductible levels.
- 4.2 The revenue base budget for the new Service is £485k. The total cost of insurance premiums (including IPT) is £312k with the £100k deductible option or EL/PL and £50k deductible option for motor liability. This would leave between £173k to fund a contribution to the self-insurance fund in the first year of the new Service
- 4.3 It is also worth remembering that it is still possible for claims to be made against the two existing Services, and these would count against the insurance policies and deductibles relevant to the time of the insurable event. This must be borne in mind when considering the funding retained in the self-insurance fund given Dorset's historic deductible levels.

## 5. Conclusions and Next Steps

- 5.1 The table in 3.2 above sets out the details of the insurers who have been successful in winning each of the tendered Lots, based on their pricing and evaluation scores. Members of Workstream 2 approved the award of contracts to these insurers.
- 5.2 Members of Workstream 2 were also asked to approve in principle a contribution of £173k to the Service's self-insurance fund for 2016/17.