

**TAVISTOCK TOWN COUNCIL
12th APRIL, 2022**

COUNCIL INSURANCE

1. PURPOSE OF REPORT

To provide an update in relation to the outcome of tendering arrangements in respect of the Council's insurance services and place it in a wider organisational context. Because of the timeframes involved, and the prior delegation to enable continuity of cover, this report is for information only.

2. CORPORATE POLICY CONSIDERATIONS

The Tavistock Town Council's Strategic Plan 2017-2023 includes specific reference to a commitment to Best Value (Ec 4) and Prudent Financial Management (Ec 6). The effective operation of the Council is underpinned by the principles of prudent financial management and the effective management of risk.

3. LEGAL & RISK MANAGEMENT ISSUES

The Council is under statutory and other duties to maintain appropriate levels of insurance cover, which also assist in the mitigation and management of risk. However, it is acknowledged that the tender exercise recently undertaken has raised risk issues around both availability and, most immediately, cost/affordability alongside comparable anticipated risks in other areas (eg both energy and general inflation).

4. RESOURCE ISSUES

The resource issues are as set out in this report and are presently unfunded.

5. ENVIRONMENTAL ISSUES

There are no environmental issues directly arising in connection with this report.

6. COMMUNICATIONS ISSUES

There are no significant communications issues associated with this report.

1. BACKGROUND

1.1 There are various areas which a Council should keep under review in the way in which it manages its insurance needs, including, in particular: -

- Liability – such as public/employer’s/product liability;
- Property (material damage) – all risks/fire & perils/theft/impact damage;
- Business interruption;
- Fidelity guarantee;
- Money;
- Officials indemnity;
- Libel & slander;
- Personal accident;
- Commercial legal expenses;
- Engineering inspection;
- Contract works;
- Motor vehicles.

1.2 A report was considered in the last round of Meetings by the Budget and Policy Committee setting out the position in more detail.

1.3 In accordance with arrangements previously agreed this report is to advise of the outcome of the tender exercise. A schedule of the cover secured is listed at confidential Appendix 1.

2. CURRENT SITUATION

2.1 There are four specialist providers of insurance services to local authorities and each was invited to tender. One chose not to tender at the outset, another indicated it needed more than 3 months lead time (not possible because of the special circumstances in this case).

2.2 Two tender responses were therefore expected. However, at the closing date only one was received (the other indicating, on enquiry, that Covid had prevented a final tender being prepared).

2.3 The tender which was received was via the Council’s current brokers. As the Council will recall a significant increase in premium

was expected reflecting a tightening in the insurance market and a very competitive pricing a year ago.

2.4 However, the actual increase from £26,824.15 to £75,438.07 (the latter excluding Goose Fair which will be subject to separate cover) is materially more substantial than anticipated. Not least in light of the Council's good claims record. An adjustment of excess in relation to one of the underlying policy excesses has enabled that to be reduced by a little over £3,200, but the uplift remains considerable. The tender is based upon two principal underlying insurers taking different elements of cover (as it was hard to find one which was competitive across, and willing to take on, all elements of the property estate) alongside others providing specialist services such as fleet and engineering.

2.5 Because of the circumstances, and timing of the withdrawal from the market of the previous insurer, it also means the cost additional to existing budgets is currently unfunded.

2.6 In the circumstances the group of Members designated to consider the tender outcome therefore considered the merits and drawbacks of a three year vs a one year agreement.

2.7 In favour of a three year agreement was a fixing of premiums (with one underlying insurer applying a 15% 'good customer' discount within the price quoted, subject to an 'escalator' back to 100% over the three years). However, both main underlying insurers' costs would also increase, insofar as property cover was concerned, by an amount adjusted to reflect the challenges of the construction industry and property rebuild costs on an annual basis (in the case of this year iro 10%).

2.8 In favour of a one year agreement was the potential to re-test the market again prior to three years to see if more competition could be achieved with a longer timeframe to tender.

2.9 Your brokers acknowledged this is a particularly difficult time for this part of the insurance sector, compounded by growing sensitivities regarding listed buildings, underwriting practices and flood cover and were minded to recommend the three year deal in the interests of certainty.

- 2.10 In coming to a decision it was recognised there is no clear 'right' answer as to a one or three year deal. Several other Councils have seen increases in excess of 100%. Also, with inflation reasserting itself in the economy and risk aversion amongst underwriters the current three year offer could either look fair value on term - or not.
- 2.11 However, the absence of comparative data for Tavistock in the form of another tender, combined with the near trebling of its premium (and absent a claims record to explain it), led to a consensus that, on balance, a one year deal followed by a re-tender at year end was the most appropriate way forward. Accordingly the contract has been entered into on that basis.

3. COMMENTARY

- 3.1 There has clearly been a material change in the insurance market for the sector and it looks likely that both cost and availability will be a factor for some time to come. The tender received has been accepted on the basis that it represents a specialist service and, not to do so, would have rendered the Council without cover.
- 3.2 From an organisational perspective the other material factor is affordability. There is an additional (nearly) £50,000 to find over budget from revenue (capital monies, which include loans, cannot be used for revenue purposes). The Council will also be mindful that the extent of energy price increases, when its current fixed term agreement comes to an end in July, will add to the pressure on funds alongside the inevitable pressures of a more generally inflationary environment.
- 3.3 In summary it is not impossible that the Council could see an increase over budget, due to circumstances outside its control and not evident at the time of budget setting, of approaching £100,000 this financial year (and for which unallocated revenue reserves are not in place following the emergency drawdown caused by Covid).
- 3.4 In that context it is acknowledged meeting an additional call on resources in that amount will be a significant (and unplanned) challenge. It is also recognised that, other than in a 'good' case scenario, this uplift in costs could represent a permanent increase

in cost base (ie year on year) which would also need to be resolved.

3.5 In the circumstances a further report on how the Council might be able to address the shortfall will be brought forward when the position regarding year end is clearer and there is a realistic indication on the position regarding energy costs. In the short term because it is the start of the financial year these costs can be met as they arise initially.

3.6 However, within the first 6 months of the financial year it will be necessary to clearly identify how the uplift will be funded (this year and if/as necessary for future years) and any other areas which may be detrimentally affected as a consequence. As such this report should be read alongside the emerging work being undertaken in connection with priorities attaching to the maintenance of the Council's property portfolio.

**CARL HEARN
TOWN CLERK
APRIL 2022
TAVISTOCK TOWN COUNCIL**