

**LATE ITEM FROM FINANCIAL MANAGEMENT, AUDIT, RISK AND COMPLIANCE
COMMITTEE - C20/6186 - INSURANCE RENEWAL REPORT (REC) (CONFIDENTIAL
ATTACHMENT)**

Ward : All
 Category : Operational
 Subject Index : Insurance – City of Melville – Insurance & Certificates of Currency
 Customer Index : LGIS WA
 Disclosure of any Interest : No Officer involved in the preparation of this report has a declarable interest in this matter
 Previous Items : Nil
 Works Programme : Not Applicable
 Funding : Not Applicable
 Responsible Officer : Alan Ferris
 Director Corporate Services

AUTHORITY / DISCRETION

DEFINITION

<input type="checkbox"/>	Advocacy	<i>When the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.</i>
<input checked="" type="checkbox"/>	Executive	<i>The substantial direction setting and oversight role of the Council. e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.</i>
<input type="checkbox"/>	Legislative	<i>Includes adopting local laws, town planning schemes & policies.</i>
<input type="checkbox"/>	Review	<i>When the Council operates as a review authority on decisions made by Officers for appeal purposes.</i>
<input type="checkbox"/>	Quasi-Judicial	<i>When the Council determines an application/matter that directly affects a person's right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.</i>
<input type="checkbox"/>	Information	<i>For the Council/Committee to note.</i>

**LATE ITEM FROM FINANCIAL MANAGEMENT, AUDIT, RISK AND COMPLIANCE
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- At the Annual General Meeting held on 3 February 2020 a motion was passed directing the CEO to competitively market test the City's current insurance services supplier. This matter went to FMARC on 23 November 2020 for consideration. The committee recommends that the Council does not undertake a public tender for insurance services for 2021/2022 year and remains with LGISWA.
- It is noted that 16 local governments have tendered for their insurance over the past few years and three made the decision to leave the LGIS Scheme.
- All three LGA's who left the scheme have now re-joined meaning that 100% of WA local governments are part of the LGISWA.
- This includes the City of Nedlands who has recently carried a recommendation to re-join the Scheme.
- The City would need to give 60 days' notice of any intent to leave the Scheme.
- Insurance quotes would normally be requested closer to the renewal date, three months prior, to remove any risk which might be factored in by reinsurers.
- The insurance premiums for the City have reduced over the past six financial years receiving almost \$1.4m in rebates at an average of \$233,000 per year.

BACKGROUND

A motion was passed at the Annual General Meeting of Electors held on Monday, 3 February 2020 to competitively market test the City's current insurance services supplier, LGISWA who is WALGA's appointed insurance scheme manager.

This motion was referred to the March meeting 2020 Financial Management, Audit, Risk and Compliance Committee (FMARC) for consideration. The FMARC requested a report to be prepared for the November 2020 meeting for consideration.

This motion was then referred to the 23 November 2020 FMARC meeting for consideration. The Committee recommends that the Council does not undertake a public tender for insurance services for 2021/2022 year and remains with LGISWA.

DETAIL

Insurance is a significant annual cost to the City and the LGISWA scheme assists the City in managing key risks. There are three insurance policies with significant contributions being workers' compensation, property and combined liability that could be market tested by the City. The market testing could be considered for the 2021-2022 year.

Insurance Market

Overall insurance pricing in the second quarter of 2020 in the Pacific region increased 31%, continuing an upward trend that began in 2015.

Further detail on the workers' compensation, property and combined liability is provided below.

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Workers' Compensation:

Premiums are calculated by taking your industry classification rate and multiplying it with how much your business pays in wages. This is called average performance premium. The Work Cover Gazetted rate is currently 1.6% and in the LGIS Scheme the City pays 1.1%.

The workers' compensation premium contribution for 2020-2021 is \$377,356 based on the rate of 1.1% and a blended performance rating providing an upfront 20% discount on the minimum contribution requirement.

The LGIS WorkCare blended performance rating methodology:

- The member pays an upfront contribution of 80% of the minimum contribution.
- An incurred claims threshold is allocated on the upfront contribution divided by 70/50 + IBNR of 5% (1.47).
- A maximum contribution threshold is allocated on wages estimate
- If incurred claims do not exceed the claims threshold the balance of the 20% will not be called upon.
- If 12 months after commencement of the fund year, the incurred claims have exceeded the incurred claims threshold, the remaining 20% will be called. If the incurred claims are greater than the upfront contribution the additional claims will be charged at 100/75. This will be reviewed every 6 months and contributions adjusted accordingly.
- After 30 months from commencement of the fund year, if paid claims exceed the 100/75 ratio, further adjustments will be called at 100/75.
- Contribution adjustments will cease when the maximum contribution amount has been reached or the fund year is closed.

Details	2019/2020	2020/2021
Estimated Wages	\$41,620,000	\$42,870,000
Minimum Rate	1.10%	1.10%
Minimum Contributions	\$457,820	\$471,570
Blended Deposit Rate with 20% discount	0.85%	0.88%
Blended Deposit Contribution	\$354,811	\$377,256
Incurred Claims Threshold	\$241,368	\$256,637
Maximum Rate	2.75%	2.50%
Maximum Contributions	\$1,144,550	\$1,071,750

The premium at 1.6% is estimated to be \$603,769, an increase of \$226,413 over the current premium paid by the City.

Property Insurance:

The Global Insurance Market Index report states that Property insurance pricing increased 28% in the quarter, for the eleventh consecutive quarter compared to a 6.4% increase in the LGIS scheme.

[Global Insurance Market Index 2020](#)

The property insurance premium contribution for 2020-2021 is \$263,054 and increased by \$15,426 or 6.4% on the premium for 2019-2020. Given the increases in this type of insurance this increase is considered modest and represents good value for the City.

LATE ITEM FROM FINANCIAL MANAGEMENT, AUDIT, RISK AND COMPLIANCE COMMITTEE - C20/6186 - INSURANCE RENEWAL REPORT (REC) (CONFIDENTIAL ATTACHMENT)**Combined Liability Insurance:**

Combined Liability includes Public, Products Liability and Professional Indemnity. According to the AON Industrial Special Risk and General Liability Insurance Market Insights Australia Q2 2020 Report, the Australian General Liability (GL) net underwriting combined ratio has deteriorated to 125% in the March 2020 quarter. This has been exacerbated by the rising costs of insurance claims, resulting from factors such as increasing litigation, broader definitions of liability, more plaintiff-friendly legal decisions and larger compensatory jury awards.

[AON Industrial Special Risk and General Liability Insurance Market Insights](#)

Insurances have typically increased, driven by the volatile state of the insurance market following an unprecedented run of natural disasters and high claims.

The combined liability insurance premium contribution for 2020-2021 is \$565,884 and increased by \$8,735 or \$1.6% on the premium for 2019-2020.

Testing the Market

As the insurance market alters every quarter, if the City tenders our Insurance in Feb/March/April 2021 it will be an indicative price only with a zero commitment. The City is required to give LGIS 60 days' notice if it is not intending to renew.

Since 2017, 16 local governments had tendered their protection and risk services. Only three of the 16 made the decision to leave the LGIS Scheme, but all three returned within 18-24 months citing significant premium increases within 12 months and complaining about the quality of the service.

How LGIS Works

LGIS is a WA Local Government group self-insurance scheme, supplemented by a niche broking service for the WA local government sector, which all WALGA member councils have chosen to be part of. The Scheme exists to provide affordable and sustainable protection of the WA local government sector and is resistant to the currently changing market conditions.

Drawing from the depth of knowledge of WA local government, and the relationships forged with the people involved, LGIS develops an integrated service plan with each member council that is tailored to the City's needs. The Plan sets out key services and how they respond to the City's key risk priorities, including risk management and risk financing.

In the 2020/2021 fund year Membership of the Scheme now includes cyber liability; management liability; motor vehicle; personal accident; and travel protection under the existing portfolios of Combined Liability, Property and WorkCare. The addition of new classes of civic risk broadens the protection available to members.

LGISWA state that they provide:

- Covers specifically designed for WA local government that accurately and adequately reflects risks exposures that cannot be replicated.
- Mitigating price volatility driven by cyclical hard or soft insurance market conditions across the globe.

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- Quick claim resolution. Delegated local authority on Scheme claims to provide timely outcomes with claims assessed, adjusted and determined within LGIS, by specialist local government staff
- Complimentary specialist risk management services which align with the priorities of modern, sophisticated local governments, assisting the City in mitigating and preventing the impact of claims for the long term benefit for the member and broader sector.
- Working together with the sector to make sure that emerging risks are considered for coverage and risk management, for example risk surrounding cladding, environmental change and the National Redress Scheme for child abuse.
- Funding covers that are too cost prohibitive or complex for your local government to acquire independently, for example pollution exposures; community based risks; and employee benefits.
- Surplus Funds are returned to participating members.

[LGIS Elected Members Brochure](#)**[LGISWA Annual Report 2019](#)****Further Information****[City of Nedlands 2019 Council Meeting Minutes](#)****[Select Committee Into Local Government Report](#)****STAKEHOLDER ENGAGEMENT****I. COMMUNITY**

No community engagement has been carried out.

II. OTHER AGENCIES / CONSULTANTS

Consultation was undertaken with LGIS and a number of Local Governments who had undertaken an Insurance Tender in 2019 and 2020.

STATUTORY AND LEGAL IMPLICATIONS

There are no statutory or legal implications arising from this item.

FINANCIAL IMPLICATIONS

The gross insurance premium contributions for 2020-2021 are \$1,428,669. The City has also received a rebate of \$147,353 based on the Scheme performance and the City's performance. The net cost of the insurance is \$1,281,316.

Annually the City can receive credits from LGISWA which reduce the overall premium cost. Over the six year period from 2015-2016 the City has received almost \$1.4m in credits at an average of \$233,000 per year. These credits are based on the premium contribution made each year, adjusted for the Scheme performance and the City's insurance performance.

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This is a significant benefit from being part of a Scheme and is unlikely that credits of this type would be available through non scheme or commercial insurance options.

The City's insurance premiums and rebates over the last six years are provided in the as a confidential attachment distributed to Elected Members on 27 November 2020 under confidential cover.

STRATEGIC, RISK AND ENVIRONMENTAL MANAGEMENT IMPLICATIONS

Risk Statement & Consequence	Level of Risk	Risk Treatment
The City awards the tender to another provider and is underinsured. This could incur financial loss and reduction in levels of service provided to the City.	High	Continue insurance coverage with LGIS

POLICY IMPLICATIONS

There are no direct policy implications associated with this report.

ALTERNATE OPTIONS AND THEIR IMPLICATIONS

The options available are:

1. The City could consider going to the market for the three main insurances outlined in the report.
2. The City continues with the current insurance arrangement through the LGISWA Scheme.

Option 1

From a financial perspective it is expected that the City would pay more for its insurance. Whilst it is possible that other insurance providers could offer significant discounts in the short term, the experience from those that left the Scheme is that these discounts were not sustainable and resulted in increased premiums in the following years.

The poor quality of service and knowledge of the local government sector by other insurance providers has also been raised by other LGA's. This contrasts to the LGIS Scheme which is specifically tailored to the sector and which provides a high level of service.

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The LGISWA Scheme offers both financial and service benefits to the City. The rebates of \$1.4m received by the City are unlikely to be replicated in another commercial insurance arrangement.

Option 2 is the preferred option for the City.

CONCLUSION

LGISWA provides significant benefits to the City and the sector including significant savings, level of service, and the fact that services and insurance schemes are tailored to local government. LGISWA have also included additional services within the Scheme to ensure that it is focused on the current and emerging local government requirements.

With all West Australian local governments now part of the Scheme there is opportunity for further premium savings and tailoring. It is therefore recommended that the City continues to renew premiums with LGISWA and does not undertake a public tender for insurance for the 2021/2022 financial year.

COMMITTEE RECOMMENDATION (6186)**APPROVAL****That the Council:**

- 1. Notes the information in this report, and**
- 2. Recommends that the Council does not undertake a public tender for insurance services for the 2021/2022 year and remains with LGISWA.**