

7. INSURANCE RENEWALS - 2003/04

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The purpose of this report is to inform the Council on the renewal of the Council's insurance programme for the 2003/04 financial year. The Director of Operations has delegated authority to enter into arrangements for the placement of all the Council's insurance policies not exceeding \$1.75 million per annum, subject to the exercise of such delegated power being reporting back to the Council in each case.

In June 2003 a report regarding an alternative method of insuring buildings, structures, and chattels was considered by the Strategy and Finance Committee. The alternative, a 'first loss' option, that was being investigated would require the Council to increase the deductible (excess) from \$2,500 to \$5 million and to cap the sum insured to \$100 million rather insuring for the total insurable value (i.e. \$1,123,767,258). This was in relation to buildings and structures insured under the Council's material damage insurance policy. The following recommendation was adopted at the June 2003 Strategy and Finance Committee meeting:

1. *That a subcommittee be formed to decide whether the 'first loss' method of insuring the Council's buildings should be implemented.*
2. *That the subcommittee comprise Councillors James and Wright.*

The subcommittee met on 18 June 2003 to consider the 'first loss' alternative. The conclusion of the subcommittee was that a move to insuring on a 'first loss' basis was not warranted given the level of saving that would be achieved and the increase risk the Council would assume. The saving that would have been achieved amounted to \$297,000, compared with an average claim cost of \$315,000 per annum.

The subcommittee suggested that officers undertake a criticality assessment exercise during the next 12 months to determine whether all the Council's buildings need to be insured.

Based on the outcome of the subcommittee's consideration, the Council's insurance policies were renewed based on the status quo with effect from 30 June 2003 (4pm) for the forthcoming financial year. Details of those renewals are shown in the table below (figures are shown exclusive of GST):

Policy	2002/03 Premium	2003/04 Premium	2003/04 Budget
Material Damage	\$1,408,008 (Sum insured \$927,776,557)	\$1,900,364 (Sum insured \$1,123,767,258)	\$1,973,002
Business Interruption	\$25,254	\$28,152	\$32,845
Fine Arts	\$21,925	\$21,565	Include in M.D.
Motor Vehicle	\$63,986	\$95,358	\$79,982
Fidelity Guarantee	\$15,000	\$25,000	\$20,513
Marine Hull	\$1,457	\$1,586	\$1,825
Personal Accident	\$2,184	\$2,402	\$2,730
Overseas Travel (Deposit)	\$5,280	\$6,600	\$0
Overseas Travel (E.O.Y. adjustment)	\$2,292	N/A	\$0
Combined Liabilities	\$228,000	\$285,000	\$278,310
Forest and Rural Fires	\$4,978	\$4,978	\$6,222
Machinery Breakdown	\$8,684	\$10,055	\$10,277
Machinery Breakdown Consequential Loss	\$2,836	\$3,456	\$3,590
Punitive/Exemplary Damages	\$3,000	\$3,250	\$3,665
Contract Works	\$20,820	Take contract by contract	N/A
Elections/Polls	\$1,713	\$0	N/A
Total Premiums	\$1,815,417	\$2,387,765	\$2,412,981
CCHL Directors & Officers	\$6,700	\$7,450	
Travis Group Directors & Officers	\$2,100	Cover longer required	

Policy	2002/03 Premium	2003/04 Premium	2003/04 Budget
Jade Stadium Ltd Directors & Officers	\$5,500	\$6,250	
CCFL Directors & Officers	\$3,500	\$4,100	
Total D & O Premiums	\$17,800	\$17,800	

There has been a 21.12% increase in the sum insured regarding assets covered under the material damage insurance policy. This increase is due largely to the annual revaluation of buildings and moving the infrastructural assets of the Bromley Treatment Works from the Local Authority Protection Programme (LAPP) to the material damage insurance policy. The reason for changing the insurance cover of these infrastructural assets is to ensure that the Council complies with the requirements of the Government's National Recovery Plan. The National Recovery Plan states:

Government assistance will not be available where:

- (a) *the cost of repair or recovery of infrastructural assets is less than 0.0075% of the Equalised Net Capital Value in the case of City Councils and District Councils; and*
- (b) *where damage is greater than this amount the Government will provide 60% of the repair or recovery cost of the outstanding amount providing that the claim is appropriate under the policies specified in the National recovery Plan.*

The Government's 60% contribution is subject to local authorities having financial arrangements in place with regard to the remaining 40%. The Council joined the LAPP scheme back in 1992 to meet this requirement. The Government's contribution relates only to where insurance is either not economic or is not available. Insurance cover for treatment works is now available and with other large local authorities in New Zealand now insuring their treatment work infrastructural assets under a material damage policy it would be difficult for the Council to argue insurance was uneconomic or not available. Should the Bromley Treatment Works infrastructural assets remain covered under the LAPP scheme then the Council runs the risk of not receiving the Government's 60% contribution should these assets be affected by a major catastrophe.

Lastly, the Director of Operations was granted delegated authority in August 2001 to enter into arrangements for the placement of all the Council's insurance policies not exceeding \$1.75 million per annum, subject to such delegated power being reported back to the Council in each case. Given the movement in insurance premiums over the past two years in particular, it is now necessary to review this delegation as the current year's premiums exceed the delegated authority. Accordingly, it is recommended that the reference in the delegation to a financial limit (currently \$1.75 million) be deleted. Such a delegation without financial limit is now legally possible under the Local Government Act 2002. If the Council considers that a financial limit is appropriate it needs to be at a level that allows for unforeseen increases (say \$3.5 million). While it is hoped that insurance increases have now levelled off, I am not brave enough to make such a prediction.

- Recommendation:**
1. That the Director of Operations' action in placing the insurance cover totalling just under \$2.4 million be ratified.
 2. That the Chief Executive Officer and the Director of Operations jointly be granted delegated authority to enter into arrangements for the placement of all the Council's insurance policies, subject to the exercise of such delegated power being reported back to the Council in each case.